

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
DRILL PIPE AND DRILL COLLARS) Investigation Nos.:
FROM CHINA) 701-TA-474 and
731-TA-1176 (Final)

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Wednesday,
 January 5, 2011

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 DEANNA TANNER OKUN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

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 IRVING A. WILLIAMSON, VICE CHAIRMAN
 CHARLOTTE R. LANE, COMMISSIONER
 DANIEL R. PEARSON, COMMISSIONER
 SHARA L. ARANOFF, COMMISSIONER
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Staff:

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 THE HONORABLE JASON ALTMIRE, U.S. Representative,
 4th District, Pennsylvania
 THE HONORABLE GENE GREEN, U.S. Representative,
 29th District, Texas

In Support of the Imposition of Antidumping and
 Countervailing Duty Orders:

On behalf of VAM Drilling USA, Texas Steel Conversion,
 Inc., Rotary Drilling Tools, TMK IPSCO and The United
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 DOUG FIELDS, President, VAM Drilling USA
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In Opposition to the Imposition of Antidumping and
Countervailing Duty Orders:

On behalf of Downhole Pipe & Equipment, L.P. and
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JIM MOSTOWAY, Vice President of Product Control,
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1 Speakers are reminded not to refer in their
2 remarks or answers to questions to business
3 proprietary information. Please speak clearly into
4 the microphone and state your name for the record for
5 the benefit of the court reporter.

6 Finally, if you'll be submitting documents
7 that contain information you wish classified as
8 business confidential your requests should comply with
9 Commission Rule 201.6.

10 Madam Secretary, are there any preliminary
11 matters?

12 MS. ABBOTT: Madam Chairman, all witnesses
13 have been sworn in.

14 (Witnesses sworn.)

15 MS. ABBOTT: There are no other preliminary
16 matters.

17 CHAIRMAN OKUN: Thank you. Will you please
18 announce our first congressional witness?

19 MS. ABBOTT: Our first speaker is the
20 Honorable Peter J. Visclosky, United States
21 Representative, 1st District of Indiana.

22 CHAIRMAN OKUN: Welcome back, Congressman.

23 MR. VISCLOSKY: Madam Chair and members of
24 the Commission, thank you very much. I do wish all of
25 you a happy new year, as well as a successful and

1 productive new year, and as I often do on these
2 occasions I thank you for tolerating my repeated
3 appearances.

4 This is a drill pipe case. Commerce made
5 two determinations during the summer of this past
6 year, and obviously you need to consider the factual
7 basis under the law to make a determination as to
8 whether or not injury occurred or not. Eight hundred
9 and fourteen jobs were lost in this industry in states
10 like Illinois, Pennsylvania and Texas between 2008 and
11 2010. My sense is the record will certainly establish
12 that fact.

13 The point I would want to make to you, and
14 none of these businesses that are directly affected
15 are in Indiana or the 1st Congressional District, is
16 that I also am compelled to come before you again
17 because I am concerned about that loss of jobs and the
18 injury that has taken place now. I am very concerned
19 about the loss of a knowledge base in this country
20 looking ahead and do believe I have a responsibility
21 as a Member of Congress to take that longer view.

22 Last week in *Manufacturing Technology News*
23 there was an article published about a recent speech
24 given by Lawrence Summers, President Obama's departing
25 Director of the National Economic Council. He stated

1 that it is not necessary for the United States to
2 domestically produce the goods that would be consumed
3 by hundreds of millions of Americans. He argued that
4 we are moving towards a knowledge and service-based
5 economy and that there is no going back to the past.

6 I made my notes for this hearing using this
7 pen that was not assembled in the United States of
8 America. It's a very prosaic item, but if the pens
9 and the paper clips and the pads and the steel girders
10 in our country are no longer manufactured in this
11 country I am concerned that we will lose our
12 manufacturing knowledge.

13 And if we do not know how to manufacture
14 goods, how to research and develop new ways to
15 manufacture them better, how to maintain and service
16 manufactured goods, that we will not have any
17 foundation for a knowledge and service-based economy.

18 So clearly you have the very immediate
19 concern under the law, but I do think it pertains to
20 the future knowledge base and economic base of our
21 country, and again thank you for your always careful
22 consideration of the facts and the law in this matter.

23 CHAIRMAN OKUN: Thank you. Let me see if my
24 colleagues have any questions.

25 (No response.)

1 CHAIRMAN OKUN: Thank you very much.

2 MR. VISCLOSKY: Thank you very much.

3 MS. ABBOTT: Our next speaker is the
4 Honorable Gene Green, United States Representative,
5 29th District, Texas.

6 CHAIRMAN OKUN: Welcome, Congressman. You
7 may proceed.

8 MR. GREEN: Good morning. First of all,
9 thank you for allowing me to testify this morning,
10 Chairman Okun and members of the Commission. My name
11 is Gene Green, and I represent the 29th Congressional
12 District in Texas. It's a very urban district in
13 Houston. I have most of the petrochemical complex,
14 the largest in the country, second largest in the
15 world, but we also have the support industries.

16 One of the Petitioners in this case, VAM
17 Drilling, is located in my district and virtually all
18 the U.S. producers of finished drill pipe and drill
19 collars are located in the Houston area, and a lot of
20 my constituents actually work not only at the
21 refineries and chemical plants, but also at the
22 industries that service those.

23 Since VAM Drilling purchased Amsco in 2005,
24 they put tens of millions of dollars in investment
25 into new equipment and expanded capacities to improve

1 quality and increase productivity. However, in spite
2 of these investments and as a result of declining
3 demand and increased imports from China, the company
4 is forced to take periodic shutdowns and lay off about
5 two-thirds of their employees.

6 It's clear that massive Chinese overcapacity
7 to produce drill pipe and drill collars have resulted
8 in permanent shutdown of VAM Drilling's plant. Forty
9 percent of the jobs in this industry have already been
10 lost, and that is just the direct job losses, not
11 including the jobs generated in the community to
12 support those mills with services, transportation, as
13 well as the local retail establishments.

14 These are good, middle class jobs, jobs you
15 can take pride in, jobs that Houston and other
16 communities around our country cannot afford to lose.
17 Over 200 permanent jobs are at risk of being lost in
18 my district if VAM Drilling cannot compete with the
19 underpriced Chinese drill pipes and collars.

20 I've always been supportive of the energy
21 and the domestic oil and gas industry. I serve on the
22 House Energy and Commerce Committee and have
23 consistently fought for legislation that would
24 increase oil and gas production in the United States
25 and lessen our dependence on imported foreign oil

1 often imported from companies that are much less
2 friendly to the United States.

3 If I thought for one minute that imposing
4 duties in this case would create shortages for our oil
5 and gas industry, I would not be here. However,
6 reports from this very Commission and the information
7 provided me by industry members show that this
8 industry is operating at only one-third of its
9 capacity utilization rate.

10 The Department of Commerce found the entire
11 Chinese drill pipe industry receives double digit
12 subsidies from the Government of China, and that is
13 not even including the currency manipulation which can
14 provide additional subsidies on exports. They also
15 found that most of the imports from China were sold at
16 dumped prices.

17 I'm deeply concerned that at the present
18 depressed rates for the capacity utilization many of
19 the producers like VAM in our district are at the
20 tipping point. Making a negative determination and
21 allowing influx of large quantities of newly unfairly
22 traded products from China to come into a market
23 that's already experiencing weak demand and high
24 inventories could force most of the domestic industry
25 out of business.

1 I'm gravely concerned we might add to our
2 dependence on foreign oil and the dependence on
3 imported products that we need to drill for oil and
4 gas in our own country. This is an unacceptable risk
5 to our long-term energy and national security, and I
6 ask that you review the record carefully and make an
7 affirmative injury determination that would give the
8 companies and workers making drill pipe and drill
9 collars in Houston and around our country a chance to
10 compete against Chinese imports on a level playing
11 field.

12 Again, thank you for the opportunity. I'll
13 be glad to try and answer any questions.

14 CHAIRMAN OKUN: Thank you. Do my colleagues
15 have questions?

16 (No response.)

17 CHAIRMAN OKUN: Thank you very much for your
18 testimony.

19 MR. GREEN: Thank you. Thank you for your
20 service.

21 MS. ABBOTT: Our next speaker is the
22 Honorable Jason Altmire, United States Representative,
23 4th District, Pennsylvania.

24 CHAIRMAN OKUN: Welcome back, Congressman.

25 MR. ALTMIRE: Good morning, Madam Chair and

1 members of the Commission. Thank you for allowing me
2 the opportunity to testify today again regarding the
3 imports of drill pipe collars and drill pipe from
4 China.

5 I'm proud to represent the 4th District of
6 Pennsylvania, which, as you know, is just north of
7 Pittsburgh where steel production has been a pillar of
8 the economy for decades. I would like to begin by
9 thanking the Commission for your past affirmative
10 votes in the OCTG and Seamless Pipe cases against
11 China, which we were here to testify and I'm very
12 happy with the result.

13 Many of my constituents, as you know, work
14 in the steel industry producing high quality American
15 steel products, and the relief provided by the
16 enforcement of our trade laws has been a great
17 economic benefit to the communities I represent and
18 has allowed hundreds of workers to be rehired.

19 The Koppel Steel Division of TMK IPSCO
20 Tubular, one of the Petitioners today, has two
21 operations in my district. Both of these plants and
22 communities have directly benefitted from the recent
23 ITC decisions on the OCTG and Seamless Pipe cases.

24 In Koppel, Pennsylvania, TMK IPSCO has a
25 steel melt shop in which scrap steel is melted, poured

1 and made into billets. The company also has a
2 seamless pipe mill 10 miles away in Ambridge,
3 Pennsylvania. As you'll hear today from the
4 Petitioners, TMK IPSCO made substantial investments in
5 their pipe mill in Ambridge specifically so they could
6 produce two additional sizes of unfinished drill pipe.

7 In 2007 and 2008, the company made very
8 significant quantities of this product, but since then
9 business has been taken away by unfairly traded
10 Chinese imports of drill pipe. I know that American
11 workers can produce the highest quality steel anywhere
12 in the world, but we need a level playing field in
13 order to continue to be the most competitive.

14 Thanks in part to the recent affirmative
15 decisions by the ITC, the enforcement of our trade
16 laws, TMK IPSCO has recently opened a new custom
17 threading facility just across the state line from my
18 district in Brookfield, Ohio. One hundred workers,
19 some of whom live in my district, have been hired to
20 produce specialty threaded OCTG for use in drilling
21 the Marcellus natural gas reserve.

22 Exploration of Marcellus shale natural gas
23 reserves offers an opportunity to create a large
24 number of American jobs. I think it's only right that
25 the products used for drilling for our natural

1 resources are of the highest quality and made in
2 America by American workers. Certainly the Chinese do
3 not use American made products when they're drilling
4 for oil and gas in their own country.

5 As the 112th Congress begins today, I am
6 confident that all of my colleagues will work and
7 focus their attention on policies that will create
8 jobs in the United States and enhance our nation's
9 manufacturing sector. As you know, this is incredibly
10 important because our country is running at over \$25
11 billion a month trade deficit in goods with China, so
12 we have to vigorously enforce our trade laws by saying
13 no to unfairly traded imports from China and yes to
14 American jobs.

15 So again I thank the Commission most
16 importantly for your past efforts to enforce the trade
17 laws which have benefitted my constituents in
18 Pennsylvania. The same Chinese Government subsidies
19 that hurt our OCTG and seamless pipe industries have
20 caused the same injury and pose the same threat to the
21 drill pipe industry, so I ask for the same
22 considerations that you gave on the other issues and
23 would take any questions at this time.

24 CHAIRMAN OKUN: Thank you. Do my colleagues
25 have questions for you?

1 (No response.)

2 CHAIRMAN OKUN: Thank you again for your
3 testimony.

4 MS. ABBOTT: Opening remarks on behalf of
5 Petitioners will be by Roger B. Schagrín of Schagrín
6 Associates.

7 CHAIRMAN OKUN: Good morning, Mr. Schagrín.

8 MR. SCHAGRIN: Good morning, Chairman Okun,
9 congratulations, Vice Chairman Williamson, and a happy
10 and healthy new year to everyone at this wonderful
11 Commission.

12 I have never been so happy to appear at a
13 final injury investigation hearing as I am to appear
14 in this one. The record before you is very different
15 than the record in the preliminary phase of this
16 investigation. This record necessitates both an
17 affirmative finding of material injury by reason of
18 unfairly traded imports of Chinese drill pipe and an
19 affirmative critical circumstances determination.

20 First, let me commend the staff for a great
21 job in an extremely complex case. This case is my
22 most complex case since Tin Mill Products From Japan
23 in 2000. Chairman Okun, you were part of that case.
24 It is also the last case I had before the ITC in which
25 the credibility of Respondent witnesses was a major

1 issue.

2 The similarities do not stop there. In that
3 case, the biggest U.S. producers of tin mill products
4 were not in the room. In this case, NOV Grant
5 Prideco, far and away the largest producer of the
6 domestic like product, is not present today. Ask
7 yourselves why.

8 NOV Grant Prideco has not one, but two drill
9 pipe production facilities in China, one of which is a
10 joint venture with Tianjin Pipe Company, i.e. the
11 Government of China. In addition, NOV has numerous
12 Tuboscope plants in China which perform testing,
13 plastic coating, hard banding and other drill pipe
14 finishing services. Among these many Tuboscope plants
15 in China, one is a joint venture with Drill Pipe.

16 According to NOV's 2009 10-K, 73 percent of
17 its sales are outside the United States. That is
18 admirable. The company is hugely profitable. We are
19 all proud of our U.S.-based multinational companies
20 who are reporting all-time record profit levels, even
21 while they are employing fewer and fewer Americans.

22 The real question before this Commission is
23 whether the rest of the U.S. industry producing
24 subject drill pipe should be denied relief from
25 unfairly traded imports from China and be put out of

1 business so that NOV Grant Prideco can continue
2 exporting dumped and subsidized unfinished and
3 finished drill pipe from China.

4 Second, when you review the numbers in this
5 final record you will see that pricing at the end of
6 the POI has fallen to the lowest level of the POI, the
7 pricing levels at which point domestic industry
8 producers are either losing money or barely breaking
9 even.

10 I will not stand before you today and deny
11 the basic law of economics that declining demand has a
12 negative effect on prices, nor will I sit back
13 complacently as Respondents, their lawyers and
14 economists attempt to mislead you by telling you that
15 Chinese price offers, sales of Chinese drill pipe,
16 trades of Chinese drill pipe, large inventories of
17 low-priced Chinese drill pipe in China, Canada and the
18 United States have had no material impact on declining
19 U.S. market prices.

20 Now, Mr. Leibowitz, who has added some
21 gravitas to the Respondents' counsel table, is a
22 pretty honest guy. He told the International
23 Association of Drilling Contractors, the IADC, at the
24 conference in May 2010, which I also attended, that
25 the imposition of duties on Chinese pipe would force

1 IADC members to pay higher prices for domestic drill
2 pipe. He got the causal relationship right, and I
3 just hope that later today he does not try to retract
4 or modify what was then a completely accurate
5 assessment.

6 This industry is in trouble, and demand is
7 likely to remain weak for another year or two. It can
8 survive until the next upturn when it can utilize all
9 of its investments to adequately supply the U.S.
10 market with drill pipe at prices that reflect supply
11 and demand conditions and not the influence of unfair
12 trade from China.

13 Or you can force everyone in this industry
14 but NOV Grant Prideco to throw the towel in now, to
15 shut down their operations, to move to other
16 countries, to fire current employees and not to rehire
17 those employees who have been laid off. The choice is
18 yours. It is a very stark choice between two
19 alternatives.

20 While the facts in this case clearly support
21 an affirmative determination of injury and critical
22 circumstances, if you decide to look at threat this
23 Commission would have to suspend this belief to view
24 this case any differently from OCTG and Seamless SLP
25 cases in which you found massive Chinese overcapacity

1 would result in increased injury of unfairly traded
2 exports to the U.S.

3 There is even more overcapacity and an even
4 greater need for the Chinese to produce drill pipe for
5 export to the U.S. than there were for those products.
6 In the end I am confident that this Commission will
7 again make the right decision and make an affirmative
8 injury or threat of injury determination. Thank you
9 very much.

10 CHAIRMAN OKUN: Thank you.

11 MS. ABBOTT: Opening remarks on behalf of
12 Respondents will be by Irene H. Chen of the Chen Law
13 Group.

14 MS. CHEN: Good morning, Madam Chairman --

15 CHAIRMAN OKUN: Good morning, Ms. Chen.

16 MS. CHEN: -- Commission members and
17 Commission staff. Happy new year. My name is Irene
18 Chen, and I'm very happy to be back here at the
19 Commission.

20 I represent Downhole Pipe & Equipment, LP
21 and Command Energy Services, who are opposed to the
22 imposition of antidumping and countervailing duties.
23 I am joined here by my colleagues, Mark Lehnardt of
24 Lehnardt & Lehnardt, Mark Davis of Davis & Leiman,
25 Lewis Leibowitz of Hogan Lovells US LLP and Bruce

1 Malashevich and Alex Cook of Economic Consulting
2 Services.

3 This is a very different case than what Mr.
4 Schagrín has just portrayed to you. A negative final
5 determination in this case is clearly warranted based
6 on the facts on the record. First, we will
7 demonstrate that there is no present material injury
8 to the domestic industry.

9 Second, there is no real and imminent threat
10 of material injury by reason of subject imports. As
11 the Commission unanimously recognized in the
12 preliminary determination, subject imports did not
13 cause material injury to the domestic industry.

14 The Commission correctly cited the collapse
15 in domestic demand beginning in the third quarter of
16 2008 when oil prices plunged as the reason for the
17 domestic industry's declines. Despite the severe
18 deterioration in demand, however, the domestic
19 industry earned profits, made substantial capital
20 investments and maintained dominant market share even
21 through the 2008-2009 downturn. In fact, has there
22 ever been an affirmative injury case where the
23 domestic industry earned over 20 percent in operating
24 income during a down year?

25 We will also demonstrate that the domestic

1 industry is not faced with a real and imminent threat
2 of material injury because demand for domestic like
3 product is actually increasing and will continue to do
4 so as long as oil prices continue to increase as they
5 are almost universally predicted to do so.

6 Demand for drill collar and drill pipe is
7 strongly related to oil prices. Currently oil prices
8 have topped \$90 a barrel, up from \$74 at the time of
9 the preliminary determination. The Energy Information
10 Administration and most other sources project that
11 prices will continue to rise by some estimates
12 surpassing \$100 a barrel in 2011. Domestic producers'
13 order books, which move with oil prices, are filling
14 up again and inventories have declined sharply.

15 Now, Respondents contend that this case
16 involves one domestic like product. We contend that
17 this case involves one domestic like product, drill
18 pipe and drill collars. Petitioners, however,
19 advocate a mosaic of like products, arguing for a
20 division into premium and nonpremium drill pipe.

21 We appreciate that Petitioners have
22 confirmed our view that subject imports do not compete
23 with the highly profitable premium market segment, but
24 premium drill pipe is not a separate domestic like
25 product under Commission jurisprudence.

1 In another admission of the weakness of
2 their case, Petitioners ask the Commission to exclude
3 NOV Grant Prideco, a significant producer of high end
4 drill pipe, from the domestic industry. However, this
5 exclusion would not be supported by Commission
6 precedent, and it would fundamentally distort the
7 Commission's threat of injury analysis.

8 Because this is clearly a threat case, it is
9 important to note that subject imports show imminent
10 threat of a surge. Import volumes increased only once
11 during the POI in response to a huge increase in
12 demand in 2007 and 2008. When the market turned down
13 as a result of the collapse of oil price and drilling,
14 the domestic industry was able to increase their
15 already dominant market share in the drill pipe and
16 drill collar segments from 2008 to 2009.

17 If Chinese producers were capable of taking
18 market share by flooding the market with cheap imports
19 and taking sales from the U.S. industry, this would
20 have been the time. However, subject imports actually
21 ceded market share to the industry during this period.

22 The domestic industry business prospects are
23 boosted by the vigorous growth in the premium segment
24 of the market due to the global recovery and emerging
25 market demand. During the preliminary phase staff

1 conference, Petitioners testified that the U.S.
2 industry has super API patented products sought by
3 deep sea drillers worldwide and that this segment is
4 dominated by NOV Grant Prideco.

5 In fact, NOV Grant Prideco, a publicly
6 traded company on the New York Stock Exchange, has
7 been cited by numerous Wall Street analysts as a stock
8 pick for this year because it will benefit from
9 increased oil rig equipment spending, which is
10 projected to hit its highest levels in 26 years. The
11 Chinese industry, as Petitioners acknowledge, don't
12 compete in this segment.

13 Moreover, Petitioners have acknowledged in
14 the preliminary phase that the U.S. producers made
15 more sales of drill pipe, premium drill pipe, in the
16 latter part of the POI resulting in a different
17 product mix and higher prices for U.S. producers
18 versus Chinese products.

19 In conclusion, the record which the staff
20 has diligently and painstakingly compiled shows a
21 profitable domestic industry with strong prospects in
22 higher quality segments that will continue to drive
23 demand in the United States. There is no imminent
24 threat of material injury by reason of subject
25 imports. Thank you.

1 CHAIRMAN OKUN: Thank you.

2 MS. ABBOTT: Will the first panel in support
3 of the imposition of antidumping and countervailing
4 duty orders please come forward and take your places?

5 (Pause.)

6 CHAIRMAN OKUN: If you could just lean
7 forward and make sure your microphone is on, please?

8 MR. BOHN: Very good. Good morning,
9 Chairman Okun and members of the Commission.
10 Petitioners' presentation will address four issues:
11 First and last, Grant Prideco's interest in Chinese
12 drill pipe production call for excluding it from the
13 domestic industry;

14 Second, importers' inexcusable
15 misclassification of imports should not lead the
16 Commission to rely on importers' questionnaire data;

17 Third, most large U.S. drill pipe customers
18 have already bought Chinese drill pipe;

19 Fourth, at least one major Chinese drill
20 pipe producer, Hilong, has announced it will enter the
21 U.S. market at below market prices and has enough
22 capacity even by itself to threaten the U.S. industry.

23 At the staff conference Respondents claimed
24 falsely that VAM Drilling had just bought Longbright,
25 a Chinese drill pipe producer. Though their

1 allegation was untrue, we agree with their reasoning,
2 and as Grant Prideco owns at least two Chinese
3 producers the Commission should exclude it.

4 Second, the HTS categories for drill pipe
5 are very clear as shown here. Only drill pipe should
6 enter in these categories, and drill pipe should enter
7 in no other categories. There is no illegitimate
8 excuse for all the misclassification that has
9 occurred. Misclassification by importers should not
10 lead the Commission to rely on data from importers'
11 questionnaires.

12 This case is distinct from Wire Decking From
13 China where import data were unusable because imports
14 entered in general basket categories. While drill
15 collar imports do enter in basket categories, drill
16 pipe imports do not. This case thus more resembles
17 Steel Gratings From China in which the staff used
18 official import statistics with appropriate
19 corrections.

20 In fact, importer questionnaire responses do
21 not reliably indicate even general trends. This
22 indexed graph compares responses by importers and
23 foreign producers and Chinese export statistics. Note
24 that Chinese statistics indicate that drill pipe
25 exports to the United States remained above 2000

1 levels throughout the POI.

2 Third, contrary to Respondents' assertions,
3 most large drilling contractors already buy Chinese
4 drill pipe. At the conference, Command's witness
5 claimed that his company could not compete for
6 business in 75 percent of the U.S. market, but based
7 on Petitioners' own market intelligence six of the top
8 11 drilling contractors, accounting for the majority
9 of land drilling rigs marketed in the United States,
10 have bought Chinese drill pipe. Seven of the 10 next
11 largest have done so as well. Purchasers'
12 questionnaire responses to the Commission similarly
13 show that 17 out of 28 purchasers have bought Chinese
14 drill pipe.

15 Fourth, the staff report indicates that five
16 of the 12 largest Chinese drill pipe producers have
17 not responded to questionnaires. One of them is
18 Hilong. Here's what its U.S. distributor, Birkin, had
19 to say in an email in the second half of 2009:

20 Our Chinese supplier, Hilong, is the largest
21 drill pipe manufacturer in China. They produce 70,000
22 metric tons annually. We know the drill pipe market
23 is completely saturated. However, with Hilong/
24 Birkin's top management's determination to become one
25 of the major drill pipe suppliers in the U.S. market,

1 we think it is a good time to contact our customers.
2 In order to break into this market, Hilong/Birkin will
3 offer under the market price for their premium drill
4 pipe.

5 Thus, Hilong has the capability to threaten
6 the U.S. market all by itself and it is but one of
7 many large Chinese drill pipe producers with available
8 capacity, as Mr. de Rotalier will soon testify.

9 Similarly, DP-Master, which at the last
10 moment indicated it would attend the hearing, had a
11 large drill pipe inventory in 2009. This photograph
12 alone depicts at least 10,000 tons in DP-Master's
13 warehouse.

14 Finally, here is the U.S. drill pipe and
15 collar industry today. It is heavily concentrated
16 with a single dominant producer, Grant Prideco, and a
17 large competitive fringe centered in Houston. In two
18 years, with no relief this industry structure will be
19 much simpler. As you will hear, only Grant Prideco
20 will remain and perhaps Charles Machine, which makes
21 drill pipe for construction, not oil drilling.

22 And remember, Grant Prideco is a
23 multinational firm that manufactures in China and
24 elsewhere. Rather than buy or replace the other nine
25 U.S. factories, it can invest in expanding its

1 subsidized Chinese capacity. Elimination of the
2 smaller U.S. manufacturers in this industry, as in so
3 many others, will only lead to further migration of
4 production and jobs to China.

5 MR. FIELDS: Good morning, Chairman Okun and
6 members of the Commission. I am Doug Fields,
7 president of VAM Drilling USA. I've been in the
8 energy tubular industry for 24 years and have been
9 president of VAM Drilling USA since November of 2008.

10 I'm joined today by Kevin Parks, our Vice
11 President of Sales, who has 31 years of experience in
12 the drilling industry, and Steve Williamson, our
13 Director of Strategic Development, with 39 years of
14 experience in the drilling industry. Later you'll
15 hear testimony from Bertrand de Rotalier of VAM
16 Drilling in a special presentation on the Chinese
17 drill pipe industry.

18 VAM Drilling entered the drill pipe business
19 in the United States when it purchased Amsco in
20 October 2005. We have two welding lines in Houston,
21 one of which we added in 2009. We produce standard
22 weight drill pipe, heavy weight drill pipe and drill
23 collars.

24 In addition to the full range of API drill
25 pipe products we produce, VAM Drilling USA also

1 produces premium drill pipe products, including
2 proprietary grades and patented connections. We
3 market these products completely separately from our
4 API grade products, and they are generally used for
5 offshore drilling and export markets.

6 While we estimate premium drill pipe
7 products represent only 15 percent of the U.S. market,
8 they represent a substantial portion of the
9 international market since roughly half of all
10 drilling is offshore.

11 In fact, due to the absolute devastation of
12 the API grade drill pipe market by unfairly traded
13 imports from China, VAM Drilling USA was extremely
14 fortunate to book one major export order for premium
15 drill pipe to a foreign, national owned oil company.
16 That one order represented much of our 2010
17 production, and without that order we probably would
18 have shuttered the facility while awaiting the outcome
19 of this trade case.

20 During the ITC staff conference, in the
21 ITC's prehearing staff report which I reviewed and in
22 the Respondents' prehearing brief I keep hearing and
23 seeing the Respondents say that in 2008 lead times for
24 domestic deliveries of drill pipe were 15 to 18
25 months. That is simply not true for VAM Drilling or

1 for the industry.

2 Data in the staff report shows the actual
3 industry lead times based on the questionnaire
4 responses of all industry participants. What is
5 amazing is that no one should know better than
6 Command, which made this statement at the staff
7 conference, that it is simply not true.

8 In April of 2008, Command, which had just
9 decided to open up operations in the United States in
10 addition to their operations in Canada, sought us out
11 as a supplier. At that time our lead times were seven
12 months, and they started shortening considerably later
13 that year. As the Commission can see from Exhibit 11
14 in Petitioners' prehearing brief, VAM Drilling USA
15 always delivered Command's orders within the promised
16 timeframe and often much faster than promised.

17 Unlike the allegations in the Respondents'
18 prehearing brief that drill pipe producers treat large
19 customers better than small customers in terms of
20 timeliness of delivery, our policy is to treat every
21 order that comes in the door the same way on a first
22 come first served basis with promised delivery at the
23 time of order entry in the system.

24 We treated Command no better or no worse
25 than smaller or larger customers. I can tell you that

1 since I've been president of VAM Drilling we
2 unquestionably are overjoyed to get small orders from
3 small drilling contractors.

4 Neither Command nor any of Command's
5 customers nor any of our drilling contractor customers
6 ceased buying API drill pipe from VAM Drilling because
7 of any excessively long lead times by VAM Drilling in
8 mid 2008. I presume based on lead time data in the
9 staff report the same is true for the other companies
10 around this table. Command and many, if not most, of
11 our other customers stopped buying API grade drill
12 pipe from us because prices of dumped and subsidized
13 Chinese drill pipe were lower than our prices.

14 The injury to our company is clear. We had
15 three rounds of layoffs in 2009 because of Chinese
16 underselling and large Chinese inventories of drill
17 pipe continuing to this date. Prices of API grade
18 drill pipe have become severely depressed and
19 unprofitable.

20 We do have some cause for hope. As the
21 duties began to take effect in June of 2010, new
22 imports of unfairly traded drill pipe from China
23 ceased. Thus, inventories should begin to be worked
24 down, and by later in 2011 or early 2012 we expect to
25 see more demand for new drill strings.

1 Also, fortunately for our company, at the
2 end of 2011 V&M Star's new seamless pipe mill in
3 Youngstown, Ohio, will open, and our source of green
4 tube for drill pipe will shift from Europe to
5 Youngstown, Ohio, which will give us even shorter lead
6 times.

7 I know that you've dealt with our sister
8 Vallourec companies like V&M Star. You should know
9 that our company is extremely well managed, efficient
10 and does not hesitate to invest in the local markets
11 where we do business. Contrary to the Respondents'
12 assertions at the preliminary conference, Vallourec
13 did not purchase Longbright, one of the largest drill
14 pipe producers in China, and our company has no
15 investments in drill pipe production in China.

16 Our parent company did make a minority
17 investment in a Chinese OCTG producer called Tandao so
18 that Vallourec could source Chinese OCTG for adding
19 proprietary threads in a Vallourec plant in China to
20 serve the Chinese market. As you know, all drilling
21 in China is controlled by the Government of China, and
22 these companies have a number of indigenous supply
23 requirements that we thought could better be served
24 through an investment in China.

25 However, a negative vote in this case would

1 shatter any cause for optimism. I have no doubt that
2 making the U.S. market completely open to massive
3 amounts of dumped and subsidized drill pipe from China
4 would cause VAM Drilling to shutter our plant in
5 Houston. It would not make economic sense to have a
6 major investment of tens of millions of dollars in the
7 United States' market only to supply premium grade
8 products to the export market. VAM Drilling could do
9 that from its other plants around the world.

10 Our plant is in Houston to supply the
11 largest API grade drill pipe market in the world, the
12 United States. If we cannot do that then we'll not
13 keep it open. Unlike the Government of China, which
14 routinely subsidizes loss making operations, our
15 parent company will not subsidize a loss making
16 operation in Houston. On behalf of all our employees,
17 I ask you to make an affirmative determination.

18 MR. BRAND: Good morning, Chairman Okun and
19 members of the Commission. I am Jim Brand, the
20 Product Manager for Drill Pipe at Texas Steel
21 Conversion. I have 36 years' experience in the energy
22 tubular business, including the last 11 at Texas Steel
23 Conversion.

24 Texas Steel is a private, family-owned
25 company that was founded in 1975 and began production

1 of drill pipe in Houston in 2000. In 2006, we doubled
2 our capacity by adding a second weld line and
3 expanding our product range to larger sizes than we
4 could make on our original line.

5 From the time we started our drill pipe
6 business we have had all of our marketing done by
7 Smith International, which manufactured heavy-weight
8 drill pipe and drill collars. This allowed Smith to
9 offer a full line of drill stem products.
10 Schlumberger closed on the acquisition of Smith
11 International in late August 2010. On December 7,
12 2010, Schlumberger terminated our 10-year-old
13 marketing agreement with Smith International.

14 Schlumberger, like National Oilwell Varco,
15 is a huge, multinational energy services company with
16 significant operations in China. We assume that if
17 you make a negative determination in this case,
18 Schlumberger will begin selling Chinese drill pipe in
19 the United States given the low dumped and subsidized
20 prices of Chinese drill pipe and their massive
21 overcapacity.

22 I was surprised to sit in this room one year
23 ago and hear Respondents say they could not sell to
24 large drilling companies such as Patterson UTI, the
25 second largest drilling contractor in the United

1 States. In fact, Patterson UTI had been our largest
2 customer by far over the six years from 2004 to 2009.

3 We lost the Patterson UTI business in 2010
4 to Command, which sold them drill pipe at
5 significantly less than our prices and literally
6 traded them Chinese inventory for American inventory.
7 We do not stock inventory at Texas Steel Conversion
8 and cannot trade inventories with our customers. The
9 loss of Patterson UTI business by itself contributed
10 to the layoffs at our plant.

11 Employment at our drill pipe facility is
12 down by three-quarters. We have gone from running
13 four shifts to running one shift today. Pricing has
14 fallen to levels that are now at or below our cost of
15 production. The trade cases against China are
16 necessary to provide us a lifeline. To me, the
17 benefits are already clear.

18 For example, we recently entered orders for
19 75,000 feet of four-inch drill pipe from Command.
20 This was our largest order for 2011 production thus
21 far. They clearly bought this product because the
22 imposition of trade duties prevented them from placing
23 this order with Chinese suppliers subject to
24 antidumping and countervailing duties.

25 We have no problem doing business with

1 Command or other distributors. We are happy to sell
2 to big customers like Patterson UTI, but we are also
3 happy when Smith took orders from small drilling
4 contractors with only a few rigs. This happened
5 often, and smaller companies represent the majority of
6 our customers.

7 At this point, our company is laying the
8 future. We have 11 years and tens of millions of
9 dollars of investments into the drill pipe industry.
10 I am very happy that the Commission came and visited
11 our plant, and I think you would agree that we have an
12 efficient plant and a dedicated, productive group of
13 employees. We do not look forward to having to
14 compete in the future against a company that has
15 marketed our products for a decade.

16 I guess in these cases it comes down to who
17 you want to believe. I want to believe that the U.S.
18 Government is going to enforce the laws against
19 unfairly traded imports and that we can bring our
20 workforce at Texas Steel Conversion back up from the
21 one shift to four shifts once the market recovers.

22 On the other hand, if you believe the other
23 side and make a negative determination then I am
24 positive that Texas Steel Conversion cannot compete
25 with unfairly traded imports from China and that we

1 will lay off the remaining shift of employees still
2 working in the plant and cease drill pipe production.

3 I ask you not to let that happen. These are
4 good people at our plant and they deserve to have the
5 laws enforced. Thank you.

6 MR. MORRIS: Good morning, Chairman and
7 members of the Commission. My name is Sealy Morris,
8 and I am the partner and president of Rotary Drilling
9 Tools, which we call RDT. We come from a third
10 generation of family and associates in making and
11 inventing these products.

12 My father and I co-founded Prideco, which
13 later became Grant Prideco. In 2006, myself and other
14 investors decided to start RDT because we thought
15 there would be growth in demand for drill pipe and
16 other downhole tools in the United States. We
17 installed all new equipment made in the U.S. when we
18 started, and we began producing drill pipe, heavy
19 weight and drill collars.

20 We turned out to be correct about our
21 forecast for increased demand and believe that our
22 contribution to the growth of the domestic industry
23 capacity helped us serve the growth in American drill
24 pipe demand. In fact, the combination of our
25 company's new capacity and that of several other

1 domestic producers meant that there was never a need
2 for unfair traded Chinese imports from China. We also
3 became a major exporter of drill pipe in the Western
4 Hemisphere.

5 All of these products we produce -- drill
6 pipe, heavy weight drill pipe and drill collars -- get
7 used together, and I don't know any other way to drill
8 an oil and gas well without these. The United States
9 is the largest market in the world for drill stem
10 products and is why I'm glad we're a U.S. manufacturer
11 based in the U.S.

12 However, the increase in dumped and
13 subsidized Chinese drill pipe has had a devastating
14 effect on our business and our growth plan for serving
15 the U.S. industry. In 2008, we placed an order for a
16 second weld line and a new upsetter, but the surge of
17 imports from China and the massive inventory buildup
18 of these products in the U.S. led us to delay the
19 delivery of these pieces of equipment as long as
20 possible.

21 Finally the equipment suppliers told us we
22 needed to put up or lose our deposit. We paid for the
23 rest of the weld line and took delivery. However, we
24 have been unable to use the equipment thanks to the
25 Chinese. Even after we spent almost \$11 million on

1 capital equipment, that money is out the door with no
2 return, just interest expense.

3 As we stated, my family and associates have
4 been in the downhole drilling tool business our entire
5 lives and have helped to invent and manufacture most
6 all the common drilling tools used today. We know
7 just about all the drilling company executives that
8 are out there, but none of these friends of mine in
9 the industry would step up and testify here today.

10 That is because for a drilling contractor
11 the drill stem is the most expensive part outside the
12 drilling rig. From the biggest company to the
13 smallest, these guys are as cheap as they get and want
14 the cheapest prices they can get. That is why every
15 customer we have just has been hounding our sales
16 force every day with information on how cheap they can
17 buy Chinese pipe already in inventory in the U.S.

18 You've got to believe they would feel a lot
19 different today if Chinese contractors were offering
20 rates at 20 percent below cost. Last year one of our
21 biggest customers asked us to quote a very, very large
22 order. However, instead of paying us to make the
23 product in 60 to 90 days, they bought inventory on the
24 ground from Hilong and Longbright at 25 percent than
25 our lowest final prices. The Hilong and Longbright

1 distributors aren't even here today, but they're just
2 as bad as the rest.

3 Our company does not produce for inventory,
4 and we're not going to start producing for inventory
5 to start trading pipe that we manufacture for
6 customers' surplus inventory of different sizes we
7 don't manufacture. We pay good money for Grade 2s,
8 tool joints and bar stock and don't have the financing
9 to build up the inventory in order to trade with
10 customers.

11 These importers and distributors can only
12 make those kind of deals because they get subsidized
13 and dumped products from China. I can tell you
14 without a doubt that our system has worked fine for
15 drill pipe customers and drill pipe producers alike
16 for at least three generations and don't know of one
17 case where a rig couldn't go to work due to lack of
18 pipe.

19 The new system these guys want to introduce
20 into the U.S. marketplace depends upon the Chinese
21 Government's subsidies to the Chinese producers that
22 flow through to American distributors. Our government
23 cannot afford to subsidize me. In any case, I don't
24 want any subsidies.

25 I told you that we started Prideco and left

1 soon after it came Grant Prideco. We still have a lot
2 of friends from those old days who are at Grant, and I
3 know these folks are committed to the plant we built
4 and ran in Navasota and the people that work there. I
5 also know that NOV is a giant, international company
6 that could care less whether they make things in Texas
7 and/or China.

8 They care about how many dollars per share
9 of profits they can report each quarter. What would
10 happen in the future if NOV decided to sell to the
11 Chinese once the rest of us have moved overseas or
12 reduced our U.S. capacity?

13 If you give the U.S. industry relief from
14 dumping and subsidized Chinese products, RDT is going
15 to install and operate the second weld line and the
16 new upsetter sometime this year. If you do not grant
17 us relief then RDT will maintain a service business in
18 the U.S., but we will move all of our new and already
19 utilized production equipment offshore. I suspect
20 that if the United States Government doesn't want
21 manufacturing jobs in the U.S. I can find a Latin
22 American government that will want these jobs.

23 Look, I am sure you can tell I am a proud
24 Texan and a man of my bond and probably the largest
25 employer in Beasley, Texas, but I cannot continue to

1 lose money competing against dumped and subsidized
2 imports from China, and I ask you with the deepest
3 sincerity to give us relief. Thank you.

4 MR. BARNES: Good morning, Chairman Okun and
5 members of the Commission. I am Scott Barnes, Vice
6 President and Chief Commercial Officer for TMK IPSCO.
7 I have been in the steel industry for over 30 years,
8 and I've been with TMK IPSCO or its predecessors for
9 25 years.

10 First let me begin by thanking the
11 Commission for your affirmative votes in the OCTG and
12 Seamless Pipe cases, two other cases in which TMK
13 IPSCO was a significant producer and in which I
14 testified.

15 These cases were critically important to our
16 company because unfortunately China has subsidized
17 massive overcapacity for the production of all types
18 of seamless pipe and tube products, including OCTG,
19 seamless standard line pressure pipe and the seamless
20 unfinished drill pipe we produce and the finished
21 drill pipe produced by our U.S. customers.

22 TMK IPSCO produces steel billets at our melt
23 shop located in Koppel, Pennsylvania, after which we
24 rotary pierce those billets into Grade 2s for drill
25 pipe at our seamless tube mill very nearby in

1 Ambridge, Pennsylvania.

2 Though TMK IPSCO has had numerous ownership
3 changes over the past several years, our executive
4 management has stayed remarkably consistent.

5 Fortunately, all of our owners have had the strong
6 commitment to reinvest in this very capital intensive
7 industry.

8 We have made significant investments in our
9 steel mill in Koppel, and we completed a major capital
10 investment in early 2008 in our Ambridge seamless pipe
11 plant that both increased our capacity and allowed us
12 to expand our green tube size range to include the
13 larger diameters. We can now produce from two and
14 three-eighths inch outside diameter to five and a half
15 inch outside diameter.

16 Green tube for drill pipe is a very high
17 value product requiring special alloy chemistries at
18 the melt shop and extremely tight wall thickness
19 tolerances in quality testing prior to shipment to our
20 customers in order for them to meet the stringent API
21 and customer requirements for finished drill pipe.

22 At the same time we were expanding our
23 capacity and size range to make green tube for drill
24 pipe, the U.S. finished drill pipe market saw a
25 significant expansion of new drill pipe processors who

1 required green tube for drill pipe from companies like
2 ourselves and our competitor, U.S. Steel. These new
3 companies included Rotary Drilling Tools, Superior
4 Drill Pipe and Tube Technologies.

5 In addition to these new companies, other
6 firms such as Texas Steel Conversion and Daios Tubular
7 also expanded their capacity. This was fortunate for
8 TMK IPSCO because the largest U.S. drill pipe
9 producer, NOV Grant Prideco, already has a joint
10 venture to produce green tube in Austria with Voest
11 Alpine and a joint venture to produce green tube in
12 China with our perennial, heavily subsidized nemesis,
13 Tianjin Pipe Company, or better known as TPCO.
14 Therefore, NOV were no longer going to source as much
15 of our products.

16 Given all the new capacity for finishing
17 drill pipe that came on in 2006 and after, it is not
18 surprising that our sales of green tube increased
19 significantly and that the U.S. finished drill pipe
20 industry was able to supply the growing needs of the
21 U.S. drilling industry.

22 In fact, your staff report shows at Table
23 C-2 that the U.S. industry producing finished drill
24 pipe increased its capacity in each year from 2007
25 through 2009, but never operated at more than 80

1 percent capacity utilization rates before capacity
2 utilization plummeted to less than 40 percent in 2009
3 and 2010.

4 Capacity utilization for the unfinished
5 drill pipe industry was significantly lower in those
6 years and then our sales almost completely disappeared
7 in 2009 and 2010. My sales team reported our green
8 tube customers basically told them that a combination
9 of declining demand and increased low priced imports
10 of finished drill pipe from China meant that our
11 customers did not need our products.

12 You can tell from our questionnaire response
13 data in 2007 and 2008 that unfinished drill pipe was a
14 very important and very profitable product for TMK
15 IPSCO. We work very closely with these customers, and
16 green tube is a very important complement to our OCTG
17 product line.

18 Since I know how important green tube for
19 drill pipe is to TMK IPSCO, I know the same analysis
20 must apply to our Chinese competitors. Shipping
21 either green tube for drill pipe or finished drill
22 pipe to the United States is another way for OCTG
23 producers in China to operate their seamless pipe
24 mills and continue exports to the United States after
25 the unfair trade duties were imposed against imports

1 from China on OCTG and seamless standard line and
2 pressure pipe.

3 In conclusion, unfinished drill pipe is an
4 important product for TMK IPSCO, and that is why we
5 are a Petitioner in this case. We want to employ more
6 people at our melt shop in Koppel and our seamless
7 pipe mill in Ambridge than we can just by producing
8 OCTG and seamless SLP. We want to be able to service
9 all the energy tubular needs of the U.S. energy
10 industry.

11 In conclusion, I'm here to ask you to make
12 an affirmative determination of injury and grant
13 relief against unfairly traded drill pipe from China
14 on behalf of all of our valued employees in Ambridge
15 and the Koppel facilities. Thank you.

16 MS. RUTLEDGE: Good morning, Chairman Okun
17 and members of the Commission. I'm Kathy Rutledge,
18 Vice President of Marketing and Business Development
19 for Sunbelt Steel Texas. I've been in the drill
20 collar and energy products industry for 35 years.

21 I began my career with Drillco, the
22 predecessor to Smith International, in 1975. I have
23 been with Sunbelt since 1998. I am one of three
24 active owners of the company, along with a fourth
25 financial partner.

1 Sunbelt began operations in 1986 as an alloy
2 bar distributor. In 2000, we made our initial
3 investment in trepan equipment. This equipment
4 allowed us to begin to participate in the drill collar
5 market. After a short learning curve, we added
6 additional machinery that enabled drill collars to
7 become a very important part of Sunbelt's business.

8 In early 2008, we made two major machinery
9 investments to be used specifically for drill collars.
10 One was a double-end trepanner, and the other is a
11 spiral milling machine. The addition of these
12 machines enabled us to employ local craftsmen to
13 design and install the equipment, addition of
14 employees and investment of nearly \$1.3 million, which
15 is a substantial investment for a company the size of
16 Sunbelt.

17 Utilization on these two machines is
18 currently only 20 percent. With the rig count
19 continuing to rise in 2010, our expectation was that
20 the drill collar business would be much, much better
21 by now. We know the Chinese steel brought into this
22 country in 2008 through early 2010 is the primary
23 reason that our drill collar business has not risen
24 comparably to the rise in the rig count.

25 Additionally, we have postponed the addition

1 of equipment and personnel that would allow us to
2 machine API connections on drill collars due to the
3 increase of imported Chinese steel and our resulting
4 loss of profit.

5 We sell unfinished drill collars to other
6 drill collar producers or to other distributors or end
7 users who then can have the API licensed machine
8 connections added. We also sell finished drill
9 collars to end users, and we contract out the
10 machining of these connections prior to delivery of
11 the finished collar to the customer.

12 We had experiences with Command Energy that
13 were similar to those discussed previously by Mr.
14 Fields. Command was a significant drill collar
15 customer of ours in 2007, and in 2008 the drill collar
16 sales to them declined significantly. Then Command
17 stopped completely purchasing drill collars from
18 Sunbelt in 2009.

19 As a comparison, the average rig count for
20 2007 and 2010 is close, but our drill collar sales to
21 Command Energy for 2007 were over six times higher
22 than they were in 2010. This is indicative of what is
23 happening all over this market.

24 Because we are an alloy bar distributor and
25 alloy bars are our feedstock for drill collars, we

1 believe we have the shortest lead times in the
2 industry. No company can import collars made in China
3 and shipped to the United States in less time than we
4 can produce the product.

5 However, what we do know through feedback
6 from customers is that Chinese drill collars delivered
7 to the U.S. were and are being sold at much lower
8 prices than we could offer.

9 Speaking of our customers, we've sold drill
10 collars to some of the largest U.S. drilling
11 contractors and to the smallest U.S. drilling
12 contractors, as well as to various distributors. We
13 have also sold semi-finished collars to many of the
14 companies testifying here today.

15 Our drill collar sales volume in 2009 and
16 2010 is roughly half the volume sold in 2007 and 2008.
17 And even worse than the loss of volume has been the
18 pressure on prices. We continue to constantly hear
19 from customers about cheap Chinese drill collar
20 prices, and we consequently have lowered our prices to
21 try and compete.

22 This has not worked because there is just
23 too much disparity in pricing. We would have to lose
24 money on each sale to compete with Chinese pricing.
25 After being very profitable in 2007 and the first half

1 of 2008, prices have fallen to unprofitable levels and
2 we lost money in our drill collar business in both
3 2009 and 2010.

4 Remember, our utilization on the two
5 machines that I mentioned earlier is down to 20
6 percent for 2010. We had to lay off three-quarters of
7 our workforce producing drill collars. I did most of
8 those firings personally. I sat across the table from
9 one young man working for our company whose wife was
10 pregnant and had to tell him within 30 days he would
11 lose his job and his means of family support. That
12 was the most difficult thing that I have done in my 35
13 years in business.

14 I would love to rehire those people we laid
15 off. I know that if you allow Chinese drill collars
16 to continue to be unfairly imported into the U.S.
17 market we will have to shut down our drill collar
18 business and I will have to lay off the remaining
19 drill collar employees.

20 Additionally, we're hampered with the older
21 drill collar inventory that has a lower borrowing base
22 with our financial institution. We cannot grow our
23 business if we cannot continually turn our inventory.
24 Since we are restricted from borrowing against the
25 older material in stock, our drill collar inventory

1 has aged beyond normal because we have not been able
2 to compete against the lower priced Chinese steel,
3 which is still very plentiful in the United States.
4 As an example, we have one customer in the Wyoming
5 area that still has hundreds of brand new Chinese
6 collars on the ground.

7 Let me close by telling you that Sunbelt
8 Steel is a great company. Manufacturing companies
9 like Sunbelt are the heartbeat of America. I am proud
10 to be an owner and a senior executive of the company.
11 I know that we can compete on a level playing field.

12 I also know that we are committed to making
13 investments in machinery and creating American
14 manufacturing jobs and growing our business to serve
15 the energy drilling market, provided we are allowed to
16 do business on a level playing field. Otherwise we'll
17 be forced to close our drill collar manufacturing
18 facility, losing even more American jobs.

19 I thank you for the opportunity to appear
20 here today and tell you personally about the injury
21 that Sunbelt has suffered.

22 MR. DORN: Good morning, Commissioners. My
23 name is Scott Dorn, and I am the General Manager of
24 Tubular Marketing for U.S. Steel Tubular Products.
25 U.S. Steel makes unfinished drill pipe at its

1 facilities in Fairfield, Alabama, and Lorain, Ohio.

2 We support the claim for relief in this case
3 and would like to make a few brief points for the
4 Commission. First, for some time now U.S. Steel has
5 been very concerned about the explosive growth of
6 China's capacity to make seamless tubular products
7 such as unfinished drill pipe.

8 In recent cases involving OCTG and seamless
9 standard line and pressure pipe, we showed how Chinese
10 subsidies and China's determination to build an
11 enormous tubular industry resulted in far more
12 capacity than market conditions warranted. In each of
13 those cases, the Commission agreed with us that this
14 capacity represented a threat to domestic producers,
15 and we thank you for the crucial relief you have
16 provided us.

17 But we also make unfinished steel pipe on
18 the same mills used to produce OCTG and seamless
19 standard line and pressure pipe, and we are certain
20 that many Chinese mills can do the same. The orders
21 on OCTG and seamless standard line and pressure pipe
22 will give Chinese mills a compelling incentive to
23 shift as much unfinished drill pipe to this market as
24 possible.

25 Second, while we do not make finished drill

1 pipe, dumped and subsidized imports of finished drill
2 pipe hurt us because they hurt our customers. When
3 unfairly traded imports of finished drill pipe enter
4 this market, American producers of finished drill
5 pipe, the same companies that buy our unfinished drill
6 pipe, lose sales. As a result, those companies are
7 forced to cut production, thereby lowering demand for
8 our product.

9 Third, we can't afford to lose any more
10 sales to unfair trade. Our mill at Lorain that makes
11 unfinished drill pipe was shut down during much of
12 2009 and is still only operating with a single shift.
13 Indeed, poor market conditions forced us to idle this
14 mill or to operate it at levels of less than a full
15 shift throughout the last quarter of 2010.

16 Under these circumstances, we need to sell
17 as much unfinished drill pipe as possible, and we are
18 gravely concerned about what could happen if Chinese
19 mills trade in this market unfairly. For all of those
20 reasons, we urge the Commission to grant relief.
21 Thank you very much for the opportunity to testify.

22 MR. DE ROTALIER: Good morning, Chairman
23 Okun and members of the Commission. For the record,
24 my name is Bertrand de Rotalier, and I am the Vice
25 President for Marketing and Sales for VAM Drilling

1 based in Paris.

2 I am responsible for all of our sales and
3 marketing worldwide from our different business units
4 in Europe, the Middle East, South America and the
5 United States. I have 10 years of experience in the
6 energy tubular business, and I was the head of the
7 Vallourec office in China from 2002 to 2008. During
8 my time in China, I became very well acquainted with
9 the Chinese drill pipe and drill collar industry and
10 visited many of the new Chinese mills.

11 These first slides, Nos. 1 and 2, provide a
12 list of all present API licensed drill pipe producers
13 in China, the number of inertial welding lines they
14 have in service and the estimated total tonnage
15 capacity for drill pipes, as well as drill collars in
16 the next slide. Most of the largest Chinese drill
17 pipe producers also produce drill collars.

18 Finally, the chart indicates the status of
19 these producers as to whether they are qualified
20 suppliers to the Chinese Government's own drilling
21 companies which control drilling in China.

22 First, about three-quarters of present
23 Chinese capacity has come on line in just about three
24 years. There has been a startling increase in
25 capacity.

1 Second, Chinese state-owned companies
2 control virtually all drilling in China, and they
3 purchase drill pipe and drill collars generally twice
4 a year at meetings with qualified suppliers. Thus,
5 all the drill pipe producers who are not on the list
6 must essentially export all of their products.

7 Third, China is similar to the United States
8 and unlike most of the rest of the world in that over
9 90 percent of the rigs are land-based rigs which
10 depends on API grade drill pipe. Most of the drill
11 pipe provided to CNOC for offshore drilling is premium
12 product provided by the Grant Pride Corporation in
13 China.

14 Demand for drill pipe and drill collars is a
15 function of three factors: The number of rigs being
16 used since every rig needs a drill string, the
17 capacity utilization rate of the drilling rigs since
18 drill strings can be borrowed from stacked rigs, and
19 the wells drilled, which influences the wear out rate
20 for drill strings, which are normally replaced every
21 two to three years.

22 The next chart shows the number of rigs and
23 the footage drilled in the main market of the world.
24 This information is based on Spears reports, which are
25 acknowledged to be the highest level of expertise in

1 the world on this issue.

2 As you can see, the United States still
3 leads the world in both the number of rigs operating
4 and even more so by the amount of footage drilled
5 because the U.S. drilling industry is the most
6 efficient in the world. China and Russia each are
7 about half the size of the U.S. and then are followed
8 by Canada, the rest of Asia and the rest of the world,
9 including Africa, the Middle East and South America.

10 Based on this information, the next slides
11 show our estimates for 2010 and 2011 of total drill
12 pipe and drill collar consumption by region and for
13 the world. As can be seen, Chinese capacity of over
14 650,000 tons is at least four to five times estimated
15 Chinese consumption and is more than world
16 consumption.

17 Based on our trend intelligence in China, a
18 large number of the newest Chinese drill pipe
19 producers are either completely idle or are producing
20 drill pipe such for inventory. The rest of the
21 Chinese industry is utilizing at best one-third to
22 one-half their capacity.

23 Two further comments. Even though prices
24 for API grade drill pipe in the U.S. have fallen by
25 approximately one-third between 2008 and the beginning

1 of 2011, the U.S. still has attractive prices for API
2 grades compared to the world markets.

3 Prices in China and Russia are lower than
4 prices in the U.S. The Russian market, which is
5 dominated by state-owned oil and gas companies, tends
6 to favor domestic production, and Russian mills have
7 recently increased total capacity. This, combined
8 with tariff and nontariff barriers in Russia, will
9 certainly limit Chinese exports to these markets.

10 Many other markets in the world are focused
11 on offshore drilling with approximately 800 offshore
12 rigs operating outside the United States. These
13 offshore rigs require premium or patented products
14 which Chinese mills have yet to demonstrate an ability
15 to supply.

16 In conclusion, massive Chinese overcapacity
17 for API grade drill pipes and drill collars is clearly
18 targeted toward the U.S. markets. Chinese mills also
19 lost exports because of the 17 percent VAT rebate
20 incentive. Given the modest levels of current
21 forecasted U.S. demand, the U.S. industry is itself in
22 an overcapacity situation.

23 As my colleague, Doug Fields, has already
24 stated, VAM Drilling does not believe that a
25 substantial investment in the best equipment and

1 people in the U.S. market can continue to be viable in
2 the face of unfairly traded competition from massively
3 subsidized and -- import competition from China.

4 Thank you very much.

5 MR. CONWAY: Good morning, Chairman Okun,
6 Vice Chairman and members of the Commission. My name
7 is Tom Conway. I'm Vice President of the United Steel
8 Workers, the largest industrial union in North
9 America. We represent workers in a wide range of
10 industrial sectors, including steel and including
11 workers in the drill pipe industry working at U.S.
12 Steel, TMK IPSCO and Timken.

13 As you're aware, each of these companies
14 produce drill pipe or drill collar or both. In
15 addition, all three companies are integrated so in
16 essence the jobs at stake include not only the jobs on
17 the pipe mill, including producing green tube or the
18 jobs at the bar mills producing drill collar, but also
19 the jobs at the facilities downstream produced through
20 all steel inputs.

21 And even though we're in the second year of
22 a formal economic recovery, the domestic steel
23 industry is limping along at only about a 70 percent
24 capacity utilization. That translates to a good
25 number of USW workers/members continue to be laid off

1 or working reduced hours.

2 In fact, at the Lorain, Ohio, steel making
3 facility there was a week-long shutdown in October of
4 last year and last month extra down times occurring
5 beyond the normal year-end scheduled maintenance.

6 That Lorain plant is where unfinished drill
7 pipe would be produced for our domestic drill pipe
8 makers except that the drill pipe industry matters are
9 even worse. The capacity utilization for unfinished
10 drill pipe is at 22 percent, and the capacity
11 utilization rate for finished drill pipe is at 33
12 percent.

13 My understanding is that about 600 workers
14 or about 40 percent of the entire workforce at
15 finished drill pipe facilities have been laid off and
16 more than 100 workers or 75 percent of our entire
17 workforce making unfinished drill pipe have been laid
18 off. We still have USW workers on layoff at these
19 companies.

20 Currently the drill pipe industry and its
21 workforce, including the USW members, cannot survive
22 very long with such each capacity operating rates.
23 But that's what would happen if drill pipe from China
24 continues to enter the U.S. market without duties
25 being imposed to address the dumping and subsidization

1 that's causing this sector harm and the threat of
2 harm. Indeed, this will happen because the imports of
3 drill pipe from China are being subsidized and sold at
4 dumped prices into the U.S. market.

5 These imports benefit tremendously from
6 massive government subsidization. For example, the
7 Chinese drill pipe producers receive imports from
8 state-owned enterprises for less than adequate
9 compensation, below market rate loans from Chinese
10 Government-owned banks and tax incentives for drill
11 pipe exporters.

12 Clearly the negative impact of such unfair
13 trade practices have resulted in serious economic
14 difficulties for domestic drill pipe producers, not
15 the least of which are the worker layoffs, including
16 our members.

17 As we've stated in many, many previous
18 hearings before this Commission, U.S. workers -- in
19 particular USW members -- are forced to endure the
20 brunt of China's unfairly subsidized and dumped
21 imports, so it's extremely important that the U.S.
22 Government vigorously enforce our nation's trade laws
23 against unfairly traded imports.

24 As you've heard today, there's a non USW
25 company, V&M Star, who apparently will be investing in

1 a new plant in Youngstown. That should create
2 additional jobs, provided trade relief is granted in
3 this case.

4 The new plant would also support
5 construction jobs and benefit the surrounding
6 community in a lot of concrete ways that USW is in
7 favor of regardless of whether those workers are
8 represented by our union or not, although we plan to
9 get to that in due course as well.

10 While this story is all too familiar to our
11 members, the negative consequence of unfairly traded
12 imports is devastating to all manufacturing workers
13 who have to suffer the consequences of lost jobs,
14 plant shutdowns and especially in an economic
15 circumstance where over two million manufacturing jobs
16 have been lost during this latest economic crash and
17 over six million manufacturing jobs have been lost in
18 the last decade.

19 As our union has stated to you in many other
20 hearings, the enforcement by the Commission of our
21 trade remedies has often become our last line of
22 defense in this continuing fight against the terrible
23 consequences that rain down on our members, our
24 communities, from unfairly traded imports of goods
25 like drill pipe.

1 Our union is going to continue to be here in
2 this fight and at the front of it on behalf of our
3 members and all American workers who deserve the
4 ability to compete on a level playing field in the
5 United States without the growing and dangerous
6 intervention of the Chinese Government providing its
7 producers and exporters a huge, unfair advantage in
8 our market.

9 On behalf of USW members making drill pipe
10 and drill collar and based on an ample record of
11 evidence, I would ask the Commission to make an
12 affirmative determination of injury that would help
13 put both USW members, as well as Americans, back to
14 work. Thank you.

15 MR. SCOTT: Good morning, Chairman Okun and
16 members of the Commission. My name is Robert Scott,
17 and I'm a senior economist at the Economic Policy
18 Institute. The Petitioners have asked me to review
19 several economic issues in this investigation.

20 For budget reasons I did not prepare a
21 written economic analysis to our prehearing brief.
22 However, I would be happy to answer your questions on
23 my analysis during this hearing and to provide
24 additional information in the posthearing submission.

25 When doing any economic analysis, an

1 economist likes to broaden the sample database rather
2 than relying on a narrow sampler set. The goal here
3 is to increase the number of observations from a
4 statistical point of view and to gain a deeper
5 understanding of the structure of the markets
6 involved.

7 Therefore, in addition to reviewing the
8 prehearing staff report data in this investigation, I
9 also carefully reviewed two final determinations
10 rendered by this Commission in 2010 in the Oil Country
11 Tubular Goods From China case and the Seamless Carbon
12 and Alloy Standard Line and Pressure Pipe From China
13 case.

14 I have worked in past investigations and
15 sunset reviews of these products before the
16 Commission, though I did not participate in the two
17 recent China cases. Thus, I know from past
18 experience, as does this Commission, that there
19 certainly are similarities between these seamless
20 tubular products and drill pipe, as well as some
21 differences.

22 First of all, these products are used in
23 energy markets for drilling, exploration,
24 transportation or refining of energy products.
25 Second, these products are all made to American

1 Petroleum Institute specifications, which allows you
2 to depend on API licensed products from any country.
3 Third, most of these products start on the seamless
4 mills of integrated steel mills.

5 For these reasons, the Commission found in
6 both the OCTG and the Seamless cases that domestic and
7 imported products were interchangeable commodity
8 products. I would conclude, based on the information
9 in the drill pipe staff report, that the same is true
10 of drill pipe products except for the premium products
11 which are made to greater than API specifications,
12 usually to patented and proprietary specifications.

13 Turning to pricing, in both the OCTG and
14 Seamless cases the degree of underselling closely
15 correlated to the difference between the unit values
16 reported and domestic shipments. In seamless,
17 domestic underselling averaged 37.7 percent and the
18 differences in unit values ranged from 40 to 55
19 percent.

20 Similarly, in OCTG while the Commission did
21 not report on the percentage of underselling,
22 underselling did occur in over 94 percent of
23 observations and the unit values of Chinese OCTG
24 consistently fell 30 to 50 percent below those of
25 domestic unit values.

1 In this case, in contrast, these same
2 relationships do not hold true. Your public
3 information in Table C-6 shows average import unit
4 values for Chinese products were substantially below
5 the average unit values of U.S. like products.

6 Chinese imports began at \$1,000 a ton or 20
7 percent less than the average unit values of U.S.
8 producers' domestic shipments in 2007 and then
9 increased to a difference of \$1,700 a ton or 30
10 percent under domestic AUVs in the first half of 2010.
11 Even when premium products are removed and the
12 analysis is done only for nonpremium products, there
13 is still a consistent and growing underpricing of
14 Chinese imports compared to domestic unit value.

15 But unlike the Seamless and OCTG cases, the
16 price comparison summary in this case in Table V-9
17 does not show the same pattern except in the first
18 half of 2010. In fact, in this case the Commission
19 found that a significant majority of comparisons of
20 prices for Chinese drill pipe and drill collars were
21 higher than comparable domestic prices.

22 As an economist, I want to explain why there
23 could be a difference in these correlations across the
24 sale of products that are all made to API
25 specifications, so I examined websites of the firms

1 listed as importers in the Seamless and OCTG cases and
2 found that most were trading companies, often the same
3 in both cases.

4 In this case, in contrast, two major
5 distributors, Command and Downhole, testified that
6 they were the major importers of drill pipe from
7 China. Obviously trading companies who would sell on
8 behalf of Chinese producers to the same distributors
9 or end users as the domestic industry generally take
10 very small markups.

11 On the other hand, distributors would tend
12 to take a higher markup than a trading company because
13 they maintain inventories and sell to different market
14 segments. I believe you have some information on the
15 relevant distributor markups in the Confidential
16 Exhibit 1 of Petitioners' prehearing brief.

17 Most important, as you've already heard, in
18 2008 and 2009 Command, which I understand is both a
19 distributor and an importer of Chinese pipe, was a
20 major customer of VAM Drilling. This crystallizes the
21 price comparison problem.

22 Essentially the Commission has in its price
23 comparison mix sales by a major domestic producer to a
24 distributor being compared to the same distributor's
25 selling prices of Chinese imports to other

1 distributors or end users. Obviously that distributor
2 has not reported any of its selling prices of the
3 domestic product it purchased to the Commission.

4 So from a level of trade perspective the
5 Commission seems to be comparing import prices that
6 include a distributor's markup with the U.S.
7 producer's wholesale prices for the like product sold
8 to end users and distributors. Therefore, I conclude
9 that the import unit value information better compares
10 like for like sales by Chinese producers and by U.S.
11 producers to either end users or distributors.

12 I have also reviewed the drill pipe industry
13 data for purposes of analyzing the material impact of
14 Chinese imports on the domestic industry. First, it
15 is clear that the decline in consumption of over 50
16 percent between 2007 and 2009 and for the 14 percent
17 fall between the first half of 2009 and 2010 had a
18 significant impact on the quantity of domestic
19 production. However, the growth in the market share
20 of Chinese imports which is understated in the staff
21 reports also had a material impact on volume, and the
22 more important impact of Chinese imports was on
23 pricing. For all those customers purchasing API grade
24 products who had a choice between purchasing Chinese
25 product and domestic products the availability of

1 Chinese products, which was usually lower priced
2 according to the import unit value data, forced the
3 domestic industry to lower prices to maintain sales
4 volume. The average unit value of U.S. producers'
5 domestic shipments fell 19.3 percent between the first
6 half of 2009 and 2010.

7 Certainly given that in both 2009 and the
8 first half of 2010 the domestic industry could easily,
9 very easily supply the entire U.S. market the
10 inescapable conclusion is that imports from China has
11 had a material adverse impact on the condition of the
12 domestic industry.

13 And on a final comment on threat. The
14 Respondent's prehearing brief claims that the high oil
15 prices and an increase in the rate count in the first
16 half of 2010 could seal the domestic industry from any
17 increased imports from China. However, oil price and
18 rig count numbers do not correlate well to demand for
19 a drill pipe.

20 For example, reported consumption of
21 finished drill pipes and collars declined by 14
22 percent, even as the price of oil and rig counts were
23 both increasing significantly in 2010. The lack of
24 correlation here is tied to significant inventory
25 quantities held in the United States market by users,

1 importers and domestic producers compared with
2 consumption levels.

3 Furthermore, the average wellhead price of
4 natural gas has fallen steadily throughout 2010, which
5 will likely suppress rig counts in the future, putting
6 further downward pressure on the demand for drill pipe
7 and collars. Thus the domestic industry lacks any
8 imminent spike from the continued and renewed
9 injurious imports from China. Thank you.

10 MR. SCHAGRIN: That concludes our
11 presentation. We'd be happy to answer your questions.

12 CHAIRMAN OKUN: Well, thank you. Before we
13 begin our questions let me take a moment to thank all
14 the witnesses for appearing here today, in particular,
15 all of you who have traveled from your businesses to
16 help answer our question and complete the record, so
17 we thank you very much.

18 Before we begin questions, I also wanted to
19 note on behalf of Commissioner Pearson, who had
20 intended to be here today, that he, unfortunately, had
21 to attend a funeral in Minnesota. He has prepared
22 questions. To the extent that they are not asked by
23 my colleagues, there may be additional questions that
24 he will submit for the record, and I start the
25 questions this morning.

1 So, I think, Mr. Schagrín, I'll start I
2 guess where your panel started with respect to how the
3 Commission evaluates pipes from Grant Prideco, and let
4 me ask this question first. Is there anything in the
5 record that indicates that we have not had full
6 cooperation from Grant Prideco?

7 MR. SCHAGRIN: You have information in the
8 record that demonstrates that Grant Prideco has
9 submitted all of the requested questionnaires. I will
10 supplement in the posthearing briefs information that
11 I am aware of from staff about the situation that
12 occurred with their verifications. As you know,
13 normally the Commission staff verifies the largest
14 U.S. producers, and that did not occur in this case.

15 I also know, via the rumor mills, that that
16 company chose to seek assistance from counsel, which
17 is everyone's opportunity. Being around this ball
18 game as long as I have been, you know who appears
19 before you regularly at this Commission, and there is
20 some people who swing both ways. There is people like
21 myself that only counsel domestic producers who seek
22 relief, and there is other counsel who routinely
23 counsel companies who oppose relief, and I'll let you
24 draw your own conclusion there, and I can supplement
25 that in our posthearing brief.

1 CHAIRMAN OKUN: If you have any information
2 specific to lack of cooperation, I would be happy to
3 see that in the posthearing brief.

4 Now with respect to the related-party
5 analysis, as you know the Commission did not exclude
6 Grant Prideco in its preliminary determinations. I am
7 read your brief and your arguments with respect to
8 Grant Prideco, but I guess my question -- a couple of
9 questions for you.

10 One, you didn't cite any cases where you
11 found similar circumstances with respect to a domestic
12 producer with similar rig fields of imports to
13 production where the Commission excluded a company
14 from the domestic industry, and I wondered if you had
15 found any since you filed the brief?

16 MR. SCHAGRIN: Well, to be honest having
17 read every single case that this Commission has opined
18 on the issue of whether or not a party should be
19 included or excluded, I would note that it's difficult
20 to attempt to draw comparisons to the Commission's
21 decisions as to the percentage of imports or exports
22 of the related parties to the decisions you have made
23 because the data for each company, when you're
24 rendering a decision company by company, is always
25 confidential. It's always asterisked.

1 You know, sometimes I have a sense of where
2 those asterisks are, sometimes I know like I read, I
3 noticed that Commissioner Pinkert in a recision
4 decision on laminated hardwood floors noted the allied
5 minerals case. You know, that was a case that was my
6 case, brown aluminum oxide from China, and which you
7 did exclude a member of the domestic industry. I can
8 read the court case, I can read the decision. I know
9 what's in the asterisk, but, you know, I've got to
10 wash that out of my head. That's the way we do things
11 her.

12 So, I mean, even when they are my cases I
13 can't comment on them, and when they are not my cases
14 I can't comment on them. I would make this -- of
15 course, we also studied the -- you know, as the court
16 cases say, the statute is plain, it's very
17 discretionary. The commission may exclude a domestic
18 producer that's a related party. Basically all you
19 get in the report language is references to the fact
20 that it would be appropriate to exclude them when the
21 benefit of the related party exporter imports, grants
22 a substantial benefit to the producer.

23 In looking at that you have tended most to
24 focus on the relationship between the volume of the
25 related parties imports to their production. I would

1 point out, first, that in this case I think it's
2 extremely critical, it's a matter of public record
3 that NOV Grant Prideco is an exporter from China.
4 They are listed in the staff report in Section 7 of
5 both unfinished and finished drill pipe. I think it
6 is critical that this Commission take both of those
7 volumes into account in its analysis.

8 I would also say looking at a dictionary
9 definition of the word "substantial", most
10 dictionaries start with substantial being equal to
11 material; not being equal to significant, but being
12 equal to material. Certainly this Commission is very
13 well aware of the definitions of material. We've been
14 through this forever. I'm not going to try to act
15 like Bob Whiteiser or John Greenwald and say, I was
16 there when Congress, you know, wrote those words, and
17 so I know what they meant, but I think it's pretty
18 clear that Congress didn't intend it to be a very high
19 standard in the congressional, you know, report
20 language of being unsubstantial.

21 I would say in this case the levels that you
22 are discussing, if you were to see them in terms of
23 import market share or other types of items, that you
24 would find them material.

25 Then, finally, I think given your discretion

1 and given the fact that the world is changing, this is
2 not the same world as when the Commission started
3 making these types of decisions 25 or 30 years ago.
4 Now we have most multi-national U.S.-based companies
5 putting plants into China. I think you can broaden
6 your views and your priorities. I know you've always
7 looked at is the producer for whom exclusion is sought
8 a petitioner or not. Clearly in this case the answer
9 is no, they are not a petitioner.

10 I think you can further broaden your views,
11 and you can hear this from other members of the panel,
12 a company as long and sophisticated as National
13 Oilwell Varco can make a decision in every case. It's
14 all about dollars and cents for publicly traded
15 companies. Will their bottom line be increased more
16 by the imposition of duties or by the non-imposition
17 of duties?

18 Their facilities in China is now subject to
19 429 percent dumping duty. I think that has probably
20 led the company, which is why they are not here today,
21 to make a rational business decision that National
22 Oilwell Varco's profits and reported profits per share
23 will be better served by a negative determination at
24 this Commission than by a positive determination.

25 CHAIRMAN OKUN: And on that, Mr. Schagrin,

1 if you could just help me on that because, again in
2 going through your brief, I'm just trying to
3 understand this, and I think you described it here as
4 taking a broader view of the statute, whether you're
5 including in that benefit of them operating in China
6 versus exports or imports coming into the United
7 States. I mean, I sense that in your brief that
8 you're saying because their operations in China do
9 better, would be doing better if they don't ruffle
10 feathers, that you would be asking us to take that
11 into account. Is that an accurate portrayal?

12 MR. SCHAGRIN: That is correct, Chairman
13 Okun.

14 CHAIRMAN OKUN: Okay.

15 MR. SCHAGRIN: I think you can in this day
16 and age take a company's views of their operations in
17 China and how much they decide they can profit from
18 operating those Chinese operations at high utilization
19 levels in order to export into the U.S. into account
20 as you do your analysis.

21 CHAIRMAN OKUN: Okay. Let me just turn to
22 the producers. Just in terms of competition in the
23 market, is it something -- you have spoken about Grant
24 Prideco, but is it -- I guess my question would be is
25 there anything about the market that's going on that

1 gives you the impression that they benefit from their
2 relationship to your disadvantage with respect to your
3 customers? Mr. Morris?

4 MR. MORRIS: Yes, I can make a comment on
5 that. They do bring in finished and unfinished drill
6 pipe to sell to whoever they want to in this country
7 if that's what you're asking.

8 CHAIRMAN OKUN: I'm asking if the product
9 that they bring in from China is displacing your
10 sales.

11 MR. MORRIS: Yes, it is.

12 CHAIRMAN OKUN: And did you give examples of
13 that in your submissions?

14 MR. MILLER: I don't have any specifics to
15 say. I don't.

16 CHAIRMAN OKUN: Do others have comments on
17 that? My red light has come on.

18 MR. PARKS: It's more of the competition
19 being Chinese-driving pricings has brought our prices
20 down 35 to 40 percent in the last two years. I had a
21 meeting in May of 2008 that I was told that landed
22 Chinese price for 4.5 and for 5 inch was at the low to
23 mid thirties, which is below our cost, and we could
24 not compete in that type of market.

25 CHAIRMAN OKUN: And this was Grant Prideco

1 product?

2 MR. PARKS: It was Chinese product.

3 CHAIRMAN OKUN: My red light has come on. I
4 may come back with some specifics on that because I
5 know some folks up here may have some comments, but
6 I'll come back. Thank you very much.

7 Vice Chairman Williamson.

8 VICE CHAIRMAN WILLIAMSON: Thank you, Madam
9 Chairman, and I, too, want to express my appreciation
10 to the witnesses for their testimony, and maybe I
11 might want to go further on this conversation.

12 Mr. Parks, you're talking about unfinished
13 drill pipe coming in from China that was undercutting
14 --

15 MR. PARKS: No, sir. I'm talking about
16 finished drill pipe, hard coated, it was landed which
17 was shipped into Texas in the low \$30 range, which is
18 below our cost.

19 VICE CHAIRMAN WILLIAMSON: Okay, thanks.

20 Now, is there --

21 MR. FIELDS: If I could just make a comment?

22 VICE CHAIRMAN WILLIAMSON: Sure.

23 MR. FIELDS: You know, it was said earlier
24 that the domestic industry at a 20 percent profit
25 range. We've got most of the domestic industry sitting

1 here, all but one basically. I can tell you that's
2 not where we're at. So where is it coming from?

3 We don't have access to NOV's -- what they
4 are paying for the raw materials, but I mean, there
5 has got to be -- that's got to be part of this
6 equation.

7 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
8 Mr. Fields, I think it was you that said that you
9 actually -- sales that you would have made to Grant
10 Prideco of unfinished drill pipe you lost because they
11 were bringing in finished drill pipe from China,
12 unfinished from China. Was that correct? I don't
13 know to what extent --

14 MR. BARNES: Scott Barnes with TMK IPSCO.

15 VICE CHAIRMAN WILLIAMSON: Yes, go ahead.

16 MR. BARNES: Commissioner Williamson, we ran
17 into the situation in two issues. One is that Grant
18 Prideco, NOV Grant Prideco has a joint venture with
19 Dalpine which supplies unfinished green tube for drill
20 pipe, but also in my testimony I mention that they had
21 these two welding lines over in China. One is right
22 next door to TCPO.

23 VICE CHAIRMAN WILLIAMSON: Okay. Well, I
24 don't know whether in posthearing it's more
25 appropriate. I thought I was seeing some -- someone

1 had said that domestic producers of unfinished pipe
2 were being hurt by imports of unfinished pipe from
3 China.

4 MR. SCHAGRIN: I believe that was in both
5 Scott Barnes' and I believe Mr. Dorn's testimony, that
6 they are competing with unfinished drill pipes from
7 China overall that can come into the U.S. market.

8 VICE CHAIRMAN WILLIAMSON: Yes.

9 MR. SCHAGRIN: And separately they are
10 competing with unfinished drill pipe from Austria and
11 China that Grant Prideco brings in from their
12 respective joint ventures. I think it's important to
13 point out, and maybe Mr. de Rotalier will tell you,
14 would like to point out in terms of the worldwide
15 competition that, you know, a company like NOV Grant
16 Prideco, they are not going to necessarily tell their
17 customers at the time that orders are taken whether
18 the unfinished product that that product is going to
19 be produced from is going to be produced from is going
20 to be made in Austria or China, either of their joint
21 ventures. They are not necessarily going to tell them
22 the sources of their finished product. What the
23 customer wants is API grade products, and knows that a
24 company like NOV Grant Prideco is going to stand
25 behind it.

1 So, whether it's made in the United States,
2 Singapore, China, the Middle East, wherever Grand
3 Prideco has an operation, they are a U.S. customer,
4 for that matter they are a worldwide customer, doesn't
5 care where the product is made. They want presumably
6 NOV Grant Prideco product made to a certain grade.

7 VICE CHAIRMAN WILLIAMSON: But what we're
8 trying to do is distinguish between the subject and
9 non-subject imports, and I'm strictly asking about
10 unfinished, and what impact that is having on the
11 domestic industry; whether the producers of the
12 finished or unfinished here, and that's the
13 clarification I was trying to get from this.

14 MR. SCHAGRIN: And that's what we're trying
15 to answer, Vice Chairman Williamson.

16 VICE CHAIRMAN WILLIAMSON: Okay.

17 CHAIRMAN OKUN: I'm just pointing out that
18 it's easier for us to do it confidentially --

19 VICE CHAIRMAN WILLIAMSON: Okay.

20 MR. SCHAGRIN: -- in the briefs, but it's
21 not that these folks don't know it, as Mr. Morris
22 testified that he was, you know, seeing Grant Prideco
23 unfinished, finished product. He's aware of it. He
24 obviously has lots of connections at the company
25 because he used to work there, but I think the reason

1 I was trying to point out that for the other U.S.
2 producers they know when they are competing with NOV
3 Grant Prideco. They don't always know -- in fact,
4 they probably rarely know where NOV Grant Prideco's
5 products are coming from.

6 VICE CHAIRMAN WILLIAMSON: Okay.

7 MR. SCHAGRIN: And that why we're just
8 trying to illustrate to you that's one of the reasons
9 you are probably getting some difficulty in getting
10 the answers to your questions is that it's not very
11 easy for them to know --

12 VICE CHAIRMAN WILLIAMSON: Okay.

13 MR. SCHAGRIN: -- the origin of the Grant
14 Prideco product.

15 VICE CHAIRMAN WILLIAMSON: To the extent you
16 are able in posthearing to address this because it
17 would increase our understanding of what's going on.

18 MR. SCHAGRIN: We will certainly do more in
19 the posthearing on this issue.

20 VICE CHAIRMAN WILLIAMSON: Okay, good.

21 Thank you.

22 Mr. Conway, in listening to the producers
23 and yourself testify it seems to me that -- to what
24 extent is the impact of the subject imports on the
25 domestic industry seeing more in the number of workers

1 that are off as opposed to profitability and things
2 like that?

3 Now, some of this may have to be addressed
4 posthearing, but --

5 MR. CONWAY: I think if we can answer some
6 at posthearing -- it has to do both with hours worked
7 on the mill and we had reduced workforce, but the
8 profitability is important to us, particularly say,
9 for example, our Lorain mill because part of the way
10 that I now have to deal with retiree healthcare coming
11 through that the effect of a trade, is that I have
12 these VEBA accounts, and I have a profit of say
13 swinging on the profits of these companies and I take
14 the future healthcare both for the current retirees
15 and the future actives, so it's not that I just have a
16 concern in numbers working in the mill. Profits are
17 important to me because I'm taking a rake on that to
18 pay for the healthcare of those retirees that are out
19 there now and the people who will walk into
20 retirement.

21 VICE CHAIRMAN WILLIAMSON: Okay. I can
22 understand that. I was just trying to get at the --
23 and so when you think about the impact, what is the
24 most dramatic impacts of the imports, subject imports
25 as well getting that.

1 MR. CONWAY: Well, it's in both.

2 VICE CHAIRMAN WILLIAMSON: Yes.

3 MR. CONWAY: Look, it's nice when they're
4 doing well and there is a lot of profits, and there is
5 piece of profit sharing at the end of the year, that's
6 nice. Our guys would much rather be working all year
7 long rather than sit around hoping that the company
8 scores big and we get a decent check. So it's really
9 about hours worked on the mill and being able to get
10 through this last quarter in Lorain has just been a
11 mess. So it's time on the mill making product that we
12 ought to be making, not trying to compete against the
13 Chinese product. I don't know if that directly
14 answers you or you want more in posthearing.

15 VICE CHAIRMAN WILLIAMSON: Okay. Maybe more
16 in posthearing and particularly when you think about
17 the company that you propose that we excluded, it
18 might be helpful.

19 MR. SCHAGRIN: We will provide more
20 basically, and the other thing that I didn't get a
21 chance to mention to Chairman Okun is that, you know,
22 it's kind of interesting the way the Commission
23 considers the issue of will inclusion or exclusion
24 skew the data. That seems to be one of the criteria.

25 Now, I look at -- once again I tend to refer

1 to dictionaries because I'm assuming, of course,
2 significantly in one direction or another, and I get a
3 sense, once again it's most asterisks, but I get a
4 sense that skew is always looked at as well, does this
5 make things, you know, worse, and I think, you know,
6 here to me I can't imagine any case where the numbers
7 could vary more widely with or without someone and
8 thus meet the criteria square on of skewing the data.

9 And so what we'll address in the
10 posthearing, I think we address that in our
11 prehearing, it's probably showed you some of the
12 charts, but this is an industry, and I think you heard
13 the testimony from these folks, everyone at this table
14 is doing miserably from both an employment picture and
15 a profit picture. I mean, these companies are --
16 these are honest people. I've never met more honest
17 people in my career.

18 When they are telling you that they are on
19 the verge of going out of business and shutting down,
20 they are. How do you square six or seven industry
21 members saying we are doing so badly, we're on the
22 verge of going out of business with industry-wide
23 profits margins of over 20 percent?

24 I've never been involved in any other case
25 like that in my entire career, and I think that tells

1 a lot of the story. These folks have a high
2 correlation, as Dr. Scott and Mr. Malashevich would
3 say, between their employment problems and their
4 profit problems that don't seem to quite be the same
5 industry-wide. We will discuss this further in
6 posthearing.

7 VICE CHAIRMAN WILLIAMSON: Okay. Thank you,
8 and my time has expired.

9 CHAIRMAN OKUN: Commissioner Lane.

10 COMMISSIONER LANE: Good morning and welcome
11 to this hearing. It's an interesting hearing and I'm
12 sure it's going to get more interesting as the day
13 goes on.

14 Mr. Conway, let me start with you. What
15 steps, if any, is your union taking to prevent further
16 layoffs?

17 MR. CONWAY: Typically when we start into a
18 down period we'll do sort of share the work and so
19 everybody will reduce themselves to 32 hours, and the
20 first thing that goes is overtime. Then we'll cutback
21 for awhile. And then it's just sort of on a week-by-
22 week thing. We monitor it. Sometimes if it looks
23 like it's going to be protracted and drug out, you
24 know, you come to a point where you make a decision,
25 well, you've got to get some of the shop back on 40

1 hours, some people just can't exist, and we begin to
2 lose junior people off of the bottom. We lose skills.

3 This is an industry now, steel isn't what it
4 was 20 years ago where you could almost come out of
5 the industry with a high school diploma and go to
6 work, get a job. Now the entry level requirements are
7 more. People are coming in with the equivalent of
8 associate degrees, some technical background, and so
9 losing that junior segment of the workforce is a big
10 deal in almost everyone of these accomplishments, and
11 we'll try not to do that. We'll try to hang onto it
12 as long as we can, but you know, eventually when
13 you're running at these levels of capacity you just
14 don't have work, and you -- as you heard in earlier
15 testimony, you know, families get wrecked at times. I
16 mean really get wrecked.

17 This young man is out there trying to figure
18 out how to pay for a baby. It is going on throughout
19 these industries. It's just systematically being
20 picked apart by the Chinese.

21 So, you know, we deal with it on a day-to-
22 day, week-to-week basis and hope that the market comes
23 back or that you guys will rule like you did in OTC
24 and turned things around, and give us again some
25 relief based on a chance to fight.

1 So, one of the things I'll go back to Lorain
2 and tell them is we're counting on you guy. Do the
3 right thing here.

4 COMMISSIONER LANE: Okay, thank you.

5 MR. FIELDS: If I could just add.

6 COMMISSIONER LANE: Yes.

7 MR. FIELDS: Even though we're not unionized
8 just to reenforce, we've seen the same thing:
9 layoffs, cutback to 32 hours. We had furloughs for
10 the whole management team as well which I think we've
11 seen industry-wide also of three weeks. So union or
12 not, we've seen the same impact.

13 COMMISSIONER LANE: Okay, thank you.

14 My next question is for U.S. Steel. What is
15 your position on the domestic-like product issues?

16 MR. VAUGHN: Commissioner Lane, as you know

17 --

18 COMMISSIONER LANE: Is this Mr. Vaughn.

19 MR. VAUGHN: Yes, this is Stephen Vaughn.

20 I'm sorry.

21 COMMISSIONER LANE: Okay.

22 MR. VAUGHN: Commissioner Lane, Stephen
23 Vaughn, U.S. Steel.

24 As you know in your brief we did not take a
25 formal position on the like product issues that have

1 been presented.

2 COMMISSIONER LANE: Right, that's why I'm
3 asking you.

4 MR. VAUGHN: We are reviewing the issues and
5 if we think we have something helpful to add in the
6 posthearing we will do so.

7 COMMISSIONER LANE: Okay, thank you.

8 Now, Mr. Schagrín, let's assume a case in
9 which there is one domestic-like product including
10 finished, unfinished, green tube, and premium, and a
11 domestic industry that includes Grant Prideco. What
12 is your argument for why this Commission should go
13 affirmative present injury or threat under those
14 facts?

15 MR. SCHAGRIN: Okay. Under those facts? I
16 think you should make an affirmative present injury
17 determination and an affirmative critical
18 circumstances determination based on the domestic
19 industry's loss of market share, their reduced
20 production and shipments as well as the severe price
21 pressures they have been under, and I think that the
22 Commission can differentiate and can say, and we see a
23 number of members of the industry that are either
24 losing money or are just breaking even.

25 So, we have significant underselling. We

1 have raised our issues as to underselling, and we have
2 tremendous price pressures. We don't believe, as was
3 argued by Respondents, that, oh, the prices just fell
4 because the costs fell. We don't think that is
5 accurate on an industry-wide basis, and we'll have
6 more about that in our posthearing brief.

7 So, it's your classic case. You have
8 increasing import market share. As we've already
9 stated to you, we think that import market share is
10 understated and we think as the staff and ourselves
11 put more and more work into this you're going to see
12 more and more imports, and then we have all of the --
13 primarily the volume effects, and I'm very well aware
14 from the U.S. Steel line of cases, the CSC, as well as
15 the Nippon case, that this Commission need not find in
16 order to meet the material injury standard both
17 pricing, profit and volume effect. Under the statute
18 a finding of any of them is sufficient to support
19 injury, so that's the present injury.

20 So to the threat of injury, clearly much of
21 the industry is vulnerable. Demand has remained weak.
22 In spite of the increase in the rig count and oil
23 prices actual demand, apparent consumption of this
24 product was down 14 percent in the first half of this
25 year. Inventories, and you have information on

1 inventories from multiple sources, inventories held by
2 end users are astronomical compared to what the
3 drilling levels are currently and where they were back
4 in 2008. Inventories of subject products are high.
5 Inventories of product in China are huge, and we're
6 going to give you more information on that in our
7 posthearing, and this is going to be the market for
8 the Chinese.

9 What's a little bit different here than even
10 the OCTD and seamless pipe case is that most of the
11 Chinese capacity has been added during the POI. They
12 tripled their capacity just in the last three years.
13 A lot of these mills were just starting up last year.
14 They didn't have a chance, because we filed a case in
15 December of '09, to crack into the U.S. market. They
16 are going to want to come here now. They are not even
17 qualified to sell in their own market. They have to
18 export. They are not qualified by the China national
19 oil companies.

20 Why wouldn't they come to the U.S. if they
21 offer lower prices, Command Downhole and 20 others
22 like them, not to mention large and small drilling
23 contractors will buy their products. The threat is
24 real and it is very imminent given the massive Chinese
25 overcapacities, and there are other opportunities for

1 sales. So that's the case in a nutshell.

2 COMMISSIONER LANE: And are you going to be
3 arguing posthearing brief the pricing issues that we
4 should be relying upon averaging values rather than
5 the pricing data for the products that we have in our
6 hearing report right now?

7 MR. SCHAGRIN: Yes, absolutely, Commissioner
8 Lane. We're going to argue that because one of the
9 things the Commission has looked at in the past is
10 when you have these problems, and don't forget at the
11 preliminary stages of this investigation we had
12 pricing on a per ton basis, and it turned out that no
13 one could agree on how you translated prices which in
14 this case are only quoted either by foot or by joints,
15 no one could give you the same basis, and we looked at
16 that in the final, and finally in discussions with the
17 staff economists said, well, just throw that out
18 because in the final you have both by ton and by foot,
19 and as soon as you enter data in the computer you
20 could see everyone was using a different conversion
21 factor.

22 So now you've improved on that by getting it
23 NC and you can see the growth of underselling in the
24 first half of 2010. But as Dr. Scott said, clearly
25 there is some big level of trade issues here as to how

1 you gather the pricing, and the question is, is there
2 a difference in product mix between the domestic and
3 the foreign product?

4 Well, they say, well, there is because of
5 premium. Well, you have separate data on premium
6 thankfully, so once you look at non-premiums there is
7 no differences in product mix.

8 Finally, I would make the suggestion. You
9 know, in that tin mill case, and I just read Nippon
10 again because we had to file some comments with you
11 all this week on our remand in another case, I had
12 occasion to read Nippon. You know, the then Chairman
13 of the Commission asked the tin mill customers, okay,
14 there is this argument about when you talk to whom.
15 So I want all of your record, I went and had meetings
16 with everybody.

17 Well, in this case Command has testified we
18 didn't buy Chinese because their price was cheaper.
19 You know, we have all these other reasons. Well, we
20 now have, and we didn't know it at the preliminary
21 stage, we now have VAM Drilling's information. They
22 submitted it publicly in a court suit in Harris
23 County, Texas. All their sales to Command in 2008 and
24 2009, they were substantial, Command told them, as
25 Kevin Parks testified, we can buy Chinese cheaper.

1 That's what he told the companies.

2 So why don't you all ask Command and
3 Downhole and Drill Pipe Masters, and I'll finish
4 because I'll wrap it up, to give you their purchase
5 orders in 2008 and 2009, and then you can compare
6 apples to apples the prices that VAM Drilling was
7 charging them and the prices they were paying for
8 Chinese. I think you will find that their story of
9 all these other reasons other than price for buying
10 Chinese just don't wash.

11 Thank you, Commissioner Lane.

12 COMMISSIONER LANE: Okay, thank you, Mr.
13 Schagrin.

14 CHAIRMAN OKUN: Commissioner Aranoff.

15 COMMISSIONER ARANOFF: Thank you, Madam
16 Chairman, and I join my colleagues in welcoming all
17 the witnesses here today. I want to actually pick up
18 where Commissioner Lane left off with some pricing
19 questions, and go to this issue of level trade.

20 My understanding is we didn't do anything
21 different with the price comparisons in this case than
22 we usually do, and the prices that we usually look at
23 are the sale to the first customer in the United
24 States. If purchasers like Downhole and Command are
25 getting let's say a great deal on importing products

1 from China and then marking it up and selling it to
2 their customers, and we're looking at a comparison at
3 the pipe pool by the next customer, why should it
4 matter whether the price coming in from China is very
5 low?

6 The purchasers ultimately who are buying the
7 product and who have to make a decision about who they
8 are going to buy it from, and that's why I'm having
9 trouble understanding why this issue creates a problem
10 with our data.

11 CHAIRMAN OKUN: I'll let Dr. Scott add as
12 well. I think really two issues. One is the fact
13 that the most appropriate point of comparison is at
14 the purchasers. There is no doubt about that. When
15 they want to buy an API grade drill pipe, are they
16 going to get it less expensive when they buy Chinese
17 or domestic?

18 Now, your preliminary staff report at the
19 preliminary stage as you saw was almost totally
20 overwhelming overselling. So at that IADC luncheon
21 that I referenced earlier, which Mr. Leibowitz and I
22 were both at, I put in a chart that was a simple
23 summary of this Commission's findings in the
24 preliminary staff report, and there were about 250-300
25 people at that luncheon that everybody, I guess, that

1 runs drilling contractors, it's a pretty big
2 organization, and I asked them because I enjoy reality
3 checks, I know I live in Washington, D.C., I know I
4 practice for government agencies, but I enjoy reality
5 checks. So I asked them how many of you in this
6 audience are the purchasers for your companies of
7 drill pipe. About 75 people raised their hands.

8 I then said, before I put the slide up and
9 I'll give you the slide in the posthearing, these are
10 the ITC findings. How many of you agree that Chinese
11 drill pipe is sold at higher prices than domestic
12 drill pipe three-quarters of the time at a premium of
13 17 percent? No one raised their hands.

14 So the reality check was for the purchaser
15 none of them agreed with the results of the pricing
16 data, and that's the most important point. I think
17 both you, Commissioner, and I agree at the purchaser
18 level.

19 So, secondly, I would say when you say what
20 does it matter what the Chinese are selling for -- oh,
21 I wanted to point out, you do have in this staff
22 report because the question was asked in the report,
23 if you buy domestic, Chinese or both who usually
24 offers you the lowest price? That's in the staff
25 report. You've compiled that.

1 For people who bought either just Chinese or
2 Chinese and domestic, virtually all of them said the
3 Chinese price is lower. So at the purchaser level in
4 a purchaser response purchasers are saying most of the
5 time the Chinese offer is the lower price.

6 Now back to your initial question. Why
7 should we care if the Chinese are selling a thousand
8 to 15 hundred dollars a ton less than domestic
9 producers sell to either distributors or drilling
10 contractors if we only care about the price? After
11 all, it's just distributor markup.

12 I would argue that you need to care because
13 of the potential to threat. If the Chinese industry
14 is willing to sell for a thousand dollars a ton on a
15 delivered basis less than domestic producers, and
16 that's what your information shows in your Table C-6,
17 then all the distributors have to do is cut their
18 margins and they can keep selling Chinese. Why would
19 they -- until their margin goes negative why would
20 they want to buy domestic instead of buying Chinese?

21 So that central threat argument, I mean,
22 will we have more imports? Well, if they are willing
23 to sell at a thousand dollars a ton less, what does it
24 matter how much the distributor markup is if the
25 distributors tend to be the biggest importers?

1 I will as Dr. Scott if he has something to
2 add.

3 COMMISSION ARANOFF: Microphone, please.

4 MR. SCOTT: I turned it off. Pardon me.
5 I just have two points.

6 First, the goal here should be to compare
7 like for like sale, if you want wholesale or
8 equivalent to plant gate sale, and that would be the
9 price paid by the purchaser from the domestic
10 manufacturer or the price paid by these distributors
11 to the Chinese firms at the point of import. That's
12 the comparable point in the level of trade.

13 The second point I would note is that there
14 is data in the record that suggests that over time the
15 share of sales of the Chinese producers that went
16 directly to the end users increased fairly
17 dramatically, and correspondingly the underselling
18 also increased dramatically. So when you take out
19 that middleman the underselling does tend to increase
20 over time, so it tends to, I think, confirm the point
21 that we're making.

22 COMMISSIONER ARANOFF: Okay. Now the
23 Respondents argue in their brief that the reason why
24 you see that increase in underselling in the price
25 comparison data at the end of the period is because of

1 a change in product mix by the domestic industry
2 towards the higher percentages premium product.

3 Dr. Scott, do you have a response to that?

4 MR. SCOTT: My understanding is that the
5 underselling comparisons are like-for-like product.
6 You get identical products you do price comparisons
7 on. That's why you chose that procedure.

8 MR. SCHAGRIN: Commissioner Aranoff, I would
9 just tell you that that is just one of maybe a dozen,
10 I'm trying not to count too high today, absolutely
11 completely false statement made by Respondents in
12 their brief. You can ask Mr. Fields. I think you
13 could ask NOV Grant Prideco. The pricing product
14 information didn't call for premium connections.

15 I know for a fact that VAN Drilling, which
16 is one of the two major producers of premium products
17 in this industry did not include a single pricing
18 product with a premium connection or a premium product
19 in any of their pricing. It would have been just
20 unfair to add something that had a 50 percent
21 increase. Then you would always see underselling.

22 COMMISSIONER ARANOFF: Yes.

23 MR. SCHAGRIN: You would have had
24 underselling in 2007 if we had jerked around. We are
25 honest people unlike the Respondents.

1 Do you want to add anything, Doug, on this?

2 MR. FIELDS: No, other than I agree. It was
3 laid out clearly the connections, and it's API
4 products, and API is API. It doesn't matter if it's
5 Chinese or from one of us.

6 COMMISSIONER ARANOFF: Okay. That was my
7 understanding as to the way that the products were,
8 but the staff tells me that there may have been some
9 ambiguity about the collections, that you may have
10 been able to include premium connections in the
11 definitions that we had but not --

12 MR. FIELDS: No.

13 COMMISSIONER ARANOFF: -- any other aspects
14 of premium products.

15 MR. SCHAGRIN: If there were any ambiguity,
16 then unlike some other folks we would ask questions.
17 The staff is available. We're not just going to play
18 with the data.

19 To the extent that one could look at things
20 and say there is some ambiguity, that's possible, but
21 responsible people as they are doing their
22 questionnaires if they find ambiguity, they would ask
23 the staff. I can tell you with certainty that it's
24 not in VAM Drilling. I would just assume the same for
25 NOV Grant Prideco, but obviously that question might

1 have to be asked by staff of NOV Grant Prideco.

2 COMMISSIONER ARANOFF: Okay. Let me turn to
3 another question while I still have time, and this one
4 is about inventories.

5 Given that domestic producers typically
6 produce products to order, why is there so much
7 product inventory? How did it get there? Does this
8 reflect canceled orders when demand went down in the
9 market or what are we seeing?

10 MR. SCHAGRIN: We should probably address
11 that in our posthearing brief, but some of a lot of
12 the other data problems you have in this case goes
13 back to some of the first questions, I think. You can
14 ask these folks about their inventory levels. Maybe
15 we can go around.

16 COMMISSIONER ARANOFF: Well, I guess I would
17 ask all of the producers who are here to confirm that
18 you don't typically produce product for inventory or
19 hold anything except for, you know, work in progress
20 as inventory.

21 MR. FIELDS: Yes. I mean, I can speak for
22 VAM
23 Drilling. No, we do not have a stock of finished good
24 inventory. That's just not the case.

25 COMMISSIONER ARANOFF: Would anybody

1 disagree with that? Mr. Brand?

2 MR. BRAND: I'd like to weigh in here.
3 Texas Still Conversion has never produced an order of
4 pipe, especially to put into our inventory. We only
5 produce to customer orders, and the orders are
6 significantly different in requirements from customer
7 to customer. To try to guess what a final customer
8 might want for us would be very expensive, and it would
9 put us in a distributor situation actually, and we're
10 not a distributor or a manufacture.

11 COMMISSIONER ARANOFF: Right. Now given
12 that, you know, and given that the demand for this
13 product fell off so suddenly at the end of 2008, did
14 customers cancel orders that ended up in inventory for
15 you?

16 MR. BRAND: All of our marketing has been
17 done in the past by Smith International, and Smith is
18 selling to end users as non-cancellation clauses in
19 all of the contracts. We order materials based on
20 those customer orders to Smith, and cannot afford to
21 risk having orders canceled and having excessive raw
22 material in our inventory.

23 Having said that, if Smith had been allowed
24 to be here to testify, I believe they would have told
25 you that there were very minimal cancellation, maybe

1 two or three would be my recollection, wherein the
2 customers say, well, if you don't allow me to cancel,
3 I'll simply not pay you, and you can force me into
4 bankruptcy if you would like, fine, and let it go. So
5 no.

6 COMMISSIONER ARANOFF: Okay. All right. My
7 time is up but for posthearing if anyone wants to add
8 any detail, I'm looking for where inventory reported
9 by domestic producers came from, how they got there,
10 and whether there was, you know, anything related to
11 order cancellations that affect it because that's the
12 only explanation that I can think of.

13 MR. FIELDS: We did have some orders
14 canceled. You know, it's a similar situation. It was
15 a matter of either we allow the cancellation or we're
16 not going to get paid for the material anyway, so we
17 did have some orders canceled by those guys.

18 COMMISSIONER ARANOFF: Okay. All right.
19 Well, I appreciate that and I will look forward to
20 reading some additional information.

21 Thank you, Madam Chairman.

22 CHAIRMAN OKUN: Commissioner Pinkert.

23 COMMISSIONER PINKERT: Thank you, Madam
24 Chairman, and I thank all of you for being here today
25 to help us understand what's happening and what's

1 likely to happen in this industry.

2 I want to begin with the question for Mr.
3 Conway. I see that he's left the room. Okay, well,
4 then I'll ask you, Mr. Schagrin, the question.

5 MR. SCHAGRIN: We can also get information.
6 I knew that he was going to have to leave early. I
7 thought he may get through one round, and then I would
8 let you all know that.

9 CHAIRMAN OKUN: Yes, Mr. Schagrin, in the
10 future, please, remind him that he needs to let us
11 know before he leaves the panel.

12 MR. SCHAGRIN: It is my fault. He did let
13 me know and I failed to let you know in a timely
14 manner.

15 COMMISSIONER PINKERT: All right. Well,
16 perhaps you can answer this one. I'm just trying to
17 get a clarification on his testimony. Is it the case
18 that the domestic industry for finished products
19 includes some unionized producers?

20 MR. SCHAGRIN: That I can answer. The
21 answer is no.

22 COMMISSIONER PINKERT: It does not.

23 MR. SCHAGRIN: Finished. I should probably
24 clarify in the posthearing brief. I think it differs
25 between finished drill pipe and finished drill

1 collars, and because the possibility if APO, let me
2 respond further in the posthearing brief if I could,
3 Commissioner Pinker.

4 COMMISSIONER PINKERT: Thank you. That
5 would be helpful.

6 Now, concerning the semi-finished product
7 analysis that was performed in the preliminary
8 determination, to what degree should we emphasize
9 whether the finished and the semi-finished product are
10 sold into different markets?

11 MR. SCHAGRIN: I don't think you should
12 overemphasize that given the cases on semi-finished
13 products. I think you usually -- the most important
14 of the number of factors is is the semi-finished
15 product dedicated to the finished product.

16 Here, the only use of the semi-finished
17 product is in the finished product. It's clearly a
18 fact that the finished product cannot be used in
19 drilling well until it's finished, but given that, and
20 you've had that in other products, for example, in
21 uranium, you couldn't use the product in nuclear
22 facilities until it underwent its final enrichment
23 stage, and yet you found under the semi-finished
24 products analysis that they were all along the same
25 lines.

1 And so I think that it. I have read the
2 semi-finished product cases where you haven't used the
3 semi-finished product. It was largely like in catfish
4 where you found, well, 55 percent of the semi-finished
5 products use the finished products. You know, if you
6 prefer whole catfish to the filet catfish, so a lot of
7 it was going -- even though they were all eventually
8 being eaten, it was just the opposite of what you
9 think. There the distribution channels were similar.
10 One went through a fileter, the other went, let's say,
11 directly to a fish market. Whether the catfish was
12 cooked whole or filet first, it was all eaten as
13 catfish. But you said, gee, it's not dedicated to the
14 folks who were fileting the catfish, so it's a
15 separate industry.

16 So clearly here one of the factors counting
17 against inclusion is you can't use the product at all
18 until it's completely finished. Don't forget there is
19 about -- between the semi-finished products and the
20 finished is about 15 steps. You could almost apply
21 that as all those 15 steps, you can't put it in the
22 whole until the very last step is completed.

23 So I think on balance here the key is that
24 the semi-finished product is clearly dedicated to a
25 specific order from the finished drill pipe producer

1 to be made into finished drill pipe.

2 COMMISSIONER PINKERT: Staying with that
3 similar finished analysis, I note that one of the
4 factors we look at is whether there has been a
5 substantial transformation, and given your experience
6 in this area that you talked about a little bit today
7 I assume that you know that that's also a Customs
8 term. Should we be viewing that factor in terms of
9 the way that Customs would use substantial
10 transformation, or should we be viewing it
11 differently?

12 MR. SCHAGRIN: I think you can view it the
13 way Customs does, but it was subsumed in your last
14 question and my last answer because it happens that
15 the product can't be utilized until the tool joint is
16 added. That's the only way the end user can do it,
17 and maybe not surprisingly given the way the Customs
18 rulings are based on change in name, character and
19 use, Customs determined a long time ago that adding
20 the tool joints was the substantial transformation
21 because they said between the unfinished product and
22 the finished product with the tool joint, forget the
23 other stuff, but basically the addition of the tool
24 joint that makes this a different product in terms of
25 name, character and use. So it's very similar to the

1 end user's perception of I can only use this when it's
2 got the tool joint attached, and Customs looks at it
3 and says, that's where the substantial transformation
4 takes place, when the tool joints attached. So they
5 are really pretty much the same question.

6 COMMISSIONER PINKERT: Thank you.

7 Now I have a couple of questions that are
8 focused on the unfinished products, and my first one
9 has to do with subject import market share in 2009.
10 What was going on in the market in 2009 that caused
11 the movement in subject import market share for the
12 unfinished product?

13 MR. SCHAGRIN: My view of that is I have to
14 answer that question. There is a very specific answer
15 but it's confidential, and so if I can have your
16 permission, I would like to answer in the posthearing
17 brief.

18 COMMISSIONER PINKERT: Absolutely. Thank
19 you.

20 Now staying with the unfinished product, was
21 there price suppression in 2009 given the movement in
22 unit cost of goods sold that's indicated in our
23 report?

24 MR. BARNES: Scott Barnes with TMK IPSCO.

25 The issue we had in 2009 was we just stopped

1 getting -- the phone stopped ringing. And as I
2 testified, our customers who some of them are here at
3 this table basically, you know, told us that, you
4 know, there was an ample supply of inventory of
5 Chinese pipe at low prices, and they didn't need our
6 products.

7 So we couldn't have sold it at any price,
8 and it's part of the record in our submission that our
9 prices basically did not seal our suppression in 2009
10 because they were carryover -- the few orders that we
11 had were carryovers from 2008, and we filled those
12 orders in the first quarters and didn't have any
13 beyond that. So I can't really comment anymore than
14 that about price suppression.

15 MR. SCHAGRIN: Commissioner Pinkert, I would
16 add and I can characterize, obviously, directly from
17 Mr. Barnes that similar, and we saw this in both OCTG
18 and seamless line pipe as well, that because 2009 was
19 so poor on the demand side you see maybe an increase
20 in average unit values, but that's because most of the
21 deliveries for the year were early in the year and
22 they were carryover for 2008 orders.

23 I think by the time you see orders begin
24 occurring again first half of '10, you can see the big
25 price suppression that's occurring.

1 COMMISSIONER PINKERT: Mr. Vaughn?

2 MR. DORN: Scott Dorn, U.S. Steel.

3 I concur with what both Mr. Schagrín and Mr.
4 Barnes said, that 2009 was largely influenced by the
5 first quarter shipments, that there were, as he
6 pointed out, carryover from 2008, and there just was
7 such a significant drop off in demand it's really hard
8 to point out where there was an impact to the price at
9 that point because demand had dropped off so
10 significantly.

11 COMMISSIONER PINKERT: One more question
12 about the unfinished products. What is the
13 relationship between subject and non-subject imports
14 of the non-finished products? Are they sort of
15 inversely correlated or what conclusion should we draw
16 about that relationship?

17 MR. SCHAGRIN: Probably answer this more
18 fully in the posthearing brief given the proprietary
19 nature of different companies' relationships with
20 suppliers, and I think I'll leave that analysis for
21 that because it's so company-specific in terms of the
22 sourcing of the unfinished product and the
23 relationship between unfinished subject and non-
24 subject being fairly company-specific. So I'll do
25 that in the post-hearing brief, Commissioner Pinker.

1 COMMISSIONER PINKERT: Thank you.

2 Mr. Vaughn, do you have any comment on that
3 issue?

4 MR. VAUGHN: Again, because so much of the
5 -- Stephen Vaughn, U.S. Steel. Because so much of the
6 import data in the record is APO, I'm also not in a
7 position to answer that at the hearing. We will take
8 a look at that and see if there is any comments we
9 want to make in the posthearing.

10 COMMISSIONER PINKERT: Thank you. Thank
11 you, Madam Chairman.

12 CHAIRMAN OKUN: Thank you. I have some more
13 demand questions and I think I'll start with you, Mr.
14 de Rotalier from VAM. I very much appreciate your
15 overhead, any information you had supplied in the
16 brief with respect to demand worldwide, and
17 consumption trends.

18 One question I had is, and obviously there
19 is Spears has very good industry data, is the data in
20 these charts, and I haven't gone back to the brief to
21 see if it's different, are these -- does Spears have
22 updated data from what you have in these charts?

23 MR. DE ROTALIER: The data is exactly. The
24 results, the markets data which I provided and the
25 maps are exactly the results of the September data

1 from Spears DPO publication. They have recently
2 published the December one, but I'm sorry we didn't
3 have time to update that, but there are some slight
4 changes which are not significant, but there are some
5 slight changes. A bit better for the U.S. and about
6 the same for the Chinese markets, so it's not changing
7 significantly.

8 CHAIRMAN OKUN: Okay. Well, just for
9 purposes of completeness of the record if you could
10 supply those posthearing.

11 MR. DE ROTALIER: Yes, we will.

12 CHAIRMAN OKUN: The update, I would
13 appreciate that. And then with respect to the
14 information that you provided on drill pipe capacity
15 in China, and I appreciate the fact that you are
16 giving us firsthand information having toured many of
17 these plants, in terms of the information on which
18 companies are qualified by CMPC and the other Chinese
19 national oil companies, is that published somewhere?
20 I mean, are you basing that on verifiable information
21 that we could look at I guess is my question?

22 MR. DE ROTALIER: This is really public
23 information. Everybody in China -- every actor in
24 China knows who is also listed in the system of CNPC
25 Sinopec. So it's official information, so you can

1 have access to this information.

2 CHAIRMAN OKUN: That was my question. Thank
3 you. And then with respect to the type of product
4 being produced, we haven't spent a lot of time on
5 premium versus non-premium product. Does China have
6 the capacity to produce premium product? And I
7 understand they're not selling it in the United
8 States. But do they have the capacity, and are they
9 selling it in China?

10 I mean, I think, as I understand it, there
11 is a distinction between China having mostly land
12 rigs, where you don't need this, versus the United
13 States and many of the other growing markets, where
14 you're using shale or deep water, where you need a
15 premium product. Is that an accurate distinction?

16 MR. DE ROTALIER: The largest proportion of
17 the consumption of drilling product in China is API,
18 by far. China has also some growing wells which are
19 getting complicated, where they also need *some* premium
20 products, or I would say some non-API products. And
21 some of these manufacturers, Chinese manufacturers,
22 can provide *some* premium products. But the acceptance
23 is still relatively limited on a worldwide basis, and
24 even in China, meaning that today the major actor
25 which is supplying premium products in China is Grant

1 Prideco, actually, who is there with their plant in
2 China.

3 CHAIRMAN OKUN: Okay. I appreciate that
4 information. And then, Mr. Schagrin, I wanted to go
5 back to you with respect to your reality check on the
6 purchases and just, you know, just trying to
7 understand again what we have on our record versus
8 your purchases at your luncheon. Our public record
9 shows that in terms of purchaser perceptions of this
10 market, 25 purchases are reported on price leaders and
11 U.S. producers for the firms most commonly mentioned,
12 including NOV Grant Prideco, Smith, and VAM. Two
13 Chinese producers, DP Masters and Hilong, were also
14 mentioned.

15 And then with respect to the question which
16 I understand you asked at the luncheon, I think our
17 record is much more mixed in what the purchasers said,
18 13 of 33 saying that the Chinese product had been
19 offered at the lowest price, 11 reporting U.S. prices
20 were lower. Two reported U.S. and non-subject prices
21 were lowest, and seven gave other responses.

22 So again, just in terms of what we're
23 looking at, it seems like a much more mixed record.

24 MR. SCHAGRIN: We're looking at the same
25 thing. That's at least good news. Obviously -- and

1 we've gone through this in past cases -- the question
2 about price leadership often refers to those who raise
3 prices as well as lower prices. So, I mean, the fact
4 that the largest producer in the world, Grant Prideco,
5 would most often be called the price leader is no
6 surprise. I'm sure in purchasers' minds, except for
7 maybe a few big ones who can get large quantity
8 discounts, the perception is probably that Grant
9 Prideco's price leadership would be on the way up.

10 What I was referring to before, Chairman
11 Okun, in my answer to Commissioner Aranoff is not just
12 the overall data, which you just went through, but
13 when you dissect that and also compare it to the
14 information on how many purchasers had bought Chinese,
15 you would see that while 13 purchasers said that the
16 Chinese offered the lowest prices, that would be 13 of
17 the 17 who reported buying Chinese.

18 And I think that's why I said to
19 Commissioner Aranoff that, you know, it's like you
20 have a subset. You had a number of purchasers, which
21 we admit, in the purchaser responses, I think 11 or
22 12, who didn't buy any Chinese product. For them, if
23 they answered the question, they would say, the lowest
24 price came from the domestic producer; I don't even
25 buy any Chinese. For the ones who bought Chinese,

1 overwhelmingly, like 13 out of 17, they said, the
2 Chinese offered us the lowest price.

3 And so I was making the point that those who
4 buy Chinese say they buy it because it has cheaper
5 prices. And if you looked at the overall underselling
6 until 2010, you'd say, nobody ever -- I mean, that's
7 actually the Respondent's argument. Nobody ever buys
8 Chinese because of price. They can't get domestic, or
9 we're good guys, or the domestic guys won't sell them.
10 That was all a fabrication, which makes me wonder
11 about the accuracy of some of the data. You know,
12 once people start fabricating, I really --

13 CHAIRMAN OKUN: Mr. Schagrin, for me it's
14 very important, and I'll just state it just for me
15 personally, that all your allegations -- I know you've
16 tried to do this -- but you back them up as opposed to
17 have an argument about the veracity of counsels who
18 come before us often. And again, the credibility of
19 witnesses is important, and so I take your point for
20 that. But the personal representation of lawyers I
21 could do without.

22 MR. SCHAGRIN: I apologize. I wasn't at
23 that time trying -- I was talking about the quality of
24 the data.

25 CHAIRMAN OKUN: Right. I actually wasn't

1 thinking about -- I was thinking of several others you
2 made earlier, when I reminded myself that I was going
3 to say something, so --

4 MR. SCHAGRIN: I apologize. But obviously,
5 I'm a pretty known commodity at this Commission. If
6 you can't tell that somebody who spent 30 years
7 practicing is troubled severely by the fact that at
8 our ports we have fraud occurring that I could never
9 have imagined -- and like you, I was in this room on
10 9/11, a day none of us will ever forget. And to me,
11 the amount of fraud occurring at the ports is just
12 directly related to the changes that our country had
13 to make after 9/11 to shift massive Customs resources
14 away from trade enforcement to anti-terrorism. And I
15 applaud that and all the actions they've taken
16 successfully.

17 And then, of course, in a lot of cases --
18 and you read the final determinations -- we see
19 Commerce making findings that they receive fraudulent
20 documents. And those are in the Commerce final
21 determinations. So I sometimes --

22 CHAIRMAN OKUN: I mean, I'm not taking issue
23 at all. I mean, I think that is a relevant --

24 (Simultaneous discussion)

25 MR. SCHAGRIN: My biggest worry having

1 practiced here is are you -- Customs hasn't been able
2 to deal with it. It's a resource issue. Commerce has
3 had a lot of difficulty. In most of the cases where
4 Commerce has found fraud, we, the counsel, have been
5 the ones -- and that was the case in OCTG, where I
6 spent sleepless night after sleepless night figuring
7 out how to prove to the Department of Commerce, which
8 has already verified everything was truthful, that
9 clearly these were fraudulent documents.

10 I didn't go to law school to be a detective.
11 I went to become an attorney. I'm just worried -- and
12 it only makes sense. If people are willing to commit
13 criminal Customs fraud, if they're willing to file
14 fraudulent documents to Commerce, they will be willing
15 to do it here. I'm just very concerned that can this
16 Commission make the changes necessary in this new
17 environment, which all of us should gravely dislike --
18 and I know all of you are devoted to the sanctity of
19 this Commission as much as I am. But I think going
20 forward, if there is going to be more cases, you're
21 going to have to change the way investigations are
22 done. You need 10 more accountants like David. I
23 mean, it's just going to change dramatically.

24 And that's what I'm really trying to get
25 through. I really am seriously troubled by the

1 direction that things are taking. And I read -- my
2 specific comments, I think, were mostly in the brief.
3 But --

4 CHAIRMAN OKUN: Well, I think on that I
5 would just encourage you to continue, as I know you
6 have done, and as all the producers sitting here have
7 done, which is to continue to work with our staff, who
8 I think is -- they'll have time to work through this
9 record, and we'll continue to do so to get the final
10 report to make sure that the Commission does have the
11 best information available. So we will look forward
12 to all of that.

13 And I've actually used up all my time, so
14 Vice Chairman Williamson.

15 VICE CHAIRMAN WILLIAMSON: Okay. Thank you,
16 Madame Chairman. Turning to a different subject,
17 figures 2-4 and 2-5 of the staff report show a
18 divergence in the trend of oil and natural gas prices
19 over the last several months. Do you know why these
20 diversions occur, and is it likely to continue?

21 MR. MORRIS: It's basically a supply issue.
22 We've gotten very good at drilling these natural gas
23 wells, and we basically have over-produced. And so
24 that depressed the price. With the accident in the
25 Gulf of Mexico, where almost half of our oil

1 production comes from, it has pretty much been shut
2 down. It has driven the price of oil back up.

3 We have very mature oil fields in this
4 country, and have pretty much found all of our oil
5 reserves in the U.S. So that basically is what causes
6 the prices to fluctuate. It's a supply and demand
7 issue.

8 VICE CHAIRMAN WILLIAMSON: So you assume
9 that is why the oil price is going up.

10 MR. MORRIS: And the gas prices are going
11 down. We basically have too much supply.

12 VICE CHAIRMAN WILLIAMSON: Okay.

13 MR. SCHAGRIN: Commissioner Williamson?

14 VICE CHAIRMAN WILLIAMSON: Yes.

15 MR. SCHAGRIN: I'll point out the final
16 edition of *The Wall Street Journal* for last year, they
17 have something talking about how basically everything
18 was going up, commodity prices, and the one commodity
19 that dropped the most in the entire year 2010 was
20 natural gas, which was down 22 percent. And we
21 obviously just -- unlike oil, which is traded
22 throughout the world, natural gas is mostly brought up
23 for the U.S. market. I mean, some day we may do LNG
24 as an export. It's hard to believe because just five
25 years ago, we were in some of the hearings here

1 talking about how big LNG imports in the United States
2 would be, what a change, because of these discoveries
3 of gas.

4 But our own demand -- I don't know about you
5 all. I'm tired of freezing every winter. I mean,
6 we're creating a lot of the demand by just heating.
7 Our demand for industrial is way down for natural gas.
8 So overall, gas demand in the United States has been
9 flat to down over the last five years, and these gas
10 discoveries have increased supply dramatically, which
11 is why natural gas prices are falling.

12 VICE CHAIRMAN WILLIAMSON: Okay. And I'm
13 sorry. It looks like you're also saying there is not
14 going to be much change in that situation. In other
15 words, gas is not going to pick up.

16 MR. MORRIS: Our belief is that natural gas
17 prices will be stable for the next four years.

18 VICE CHAIRMAN WILLIAMSON: Okay. And I
19 guess what are the implications of that for the demand
20 for drill pipe?

21 MR. MORRIS: The rigs. The rigs are going
22 to go down because they're not going to need to drill
23 as much for gas, and there will be a shift to oil-well
24 drilling.

25 VICE CHAIRMAN WILLIAMSON: Okay. And

1 thinking about the oil spill, what implications does
2 that have for demand, the Deepwater Horizon spill?

3 MR. PARKS: I think the spill has cut
4 obviously the Gulf of Mexico production, which was
5 averaging 17 to 18 percent of our oil production for
6 the U.S. But now the legislation has put in unique
7 characteristics and increasing demand to further
8 intervention to the Gulf of Mexico.

9 A lot of the rig count in the U.S. has
10 improved technologies, so you don't need as many
11 drilling rigs to produce the product of oil and gas.
12 In the shale play, drilling rigs can hit a pay zone in
13 3 to 11 days, where two years ago it was taking 15 to
14 30 days. So the efficiencies and the technology of
15 the drilling rig and drill string components have
16 improved production to the U.S. market.

17 MR. MORRIS: That's why you can see in the
18 data that even though we don't have the rig count that
19 we had or did have, we're actually drilling the same
20 amount of footage. We've gotten very efficient and
21 very good at what we do.

22 I will say that last year was the first year
23 since 1991 that we have been able to stop the decline
24 rate in the Gulf of Mexico, first time. And now with
25 the new legislation and restrictions in the Gulf, I

1 don't believe that we'll ever be able to correct that
2 again.

3 VICE CHAIRMAN WILLIAMSON: When you say stop
4 the decline, you mean decline in production in the
5 Gulf?

6 MR. MORRIS: That's right, correct.

7 VICE CHAIRMAN WILLIAMSON: Okay.

8 MR. FIELDS: Maybe just add one comment.
9 There is a difference between the offshore drilling
10 rigs. When you're onshore and the rig count goes
11 down, they're generally stacked. But offshore, they
12 just -- they change locations. They go to offshore
13 Africa. They go to other parts of the world. They
14 continue to operate, but they leave the Gulf. Then
15 you just see the rig count go down in the Gulf.

16 VICE CHAIRMAN WILLIAMSON: Okay.

17 MR. FIELDS: But they still continue to
18 operate, just other parts of the world. Then it
19 becomes -- you know, they still continue to consume
20 drill pipe products in other parts of the world.

21 VICE CHAIRMAN WILLIAMSON: Okay. So the
22 demand for domestic and produced drill pipe, unless it
23 is going to be exported --

24 MR. FIELDS: Would reduce, that's correct.
25 Yeah, when your offshore rig count in the U.S. goes

1 down, and it goes up in Africa, there is going to be
2 less pipe produced here potentially, and produced at
3 another location closer by.

4 VICE CHAIRMAN WILLIAMSON: Yes. I'm sorry.
5 Mr. Barnes?

6 MR. BARNES: Scott Barnes with TMK IPSCO.
7 Just to maybe add another vantage point to this oil
8 and gas price outlook, I agree with what Mr. Morris
9 has said regarding the production capacity for natural
10 gas as further suppressing the pricing factor. The
11 oil pricing as well is one that has improved. And
12 what we anticipate as the rigs that are directed
13 towards gas is going to decline because the economic
14 incentive to drill for gas decreases, it will be
15 offset somewhat by an increase in drilling for oil.

16 Now, the issue here is that drilling for oil
17 -- I agree with the comment that it is a more mature
18 industry as far as the various oil well basins in the
19 United States. And because the price of oil is now
20 forecast to be in the \$80 per barrel range, it
21 provides the economic incentive to go back into these
22 more mature fields and to drill some more there. But
23 these are conventional wells. And what I mean by
24 conventional, they're more vertical, and the amount of
25 tubular that is required to drill these wells is not

1 as intensive from a tonnage standpoint as the
2 horizontal wells in the shale plays.

3 And likewise, it's not as demanding an
4 environment on drill pipes because you don't go
5 through the compression and torque and tension that
6 you do when you go around the 90-degree bend in the
7 long, lateral reaches that you see in a lot of these
8 unconventional drillings for the shale plays, which
9 further exacerbates the situation on demand for
10 tubulars because drill pipe strings won't wear out as
11 frequently as we go back to a more conventional
12 drilling environment.

13 I hope maybe that adds a little more clarity
14 to some of the --

15 VICE CHAIRMAN WILLIAMSON: Okay. So in
16 other words, even with higher oil prices, you're not
17 going to see the same increase in demand for drill
18 pipe, and you won't see the same relatively high
19 demand for premium versus regular.

20 MR. BARNES: That's correct. That's my
21 point. And the outlook for -- as the other gentleman
22 had mentioned -- that we see and a lot of the analysts
23 see for the price of gas going forward is that we're
24 going to see, because of the amount of gas that has
25 been produced so far, and the number of wells that

1 still need to be completed, because the industry and
2 the infrastructure has not caught up with this flurry
3 of activity on the fracturing and completion stage,
4 that more gas will come into the marketplace over the
5 next year or so and continue to have this ample supply
6 of gas, until such time that a) the economy begins to
7 pick up and the industrial consumption of that segment
8 for energy returns, or we see through out energy
9 policies a movement more towards gas-fired utilities
10 for electric power generation as they begin to retire
11 these aging coal plant facilities, and we see a
12 transfer from one fuel source to the next.

13 And most folks that we see who make these
14 projections in different companies like Wood MacKenzie
15 and other analysts refer to that 2013 at the earliest,
16 more like 2015, before we'll begin to see, you know, a
17 pickup in the natural gas prices.

18 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
19 for those answers. My time is going to be running out
20 shortly, so thank you.

21 CHAIRMAN OKUN: Commissioner Lane.

22 COMMISSIONER LANE: Thank you. Mr.
23 Schagrin, I have some questions about your inquiry at
24 Commerce on the scope issue of OCTG. Would you
25 explain why you did not tell us in your prehearing

1 brief about your arguments before Commerce in the OCTG
2 scope inquiry that green tube for drill pipe is
3 already included in the OCTG orders?

4 MR. SCHAGRIN: First, I was quite confident,
5 even at the time we filed our prehearing brief, that a
6 little -- let's call it wrong turn by the Department
7 of Commerce in the preliminary antidumping duty
8 determination, which I think caught me and everyone
9 else by a great deal of surprise -- I would presume
10 this Commission as well because you're so familiar
11 with the OCTG case. I was quite confident it would be
12 corrected in Commerce Department's final
13 determination, which it was yesterday, which has
14 completely mooted the issue.

15 Now, as counsel to TMK IPSCO in the OCTG
16 case -- leave this case aside -- when Commerce
17 Department said, to just total shock, awe, and
18 amazement, that they believe that green tube was
19 already covered in the OCTG case, particularly Mr.
20 Barnes thought it would be prudent to cover all bases,
21 given the cost of these cases, and one never knows
22 what the outcomes will be. And even though I said,
23 based on my learned opinion, that having participated
24 in the OCTG cases, having worked with TMK IPSCO --
25 which I know and Mr. Barnes would tell you. It's not

1 confidential information. They included no data on
2 their green tube for drill pipe in the OCTG case. To
3 my knowledge, neither did any of the other members of
4 the U.S. industry.

5 It was never an issue here before the
6 Commission. I think the Commission's like product
7 analysis made it clear it wasn't included in your
8 analysis in that case. As a matter of law, that
9 means it couldn't be included. But we had to do it.
10 Now we'll withdraw that request because it's moot,
11 given the Commerce Department determination. Didn't
12 have a chance to do it yesterday afternoon and today,
13 but we'll do it as soon as we can.

14 It also brings to mind, Commissioner Lane --
15 and I know I'm getting on some maybe sensitive ground,
16 given Chairman Okun's recent remarks.

17 COMMISSIONER LANE: Well, and I want to warn
18 you, too, that I have a rule that I do not like all
19 your disparaging other lawyers. So please be careful.

20 MR. SCHAGRIN: Okay. I did wonder from the
21 beginning of this case why the Respondent's counsel
22 was so insistent from I think their first filing at
23 the Department of Commerce that green tube was in the
24 OCTG case and not in this case, because if I looked at
25 their clients, Command and Downhole, they wouldn't be

1 folks who could use green tube. They don't have
2 inertia welding equipment to add toll joints in order
3 to serve the markets they serve.

4 I looked at their client at Commerce, Drill
5 Pipe Masters. They don't have a steel mill which
6 makes green tube, so they couldn't be an unfinished
7 drill pipe exporter. So I just wondered. Now, of
8 course, they made big issues of it here. And I think
9 the purpose was to convince you that because it's
10 acknowledged that green tube and finished products
11 arrive in this -- often in the same HGS categories.
12 Whether they should or not is a different issue, but
13 they often do -- that you shouldn't use any import
14 data, but just should rely on their data. And that's
15 another just troublesome aspect as we go forward
16 because we know we're going to see increasing problems
17 with import data as to how you're going to process
18 cases here.

19 I know we'll work through it. You have a
20 very diligent staff. But I somehow in my own mind,
21 you know, wonder what the connections were there.

22 COMMISSIONER LANE: Okay. But you are not
23 saying that you need green tube in this case to make a
24 finished product.

25 MR. SCHAGRIN: Oh, yes, we are. You do need

1 unfinished drill pipe in order to make finished drill
2 pipe. And now that we have Commerce's determination,
3 it's clear that the green tube for drill pipe is
4 included in this scope, and by virtue of exclusion,
5 that means it's not included in the scope of the OCTG
6 case.

7 COMMISSIONER LANE: Okay, okay. Thank you.
8 I want to ask you some questions -- somebody some
9 questions about premium versus non-premium. And as
10 far as pricing, at what point, if any, would prices
11 for non-premium drill pipe need to reach for end users
12 typically preferring premium drill pipe to opt for the
13 non-premium drill pipe?

14 MR. FIELDS: Yeah. It's -- I mean, others
15 can add, but -- I'm Doug Fields. The wells that are
16 drilled as premium are different than the wells that
17 are drilled with the API products. And it's more of a
18 well environment that drives you to that decision. So
19 it's not a matter so much of price, that if it gets
20 below, I can switch away from the premium. As
21 Bertrand mentioned earlier, some of the demanding
22 aspects of the well.

23 COMMISSIONER LANE: Can premium and
24 conventional drill pipe be used in the same
25 applications, and the only difference being that the

1 premium would last longer and perhaps be better, but
2 that the conventional could be used?

3 MR. FIELDS: No. Usually premium is more
4 when you're looking at an environment of big
5 deviations, long links. Offshore, where safety is
6 even a higher concern than some of the conventional
7 onshore drilling, would drive you to those premium
8 connections. It's not a matter that they wear longer.

9 COMMISSIONER LANE: Okay, thank you. Dr.
10 Scott, I have a question for you. What would have
11 been the impact of the downturn that began in late
12 2008 for this industry if the Chinese product had not
13 entered the U.S. market? And given the long lead
14 times reported in 2007, wouldn't other imports have
15 replaced the Chinese imports at that time?

16 MR. SCOTT: I think there is no question
17 that the downturn in 2008 and 2009 would have reduced
18 the demand for domestic like product, with or without
19 the subject imports in this case.

20 On the question of the lead times, I believe
21 the record in the case and what we've established in
22 our briefs shows that this allegation of long lead
23 times was in fact not correct. There was nothing to
24 support that allegation. I think Roger may have more
25 to add on that point. He looked at that more closely.

1 MR. SCHAGRIN: The only thing I would add as
2 to lead time, Commissioner Lane, is that your own
3 staff report, which was an aggregation of data from
4 all of the importers and all of the domestic
5 producers, showed that in '07, there was about a 30-
6 to 45-day longer lead time in domestic than for
7 subject imports, and by '08, '09, and the first half
8 of '10, domestic lead times were shorter than the lead
9 times for imports.

10 COMMISSIONER LANE: Well, Dr. Scott and Mr.
11 Schagrin, would the impact on the domestic industry
12 have been different on the bottom line during the
13 downturn had the Chinese product not been in the
14 market?

15 MR. SCHAGRIN: Yes, clearly it would be,
16 Commissioner Lane. The impact -- and I think you
17 heard this in the testimonies today, that there was a
18 great deal of pricing impact by the Chinese imports on
19 domestic prices. And I believe that in the tables --
20 they had everything here, but instead of spending a
21 lot of time finding it, in the staff's variance
22 analysis, that you will see that the effect of
23 decreasing prices on what was roughly a \$200 million
24 decline industry profits, that most of it,
25 particularly between the first half of '09 and the

1 first half of '10 that came from the decline in prices
2 was much more severe than the effect of volume decline
3 for the industry.

4 COMMISSIONER LANE: Okay, thank you. Thank
5 you, Madame Chair.

6 CHAIRMAN OKUN: Commissioner Aranoff.

7 COMMISSIONER ARANOFF: Thank you, Madame
8 Chairman. One of the arguments that you make in your
9 brief at some length is that even at the tightest part
10 of the market, the domestic industry had capacity
11 available, and that subject imports were not pulled
12 into the market by a lack of supply. And so I wanted
13 to ask some of the producers of finished drill pipe
14 who are here, can you explain to me, if you have got
15 your plants up and operating at, say, 70 or 80 percent
16 of the capacity that you reported, what does it take
17 to get up to 90 or 100 percent? Do you just need
18 orders? Do you need to hire workers? Do you need
19 more welding capacity? What makes that difference, if
20 those orders were to come in?

21 MR. MORRIS: It's both. You need the
22 orders, and then you need to hire people to come back
23 to make the product. There is not a lack of welding
24 capacity in this country at all. I mean, there is
25 plenty of then finishing capacity. So all we would

1 need to do is get orders and hire people back.

2 COMMISSIONER ARANOFF: Okay. And so if
3 you're operating at 70, 80 percent of capacity
4 utilization, and you want to, I presume, bring on
5 another shift in order to get up to the highest
6 capacity utilization that you can achieve, how long a
7 process is that to find people and bring them on and
8 train them and get them up to speed? Is that the
9 slowest piece of the puzzle?

10 MR. FIELDS: Well, for us it can generally
11 take probably two to three months. When we cut back,
12 and we have these layoffs, and we have to lose people,
13 we generally try and keep the higher skilled lathe
14 operators so that it's a little bit easier to ramp
15 back up when we finally do get some orders.

16 COMMISSIONER ARANOFF: Okay. And I
17 understand that if you're going from 20 or 40 percent
18 capacity utilization up to 60 or 70, you're bringing
19 back people who you've laid off. But when you're
20 going from 70 or 80 percent up closer to 100 percent,
21 you're not talking about people you've laid off that
22 you're bringing back, right? You're talking about
23 having to go out and find fresh people. I mean, is
24 that a correct understanding?

25 MR. FIELDS: Yes, yeah. You hire people,

1 bring them in, and train them. But we're looking at
2 two or three months.

3 COMMISSIONER ARANOFF: Okay, okay.

4 MR. MORRIS: Yeah. Typically, what we would
5 do, like we're running at basically 50 percent
6 capacity right now. We would split the shift. We
7 would take the highly skilled workers and put them
8 with the unskilled, and divide them.

9 COMMISSIONER ARANOFF: Okay. And so my
10 other question about capacity utilization is in order
11 to achieve, you know, 100 percent or near 100 percent
12 capacity utilization, do you have to be running a
13 particular product mix? Is there like an ideal mix
14 that allows you to achieve the capacity utilization
15 that high? Or really can any order coming in the door
16 can do the job?

17 MR. MORRIS: Typically, the capacity in
18 these facilities can make all these products. So the
19 mix does matter. But it doesn't necessarily have to
20 be one or the other product. All the products run
21 through the same plant. So it doesn't necessarily
22 have to be a product. The machine can make all of
23 them.

24 COMMISSIONER ARANOFF: Okay, okay. Mr.
25 Barnes, did you want to add something?

1 MR. BARNES: I would only make it -- Scott
2 Barnes with TMK IPSCO. I would only make a comment as
3 a supplier of unfinished drill pipe that it's the
4 number of hours that you're running that determines
5 your utilization of your equipment. The equipment can
6 only run 24 hours a day. So you get up to that number
7 of hours, you're at capacity. What can change is the
8 quantity output based upon the product mix. And there
9 you can see some variation.

10 COMMISSIONER ARANOFF: Okay. I appreciate
11 that clarification. And as long as you're here, Mr.
12 Barnes, going back to the discussion of how the
13 industry has claimed that there has always been
14 available capacity, even at the tightest part of the
15 market, one producer of unfinished drill pipe did
16 concede that it had trouble meeting demand at the peak
17 of the market, and was limiting volumes to some
18 customers. Wouldn't that have put a constraint on the
19 ability of a finished drill pipe producer to accept
20 orders, even though that finished drill pipe producer
21 had available finishing capacity? And if anybody
22 wants to address that -- Mr. Brand?

23 MR. BRAND: I'd like to say that in the peak
24 of demand for finished drill pipe that we never
25 experienced an inability to supply the finished

1 product because of our lack of ability to source the
2 green tube. And maybe one individual mill or source
3 may have had a problem keeping up with the demand, but
4 there are plenty of mills that can be a source of
5 supply of green tube for finished drill pipe.

6 COMMISSIONER ARANOFF: Okay. I'll move on
7 if no one else wants to comment on that.

8 MR. FIELDS: Just one thing to add. The
9 bridge, if there is a delay or an issue with the
10 supplier, we do carry a stock of green tube as well.
11 So that plays into this.

12 MR. BRAND: I would add that we do the same.
13 We do keep an inventory of green tube, unlike finished
14 inventory, which we do not.

15 COMMISSIONER ARANOFF: Okay. Well, maybe
16 you could tell us post-hearing about how many days or
17 months or whatever measure it is of green tube you
18 tend to keep on hand. And if that is different back
19 in 2007 and early 2008 than it is now, that would
20 probably be helpful to know as well. Thanks.

21 Let me turn to another inventory question.
22 Mr. Schagrín, you argued that the dissenting
23 commissioners from the preliminary phase of the
24 investigation -- at least this is how I understand
25 your argument, so correct me if I'm wrong --

1 misinterpreted the statute by finding that the
2 existence of inventories of subject imports would
3 deter future imports. And I understood you to suggest
4 that the existence of inventories of subject products
5 can only be weighed in support of an affirmative
6 finding, and not the opposite.

7 If that's correct, would it be your
8 contention in this case that even if the Commission
9 found that no new subject imports were likely to enter
10 the U.S. market in the imminent future, that the
11 Commission could still make an affirmative threat
12 determination based on the existence of substantial
13 inventories of subject product already present in the
14 United States?

15 MR. SCHAGRIN: Most certainly. I don't --
16 and, you know, obviously, maybe other counsel don't do
17 this. You know, no one takes issue with any
18 commissioner lightly, and I understand that. But in
19 reading the statute and having participated somewhat
20 in some of the 1988 changes which really told the
21 Commission, more so as to injury than as to threat,
22 that the Commission had to at least address all the
23 statutory factors, because you may remember that prior
24 to that, there were at least one, maybe a couple of
25 commissioners that said, well, we just have to

1 determine material injury, and we can come up with our
2 own factors. And Congress decided to put language in
3 saying you have to consider all of them.

4 The same thing with threat. You've got a
5 list of factors, and the statute says, these are
6 factors for you to consider. You have a huge amount
7 of discretion in your consideration. But we think
8 each of those threat factors is something you have to
9 consider in determining whether there is a threat of
10 injury. And the item as to -- and I have my statute
11 here, but I'll do it from memory -- as to inventories
12 is inventories of subject imports. And that doesn't
13 matter, in our view, and I think we've had discussion
14 in other cases, whether the inventories or in the
15 subject country, the inventory is in the United
16 States, or the inventories are somewhere else.

17 But they are clearly inventories of subject
18 imports. And we didn't think that the idea that there
19 is a lot of subject inventories here could actually
20 shield the domestic industry from the threat of
21 injury. I mean, in other words, we just thought --
22 and this goes to your question -- if there is a lot of
23 imports here, and they're unfairly traded, even if
24 there are no new imports, then those unfairly traded
25 subject imports can threaten the domestic industry.

1 And that's why, I mean, our -- I think a pretty plain
2 reading of the statutory threat factors is that each
3 of the factors be considered in how they would support
4 a threat determination.

5 But to say, well, there is tens of thousands
6 of tons that already arrived here. They beat the
7 imposition of duties, let's say, you know, in critical
8 circumstances determinations. But now we won't
9 consider them. In fact, they shield the industry from
10 injury because now there is unlikely to be further
11 imports. We just didn't look at the statute as being
12 able to turn the same factor both ways. Whether it is
13 a reason in support and has substantial evidence to
14 support an affirmative determination, then that's
15 within your discretion.

16 But we didn't think it was quite within your
17 discretion to say, the existence of tens of thousands
18 of tons of subject inventories in the United States
19 means that -- that in itself means that there can't be
20 threat. So that's our view, that you certainly could
21 make the determination, as you posited, that if there
22 is not going to be future imports, but inventories of
23 subject imports are high here, that the industry is
24 threatened by reason of the sales of what the
25 Department of Commerce has determined were unfairly

1 traded imports.

2 COMMISSIONER ARANOFF: Okay. I appreciate
3 that answer.

4 MR. SCHAGRIN: Okay, thank you.

5 COMMISSIONER ARANOFF: Thank you, Madame
6 Chairman.

7 CHAIRMAN OKUN: Commissioner Pinkert.

8 COMMISSIONER PINKERT: Thank you, Madame
9 Chairman. Now, in the last round, I asked a few
10 questions about the unfinished products. I want to
11 ask a few questions now about the finished products.
12 In particular, as you know, the petitions in this case
13 were filed on New Years Eve, 2009. Why didn't the
14 domestic industry producing the finished products
15 perform better in the first six months of 2010, given
16 the filing of the petition?

17 MR. SCHAGRIN: Statistically, it's because
18 there was an import surge combined with lack of
19 demand. And I think for purposes of looking at that
20 import surge, the most appropriate time period -- and
21 don't forget, for those making a negative
22 determination, there was reasoning that there wasn't
23 going to be an increase in imports. But clearly, you
24 saw between the second half of 2009 and the first half
25 of '10 a very significant increase in imports,

1 particularly relative to continued weakening demand,
2 because demand for API-grade product continued to
3 fall, given the high inventory levels at purchasers,
4 their own inventories, the drilling contractors'
5 inventories of domestic products, inventories of
6 imported products.

7 So it was a combination. I think that
8 explains why in fact there was continued deterioration
9 of the industry, not improvement. It's all related to
10 critical circumstances.

11 COMMISSIONER PINKERT: Mr. Fields?

12 MR. FIELDS: I would just add that there was
13 a backlog that existed before the filing that carried
14 over. And then once that evaporated, then you saw the
15 real impact.

16 COMMISSIONER PINKERT: Thank you. Is there
17 a comment from the back row? No. Now, turning the
18 clock back to 2008, between 2007 and 2008, we saw an
19 increase in subject import market share. Why didn't
20 the industry do worse in 2008? In other words, this
21 is the opposite of my question about the first six
22 months of 2010. Why didn't it do worse in 2008, given
23 that increase in subject import market share?

24 MR. SCHAGRIN: Probably the same answer that
25 Mr. Fields gave. There was a lag, and so the imports

1 that were coming in had less of an effect in 2008
2 because -- and I think if you look at the order book
3 information, Commissioner Pinkert, you could say that
4 through the middle of 2008, order books were very
5 strong for this industry. And given the acknowledged
6 90- to 120- to 150-day lead times, a strong order book
7 in June of 2008 is going to carry you through to the
8 end of the year.

9 So the arriving imports had a lag impact on
10 the domestic industry. It is what, in tandem with the
11 declining demand, really hammered the industry's order
12 books. And to be fair to Respondents, who did make a
13 point in their opening statement an order book, and it
14 is connected to your first question about '09-'10 --
15 now, because you actually have order book information
16 through September 30th, now once again on that lag
17 basis, we're seeing order books improve again. So as
18 there is less Chinese imports coming into the market,
19 because our preliminary release started on June 6th,
20 we're finally starting to see some improvement on a
21 looking-forward basis. I think that was in several of
22 the witness's testimonies about the fact they're
23 taking orders. I think Mr. Brand just said their
24 largest order so far this year was from Command. And
25 yet that hasn't been, you know, produced yet. It will

1 be, I guess, over the next 120 days or so.

2 So once again, I think it's all about lag.

3 COMMISSIONER PINKERT: Mr. Fields, do you
4 want to add to your answer? This concerns the
5 finished products again, but why they didn't do worse
6 in 2008, given the situation with the subject imports.

7 MR. FIELDS: You know, as we've said, we've
8 got a strong order book that's carrying us through
9 2008. So imports come in, they land on the shore,
10 they're stacked up ready to sell off. But we don't
11 really see the full impact until we've delivered those
12 products that we've got in our backlog, and we're
13 starting -- we're battling to gain new orders, and the
14 backlog begins to drop and drop as we're out there
15 losing business. But you don't really see the impact
16 on production and on sales until reach the point where
17 you're making those shipments, and that can -- I mean,
18 there can be a time lag in there.

19 COMMISSIONER PINKERT: Thank you. Now, back
20 in interim 2010 for a moment, and again staying with
21 the finished product, what happened to demand for the
22 finished product between interim 2009 and interim
23 2010, and what is the best measure of what happened to
24 demand between interim 2009 and interim 2010?

25 MR. MORRIS: Basically, the demand and the

1 products -- we don't only just compete with the
2 Chinese and other manufacturers, but we compete with
3 our customers' own inventories. So when you go from
4 having 2,200 rigs down to 800 rigs, you've got --
5 basically, half the rigs got pipe that they basically
6 will cannibalize off of the rigs that aren't working.
7 So there is a period that goes on there where the
8 customers basically stop buying pipe, and they'll just
9 use the pipe off the rigs that they're not currently
10 running, as is the case today.

11 So until they wear the pipe out, then the
12 demand will start coming back.

13 MR. SCHAGRIN: And I would add, Commissioner
14 Pinkert, we gave you some rig data information in our
15 prehearing brief that showed that even as of -- I
16 believe it was from late November or early December --
17 the capacity utilization rates for the drilling in the
18 rigs was in the mid-60s. So we've been talking a lot
19 about capacity utilization rates. Imagine for them,
20 you know, when do they want to buy more product?
21 Well, they don't want to buy more product when one-
22 third of their rig isn't being utilized because it's
23 cheaper for them to borrow than it is to buy. It
24 doesn't make sense to buy new product when you can
25 borrow.

1 And talking to these drillers at these
2 luncheons, I said, boy, the rig count has gone from
3 800 to 1,700. Aren't you guys going to be buying a
4 lot of new drill pipe? They said, if we thought it'd
5 go from 1,700 to 2,500, we'd buy a lot more drill
6 pipe. But there is 3,000 rigs. We're not going to
7 make -- one of the biggest guys told me -- I couldn't
8 get him to even just give an affidavit here, and I
9 said, you don't have to take a position in the case,
10 just tell the facts. He said they may not be buying
11 any new drill strings until 2014, and they're like the
12 fourth or fifth largest drilling contractor in the
13 United States, because he said, I'm at a two-thirds
14 utilization. If I thought I'd get to 85 percent, I'd
15 better buy some new strings.

16 But I see -- and this is what all the
17 commentators are saying -- I see things flattening at
18 the current rig count for the next couple of years.
19 So these drill strings are expensive. When you put
20 together 5-, 6-, 8,000 feet of this with a drill pipe,
21 the heavyweight drill pipe, and the drill collar, and
22 they're going to borrow from their existing rigs until
23 things change.

24 So the best indicator of demand, I think,
25 real demand, for the subject product is the apparent

1 consumption data that you have, which shows that in
2 spite of an increase in the price of oil, and despite
3 of an increase in the rig count in 2010, apparent
4 consumption of the subject products fell by 14 percent
5 in the first half of '10. And I think the biggest
6 impact on that is the inventories.

7 MR. SCOTT: Can I --

8 COMMISSIONER PINKERT: Dr. Scott.

9 MR. SCOTT: -- just add to that? You have
10 to add in the fact that in the same time, the unit
11 value of domestic shipments fell by I think 19
12 percent. So revenues actually fell 30 percent. And
13 so it was a combined effect of both the price and the
14 volume falling.

15 COMMISSIONER PINKERT: Well, staying with
16 you, Dr. Scott, you noticed, I'm sure, my question
17 about why the domestic industry producing the finished
18 product didn't perform better in the first six months
19 of 2010. Is that a function of demand, or is that a
20 function of something else?

21 MR. SCOTT: I think it's a function of the
22 demand for the actual product, which, as Roger has
23 mentioned, is a function not just of the rate count,
24 but also of the inventories of pipe, both by the users
25 as well as by the distributors in this industry.

1 MR. SCHAGRIN: And a function of subject
2 import competition because that had a price depressing
3 effect. But as I said in my opening comment, you
4 know, no one is going to have credibility before this
5 Commission if you come before all of you learned
6 commissioners and you try to deny the basic facts of
7 economics. There is no question that when demand
8 falls, you're going to perform worse. And your
9 difficult job in many of these cases is trying to
10 determine not so much how much was the impact of the
11 fall in demand affecting the industry versus how much
12 was the impact of subject imports.

13 I read the statute as saying you don't have
14 to weigh those causes. But you do have to determine
15 was there still a material impact of the subject
16 imports, in addition to what the laws of economics
17 tell us had to be an impact of the fall in demand,
18 because the fall in demand -- the laws of supply and
19 demand are inviolate. There is always going to be an
20 impact. The question is was there also a material
21 impact, and we believe, based on this record, that
22 there was.

23 COMMISSIONER PINKERT: Thank you. Thank
24 you, Madame Chairman. But I would add, Dr. Scott, if
25 you could provide in the post-hearing your analysis of

1 why the industry for finished products didn't do
2 better in interim 2010, as might be expected from the
3 filing of the petition, that would be very helpful.

4 MR. SCOTT: I'd be happy to. Thank you.

5 COMMISSIONER PINKERT: Thank you. Thank
6 you, Madame Chairman.

7 CHAIRMAN OKUN: Thank you. Let's see. Mr.
8 de Rotalier, let me ask you -- and it just follows on
9 the discussion that was just occurring with respect to
10 demand and what effect the actual consumption is based
11 on, even though rig counts are growing, that we
12 haven't seen this big bump up in the U.S. Do you
13 think that is specific to what is going on in the
14 United States, either because of a moratorium or
15 anything -- the Deepwater moratorium or anything else?
16 In other words, do you see globally the same
17 phenomenon for this product when we look at rig
18 counts?

19 MR. DE ROTALIER: The way the market is
20 evolving is the same worldwide. It's as we have
21 described it. It's related, of course, to the
22 recounts, to the potential cannibalizing by the
23 stacked rigs. It's the same everywhere. I mean, the
24 market is changing in the same way everywhere. Now,
25 if the market is in the same mood everywhere, I would

1 say that if I look at the global picture which I'm
2 drawing, the U.S. is so critical. It's one-third of
3 the world market.

4 What is happening in the U.S. is very
5 important to us, I mean. And if I look at the other
6 two big markets, which are Russia and China, we can't
7 sell in China. I mean, China needs a lot of API
8 products, but it's from the API market which is
9 supplied by Chinese suppliers. We don't have access
10 to these API markets, which is big. And Russia,
11 similar. It's similar. I mean, Russia is a market
12 which is supplied by Russian suppliers, also an API
13 market, very competitive. We don't have access to
14 these markets.

15 So what remains to us are the other markets,
16 or I would say the premium markets, where we are
17 trying to do well as far as on drilling in the
18 offshore, in South America, in Europe, in Africa. But
19 we are in a niche market. I mean, it's niche. It's
20 not big compared to the rest of the API market.

21 So and this -- maybe I'm going to be beyond
22 what you're asking. But these premium markets, we
23 could serve it with only one plant worldwide. We
24 don't need to have plants in the U.S. We could have
25 the plant in the U.S. supplying worldwide at premium,

1 or in Europe, or the Middle East, but we don't need so
2 many plants as we have today.

3 So what the Chinese are doing now on the
4 U.S. market actually is that -- the current situation
5 is that they are massively offering their aggressive
6 prices to some distributors, like NAM and anybody, and
7 they'll be able to take all the shares in the API
8 markets. I mean, these products are fully
9 interchangeable. It's clear that if there is no
10 protection tomorrow, it will be very hard for us in
11 the U.S.

12 CHAIRMAN OKUN: And then I think leading
13 prices over, you know, any two week period, about oil
14 or gas, is, you know, the volatile market. So I'm not
15 saying that this is any different. But I was curious
16 you had a chance to look at the recent Barclays'
17 report on investment in oil and natural gas
18 exploration worldwide that was reflected in a *Wall*
19 *Street Journal* article on Wednesday, December 29th.

20 MR. DE ROTALIER: Yes. We know that the E&P
21 exploration and production expenses are on the high.
22 However, I mean, keep in mind also that our business
23 is also very much related also to the utilization
24 ratio of the equipment. And two years ago or three
25 years ago, we had very utilization ratios. I mean,

1 they were -- specifically for the U.S., it was --
2 there were more than 3,000 rigs which were operating,
3 probably not that far, but 2,000 -- more than 2,000
4 rigs which were operating. And here today we are
5 still at 1,600, something like that.

6 So you can have a lot of rigs which are
7 stacked and which have inventory. On top of that, you
8 had all these Chinese inventories which has come on
9 the ground here. We're not going to see as far as
10 drill pipe business is concerned significant
11 improvement this year. I'm not expecting significant
12 improvement of the market this year. It will probably
13 get better. I hope so. But it's not going to be of
14 significance.

15 CHAIRMAN OKUN: Okay. I appreciate -- Mr.
16 Schagrin, yes.

17 MR. SCHAGRIN: No surprise, I also read that
18 article, and very interested in the energy literature.
19 And I figured that I would probably see it in the
20 Respondent's post-hearing brief, or it would be
21 brought up at the hearing. And what I took out of it
22 is that with high oil prices -- and that's where most
23 of the drilling in the rest of the world -- in the
24 U.S., we're still about 60/40 gas to oil. But when
25 oil prices get up to \$90 a barrel, and with some of

1 these significant offshore finds, people are going to
2 put money into it. And one of the reasons the amount
3 of E&P is going to be higher is attractive is because
4 of the very high price of oil.

5 But it has to be higher because -- and I
6 think Petrobras was specifically listed as the single
7 largest increase, and that's because they're going to
8 be drilling in those salt flats. It's in something
9 like 20,000 feet of water. I think it's going to be
10 about the biggest -- the deepest commercial drilling
11 in the world. And lot of the additional drilling is
12 in deep waters off of Africa.

13 They're making some big finds, and they're
14 in areas -- the new big finds are in areas where it is
15 real expensive to drill. So how much more premium
16 drill pipe will be needed in relation to those
17 expenses, I don't know, because, you know, just the
18 cost of building the rigs and everything for that deep
19 offshore drilling, it's an expensive proposition.
20 Hopefully, they're produce more oil for the wells. We
21 would like to see oil prices come down, I think, no
22 offense to all my colleagues who, you know, might see
23 them high. But I think, personally, is oil goes back
24 to \$140 a barrel, it's not good for the U.S. economy.
25 It's a major tax on us.

1 But most of that additional monies are
2 clearly being spent outside the United States for very
3 expensive offshore oil drilling.

4 CHAIRMAN OKUN: Thank you. I appreciate all
5 those comments. Now, turning to some of Commissioner
6 Pearson's questions, Mr. Schagrín, I wanted to, after
7 looking at your arguments in the brief, ask you about
8 whether you were still asking the Commission to rely
9 on official import statistics, data coverage, rather
10 than on the importer questionnaire data.

11 MR. SCHAGRIN: Yes, very much so. And it's
12 not just for this case. As I say, I have deep respect
13 for all the commissioners and for Mr. Corkran, who is
14 probably the hardest working government employee I've
15 known for the past 20 years. I am troubled in two
16 respects greatly about shifting away from fixing
17 import data and relying on importer questionnaires.

18 First is its effect on cases that are
19 occurring in terms of are you getting the right data,
20 and how are you incentivizing people to come in and
21 say, well, the import data is bad, so just rely on us.
22 I think that's troublesome. And secondly, over a long
23 term, we hope that given the very high trade deficits
24 with China and the problems that Mr. Conway talked
25 about with manufacturing employment, that there might

1 be more cases in the future. And yet if a client
2 comes to you, hypothetically, and he says, I looked on
3 the ITC website. I make product X. I looked on the
4 ITC's website, and I got the data, and I can see that
5 imports from China have increased dramatically in the
6 HTS category for the product I'm making. I've heard
7 of your reputation, and I'd like you to give me a
8 quote on how much it would cost to investigate whether
9 we could bring dumping and subsidy cases against these
10 imports.

11 All of this, and the trade bar is supposed
12 to say, well, it won't cost you 50 grand; it will cost
13 you 150 grand for us to investigate it because you
14 can't rely on that data on the ITC's website, even
15 though the only product you make is specifically
16 delineated in one HTS category, because I'm going to
17 have to get the import data and the PIERS data, and
18 I'm going to have to have people look at that for the
19 past three years and interim periods to figure out
20 what imports really are, or how much has been
21 mischaracterized, because as I think I told you
22 earlier, what is happening in the ports of these
23 countries is -- it's just sad. And I think it
24 behooves this Commission -- and the good thing about
25 this Commission is it's run by the commissioners and

1 the staff -- to think of not just this case, but to
2 think of the future of this great institution and say,
3 boy, where we have this symmetry, overlap between
4 scope and HTS categories -- and here we have 90, 95
5 percent of the product should come into seven HTSs.
6 Those HTS say drill pipe, or drill pipe with tool
7 joints. Only drill collars don't.

8 And I know that, you know, in the chapter
9 83, drill pipe with tool joints attached, you get
10 value information, and it's quantities not in tons. I
11 was noting yesterday's were leased by the Department
12 of Commerce in their press release. They said, these
13 are the values. They recognized it. They said, these
14 are the values of imports. They could certainly look
15 at import shares by looking at value as well as
16 volume.

17 But the answer to the question -- I know
18 Commissioner Pearson will believe the answer is a
19 resounding yes -- we strongly believe that this
20 Commission, both in this case and for all future
21 cases, is better served by doing as you did in steel
22 grading, fixing bad import data -- but it's only bad
23 for a few months here or there -- than relying only on
24 importer questionnaires.

25 CHAIRMAN OKUN: Okay. Then for post-

1 hearing, I know you've read the staff report and
2 you've read the footnotes on staff going through their
3 comfort level with the different data and the HTS
4 numbers. Just for post-hearing, if you can make sure
5 and respond to if you think there are any errors in
6 what the staff has said in those footnotes in terms of
7 the specifics, just so that I'm clear on that, and so
8 that Commissioner Pearson is as well.

9 MR. SCHAGRIN: And just to get on the record
10 for him since he'll be reading and not seeing my face
11 -- and I extend my condolences to whatever funeral he
12 has to attend, and to him as particularly the family
13 member. But we will do that and go through each
14 footnote in the post-hearing brief.

15 CHAIRMAN OKUN: Okay. Thank you. Vice
16 Chairman Williamson.

17 VICE CHAIRMAN WILLIAMSON: Thank you, Madame
18 Chairman. Just a few additional questions. Mr.
19 Brand, you talked about the fact that I guess
20 Schlumberger bought Smith, and that has changed your
21 relationship with them. And I didn't quite understand
22 what was the implications of that change. I think you
23 were sort of saying it's going to make things worse
24 for you because Schlumberger was a worldwide company
25 for China. But I didn't quite fully understand the

1 implications of it.

2 MR. BRAND: I believe that Schlumberger
3 could become a large supplier of Chinese drill pipe in
4 the United States.

5 VICE CHAIRMAN WILLIAMSON: Finished or --

6 MR. BRAND: Of finished drill pipe, that I
7 would be competing against my former partner. They
8 have significant -- Schlumberger has significant
9 operations in China. They have purchased Chinese
10 drill pipe, unlike Smith. And I have no evidence or
11 proof that this will happen, but it seems a logical
12 extension.

13 VICE CHAIRMAN WILLIAMSON: Okay. So that in
14 a sense is kind of a threat to your future.

15 MR. BRAND: It's a potential threat that I
16 feel is likely.

17 VICE CHAIRMAN WILLIAMSON: Okay. Thank you
18 for that clarification.

19 MR. SCHAGRIN: Can I just add, Commissioner?

20 VICE CHAIRMAN WILLIAMSON: Sure.

21 MR. SCHAGRIN: Just to elucidate a little
22 bit. One of the, I think, items supporting Mr.
23 Brand's concerns in that area -- and we really haven't
24 talked, probably thankfully, about drill pipe and
25 drill collar-like product issues. But maybe

1 Commissioner Pinkert will get to this next.

2 But, you know, all these companies, some of
3 them make all three products, drill pipe, heavyweight,
4 and drill collar together, such as VAM Drilling, NOV
5 Grant Prideco, RDT. In the case of Texas steel
6 conversion, they made the standard weight drill pipe,
7 marketed through Smith, which made the heavyweight and
8 the drill collar.

9 VICE CHAIRMAN WILLIAMSON: Okay.

10 MR. SCHAGRIN: And that's the sense, because
11 that's the way most people go to market. So I think
12 one of his concerns since Smith has been marketing the
13 entire package for the last 11 or so years is that now
14 that Schlumberger owns them, they own these production
15 facilities, they can make heavyweight and drill
16 collar. It wouldn't make sense for them to go to
17 market without the standard weight drill pipe, which
18 is the biggest portion of it. So if they're not going
19 to link up with another domestic producer, and they
20 have all these Chinese operations, why wouldn't they
21 go to market with lower cost, subsidized, dumped
22 Chinese drill pipe along with their heavyweight and
23 drill collars.

24 So I just want to add that, that it's that
25 connection of the three products that gives, I think,

1 a great deal of the factual grounding for Mr. Brand's
2 concerns.

3 VICE CHAIRMAN WILLIAMSON: Okay.

4 MR. BRAND: That was well stated, and I
5 agree with that completely.

6 VICE CHAIRMAN WILLIAMSON: Thank you. Thank
7 you very much for that. Should the Commission look at
8 each of the sub-products separately data-wise, or can
9 we do any aggregation of them? For example, should we
10 look to combine finished drill pipe and unfinished
11 drill pipe, like in table C-6? And should we be
12 looking at unfinished drill pipe and -- I'm sorry.
13 Should we be looking at finished drill pipe and
14 finished drill collars together, as in C-6, or
15 unfinished drill pipe and unfinished drill collars,
16 like in C-5?

17 In other words, can we aggregate any of this
18 stuff, or should we keep everything separate?

19 MR. SCHAGRIN: I think you can aggregate it.
20 It's all part of the same like product. I recognize
21 it's difficult. I recognize we went through these
22 issues before in the original drill pipe case against
23 Japan. It seems most appropriate to aggregate all of
24 the financial and employment data because when you get
25 to production and in terms of computing market shares,

1 and it is some extra work, you obviously have to
2 ensure against double counting. You don't want to
3 count as total tons of consumption the unfinished and
4 the finished together.

5 So for that aspect of figuring out total
6 apparent consumption, you'll likely just have to back
7 out the volumes of unfinished, both subject, non-
8 subject, and domestic. I think in terms of looking at
9 injury, clearly the Commission has to look at subject
10 imports of unfinished. So you can still do that,
11 looking at values of products, looking at the tons of
12 those imports, and then looking at the domestic
13 industry and just doing the extra work necessary to
14 prevent the double counting.

15 It's like a lot of things in life. Nobody
16 said it would be easy, but that's what we recommend.
17 If you find one single like product, that you use all
18 these tables. And right now, I think you have about
19 seven different sets of tables, and maybe the staff
20 can manage to put together what I would call the big
21 table with everything. That would be our
22 recommendation.

23 VICE CHAIRMAN WILLIAMSON: Okay. And maybe
24 post-hearing you might suggest what we should be
25 finding when we do that.

1 MR. SCHAGRIN: Yeah. Well, we think you
2 should be finding injury or threat of injury.

3 VICE CHAIRMAN WILLIAMSON: And why.

4 MR. SCHAGRIN: Or so. Yeah. And we'll tell
5 you why as well. You know, and then to be honest,
6 because finished drill pipe and finished drill collar
7 is so much of the industry, it's not going to change
8 things. It's not going to change the trends. It's
9 more a matter of how you address the fact of having
10 one like product, including semi-finished. And once
11 again, I've been trying to divine from the other cases
12 with semi-finished products how that worked out, and
13 largely because of a lot of the asterisks sometimes
14 it's very difficult to see sometimes, you know, how
15 the data tables worked out in those other semi-
16 finished products because of, you know, so much
17 information being asterisked out.

18 But I've been trying to divine it. And so
19 we'll certainly make suggestions in our post-hearing
20 brief, Vice Chairman Williamson.

21 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
22 The record contains some evidence of transactions
23 which include the seller taking you to inventory drill
24 pipe from the buyer. And I'm wondering if you can
25 describe how these transactions work, how common they

1 are, and how we should evaluate them. I don't think
2 there has been too much discussion of that this
3 morning.

4 MR. MORRIS: Well, typically, when a
5 contractor -- he'll get an oversupply of a different
6 size of pipe, and some of these wells require a
7 different size of pipe than he would like to trade,
8 where he has an excessive inventory for what he
9 actually needs. And so -- which is the case with
10 these horizontal wells right now. The size of pipe
11 has gone from four and a half to four inch. So they
12 have an oversupply of four and a half pipe that they
13 want to get rid of, so that they don't have to come up
14 with anymore capital to buy more pipes. Then they'll
15 try to trade. That's typically how it works.

16 VICE CHAIRMAN WILLIAMSON: Okay. Now, are
17 we seeing more of that or less of that type of
18 transaction now than, say, maybe a couple of years
19 ago? Is there a trend now?

20 MR. MORRIS: Yes, because of the trends in
21 the wells being drilled, yes, that is correct.

22 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
23 Mr. Fields?

24 MR. FIELDS: I'd just add for VAM Drilling,
25 we're not trading or taking back off-sizes. That's

1 just not something that we do. I think it's pretty
2 rare, a pretty rare occurrence, and we haven't done
3 any of that.

4 VICE CHAIRMAN WILLIAMSON: Okay.

5 MR. BRAND: I would add that we've done
6 none, and we haven't been approached. There is an
7 interest by the contractors to do this, where it's
8 possible. But we've not been agreeable to doing it.
9 We don't carry finished inventory.

10 VICE CHAIRMAN WILLIAMSON: Okay. Mr.
11 Morris?

12 MR. MORRIS: I'd just add, because you don't
13 want to take pipe back in that you didn't make, and
14 then sell somebody else's brand. So it's very
15 difficult for any of us manufacturers to take somebody
16 else's pipe in on trade.

17 VICE CHAIRMAN WILLIAMSON: Okay, good. Ms.
18 Rutledge, is that also true for collars, I was
19 wondering?

20 MS. RUTLEDGE: That is absolutely true for
21 collars. We would not trade with any of our
22 customers. But we don't keep any finished inventory
23 on the ground anyway. That's true for collars as
24 well.

25 VICE CHAIRMAN WILLIAMSON: Okay, thank you.

1 Petitioners have claimed their pricing data gives
2 undue weight to heavyweight drill pipe and drill
3 collars because these products are a small share of
4 the overall market. And I was wondering -- this may
5 be for post-hearing. What is the approximate tonnage
6 share of the drill market that consists of standard
7 drill pipe, heavyweight drill pipe, and drill collar?

8 MR. PARKS: I would say that the overall
9 market -- a good rule of thumb is approximately 80
10 percent of our sales are drill pipe, and 20 percent
11 are collars and heavyweight. There has been a swing
12 into more heavyweight being sold than drill collars
13 the last three to five years because of the horizontal
14 drilling instead of vertical. But it's always a rule
15 of thumb of 80/20.

16 VICE CHAIRMAN WILLIAMSON: Okay, good.
17 Thank you. Okay. And my time has expired, and I want
18 to thank all the witnesses for their testimony. Thank
19 you.

20 CHAIRMAN OKUN: Commissioner Lane.

21 COMMISSIONER LANE: Thank you. Mr.
22 Schagrin, do you have updated data beyond June 2010
23 that you can provide the Commission?

24 MR. SCHAGRIN: As to the domestic industry,
25 no, we don't have anything beyond the domestic

1 producer's questionnaire responses. We haven't
2 endeavored to. I guess the only item in the
3 questionnaire that went beyond June of 2010 was that
4 the Respondents were asked for their September 30th
5 order books. I think I can certainly say, because I
6 look at the import data every month, there it does not
7 appear to have been any reported imports from China
8 since June 10, which is not surprising, given the
9 imposition of the preliminary countervailing duties on
10 June 6th.

11 And the only other thing that we have, not
12 in terms of imports of domestic producer data, but as
13 I think Mr. de Rotalier said to Chairman Okun, in
14 terms of some of the forecasts, we have some more
15 updates in --

16 COMMISSIONER LANE: Do you have any
17 operating income information beyond June of 2010?

18 MR. SCHAGRIN: No, we don't. I guess for
19 some of these -- we're right at the beginning of
20 January. I guess for some of these, you know, third
21 quarter they would already have, and fourth quarter
22 they'd probably just be putting together.

23 COMMISSIONER LANE: Well, could you provide
24 for the record post-hearing the third quarter
25 information?

1 MR. SCHAGRIN: Sure. I think we can. Do
2 you all think we can get it to you within a week?
3 Yes, we will provide in our post-hearing for the
4 Petitioners we're representing -- I'll ask Ms.
5 Rutledge if she can provide things. She is not a
6 member of our Petitioner group, but she was kind
7 enough to be a witness today. But we'll certainly ask
8 if she can provide it. But for the Petitioners, we'll
9 provide our third quarter 2010 financial data.

10 COMMISSIONER LANE: Okay. This afternoon, I
11 am -- okay. I'm sorry. I didn't hear you.

12 MR. SCHAGRIN: Mr. Barnes said as they're
13 closing out the end of the year, it will be difficult
14 for them. But I will endeavor to work. I'm friends
15 with his accountant there and worked on it for many
16 years, and I'll do my best, Commissioner Lane, to
17 squeeze something out of them, out of each of the
18 Petitioners.

19 COMMISSIONER LANE: Okay, thank you. I am
20 sure that this afternoon we're going to hear lots of
21 argument from the Respondents on why this is a
22 negative case, one of which is how could the
23 Commission go affirmative in light of the fact that
24 the industry as a whole appears to be doing well. How
25 would you like to respond to that?

1 MR. SCHAGRIN: Two responses. One, of
2 course, we have made argument, we think with very good
3 foundations, for the exclusion of Grant Prideco. And
4 I would doubt the Respondents would even want to take
5 on the arguments of this industry not being injured
6 without Grant Prideco. You can invite them to do so
7 or not. So that's the first thing that we would say.

8 And secondly, even if you look at this
9 domestic industry, including them, I believe this
10 Commission has the discretion, broad discretion, as
11 looking at the conditions of competition in the
12 industry for you to take a look at this industry and
13 say there are really differences if you do not include
14 Grant Prideco between various members in the industry,
15 and that as a condition of competition, if so much of
16 the industry is on the verge of collapse by reason of
17 unfairly traded imports and the threat of the massive
18 over-capacity that Mr. de Rotalier has spoke of, that
19 you can find this industry to be both injured, and you
20 can certainly find that they would be threatened with
21 injury even in their present condition.

22 I do believe in Seamless SLP that the
23 Respondents made the same arguments as the threat
24 given double digit profit margins of the domestic
25 industry, and, Commissioner Lane, you found present

1 injury, and all of your colleagues found threat,
2 notwithstanding very significant profits margins, but
3 very poor other conditions.

4 Finally, I would say they're focusing on
5 profit margins, but if you look at the table, the
6 reduction in profits because of the lack of volumes
7 and the decrease in prices is pretty overwhelming.
8 It's a fall from about \$450 million to something on
9 the order of 50 to \$100 million.

10 COMMISSIONER LANE: So, Mr. Schagrin, you
11 would make the argument that a reduction in profit and
12 a trending downward, if it's linked to imports, is
13 injury.

14 MR. SCHAGRIN: Yes, I would, because in the
15 end, for all the business people around this table,
16 Ms. Rutledge, Mr. Brand, VAM Drilling, or Mr. Morris,
17 you can't go to the bank with profit margins. Banks
18 want to see cash flow and profit. You need money to
19 buy equipment. You need money to pay employees. So
20 making 20 percent of \$100,000 is nowhere near as good
21 as making 10 percent of \$10 million. And that's why I
22 think this Commission should also look at the trends
23 in profits as well as the trends in profit margins.

24 COMMISSIONER LANE: Okay. Let's go to
25 another domestic product issue. If the Commission

1 found that there were two like products, premium and
2 conventional, are you then arguing that the Commission
3 should go affirmative on both or affirmative on
4 conventional and negative on premium?

5 MR. SCHAGRIN: We think in terms of injury,
6 the record is clear that we would ask for injury as to
7 conventional, and not argue that there is any injury
8 with respect to premium, because there has been so
9 few, if any, imports of premium, and probably with
10 respect to threat, as to what Mr. de Rotalier said,
11 that, you know, NOV Grant Prideco has plants in China
12 where they can make premium because they own the
13 patents. They can make their premiums anywhere they
14 so desire.

15 But the other Chinese producers are not up
16 the curve to compete with VAM Drilling and NOV Grant
17 Prideco in the premium products. And really, for this
18 market -- and it's not surprising the way trade is
19 done. It's only about 10 percent, and it's falling
20 all the time, given our bans on offshore drilling. So
21 even though your data would show, gee, there still
22 looks like there is a lot of domestic shipments of
23 premium products, my understanding is the big
24 international offshore drilling companies, many of
25 which are based in the United States, like Diamond

1 Offshore and Transocean, they would take delivery of
2 their products in Houston, which of course is a major
3 seaport. So it would look like it's a domestic
4 shipment. Then they decide, oh, we're going to ship
5 it to this rig. We need a rig replacement off West
6 Africa. We need a rig replacement in the North Sea.

7 So really, in terms of use, probably 80 to
8 90 percent of what domestic producers sell in premium
9 is being used offshore. And given that, we don't
10 think the injuries for sales in the United States of
11 premium product probably rise to the level of a threat
12 of injury.

13 COMMISSIONER LANE: Okay. One more quick
14 question. Both in the preliminary and the final phase
15 of these investigations, neither Petitioner nor
16 Respondents appeared to contest the idea that drill
17 pipe and drill collars should be part of the same
18 domestic like product. Is that an accurate
19 characterization of your position on this issue?

20 MR. SCHAGRIN: Yes, that is, Commissioner
21 Lane.

22 COMMISSIONER LANE: Okay. So if drill pipe
23 and drill collars form a continuum constituting a
24 single domestic like product, what logic compels a
25 finding that premium drill pipe is a separate like

1 product?

2 MR. SCHAGRIN: The same six-factor test you
3 would apply because drill pipe and drill collars,
4 whether they're used -- and there really isn't a
5 premium drill collar, just premium drill pipe.
6 They're used together as a continuum of products, and
7 they share the same like product criteria anyways, and
8 some differences. But the main argument, to summarize
9 quickly -- I see the red light is on -- is that there
10 is totally different customer perceptions. There is
11 no interchangeability.

12 Interchangeability works one way. You can
13 always use premium instead of non-premium, but you can
14 never use non-premium instead of premium. And then
15 the pricing differences are huge. And then these are
16 generally patented products.

17 So while there is some overlaps, we think on
18 balance, given the six like product criteria, that
19 there is more differences, which is why they should be
20 found to be a separate like product.

21 COMMISSIONER LANE: Okay. Thank you.

22 CHAIRMAN OKUN: Commissioner Aranoff.

23 COMMISSIONER ARANOFF: Thank you, Madame
24 Chairman.

25 We've established that there are a number

1 of different piles of inventories of this product in
2 the United States right now that importers are holding
3 inventories, distributors are holding inventories, end
4 users are holding inventories in the form of rigs they
5 have that may not be operating right now and perhaps
6 even drill pipe that they ordered but then didn't
7 need.

8 In light of that, Mr. de Rotalier, you gave
9 us some evidence that there's a lot of available
10 supply in China, but for that supply to enter the U.S.
11 market in the future, someone would have to buy it.
12 Who would have an incentive to buy that product if
13 there are already these inventories in the market?

14 MR. MORRIS: Well, I think what you're going
15 to see is actually the distributors might not bring it
16 into the country, but what you're going to see is the
17 actual manufacturers, the Longbrights and the Hilongs
18 are going to bring in their own pump, and they're not
19 going to go through distribution, and they're going to
20 start selling the pipe direct, and that is a real
21 threat going forward.

22 COMMISSIONER ARANOFF: I can understand why
23 they would want to do that, but someone has to buy it
24 from them. Who is going to buy it from them?

25 MR. MORRIS: The drilling contractors, the

1 rental companies and Dole, you know, all the people
2 that use our products.

3 COMMISSIONER ARANOFF: Even though they have
4 rigs sitting around that are not in operation they
5 would still buy new product?

6 MR. MORRIS: Well, the product does wear
7 out, so they do have to replace it, and they are
8 constantly losing the stuff in the hole, downgrading
9 it, so it does wear out, and they do replace it, not
10 so much the bigger guys, but the small or medium-sized
11 contractors. They don't have a capital like some of
12 the bigger guys, so they only buy as needed type, so
13 there's still a demand out there for these drilling
14 products.

15 MR. SCHAGRIN: And I would add, Commissioner
16 Aranoff, I don't think the Commission should confuse
17 declining demand with no demand. I mean, the first
18 half of '10, demand was down 14 percent. There was
19 still 75,000 tons of demand, so I guess the short
20 answer to your question is who would buy Chinese at a
21 much lower price than domestic?

22 Anyone who wanted to buy product, and I
23 would look as a threat issue, which I think is pretty
24 consistent with this Commission's precedents that
25 lower demand definitely makes an industry more

1 vulnerable to a lower-level of imports because even
2 though lower-level of imports will be injurious when
3 everybody's chasing a very small pie.

4 These folks are in a cyclical industry. I
5 think you heard that. They recognize it's cyclical,
6 but the idea of hanging in until things turn around,
7 you do that buy supplying and reducing your operations
8 and supplying the lower demand because this product
9 wears out. Demand will come back. If imports take a
10 bigger share of the smaller market, your chances of
11 being around when the market comes back are infinitely
12 smaller than without having to compete with the
13 unfairly traded imports, and with all these folks,
14 look at the Hilong Birkin statement that we put in.

15 Probably, I think everyone at this table
16 would agree, maybe August 2009 was probably the nadir
17 of this market, and the largest producer in China
18 sends emails to U.S. Customers and says we know your
19 market doesn't need any more supply. We know it's
20 over-saturated, but we just want you to know we're
21 here ready to give you below-market prices whenever
22 you think that you want to place an order, so I think
23 their intent is clear.

24 They know this market's bad. They know it's
25 going to stay bad for another year or two, and they're

1 ready to take as much of it as they can take because
2 the alternative is lesser operations in China. The
3 Chinese love to maintain employment.

4 COMMISSIONER ARANOFF: All right. I
5 understand the part about more supply chasing smaller
6 demand. That's pretty much what we said in OCTG.
7 What I'm trying to find out here, and I got some of it
8 and supply more in the post-hearing if you want to. I
9 understand that lower demand is not the same thing as
10 no demand. I'm just trying to figure out if you're a
11 distributor and you've already got product on hand,
12 you maybe don't want to buy unless there's some grade
13 or type that you ran out of.

14 If an end user, and you have rigs that
15 you're not operating even if the one you have runs
16 out, you're going to try and use something else you
17 have unless again you don't have the right grade, and
18 then we've been told there are some small operators
19 who actually just don't have anything on hand, and if
20 they want to buy something, they're going to have a
21 choice of buying it from a U.S. distributor who
22 already has inventory on hand or a fresh supply maybe
23 that's coming in from somewhere, and they're going to
24 have to make that decision, so anyway that you could
25 just sort of help me parse that out.

1 MR. SCHAGRIN: Maybe Mr. de Rotalier wants
2 to make a comment, but let me give you maybe the
3 single best example, and it came out of Mr. Brand's
4 testimony. The largest order for delivery in 2011
5 came from Command, some 75,000 feet of four-inch pipe.
6 Now, I think as Mr. Morris said, right now there's
7 some change in the drilling, which is good, meaning
8 some people need some things they don't already have,
9 so they have too much four and a half.

10 These guys don't trade. As I guess you'll
11 hear, maybe as they said in their final rebuttals that
12 they do trade from the original staff conference, so
13 that's a 75,000-foot order. Now, maybe can you can
14 ask Command this afternoon if the duties hadn't been
15 in place, would that 75,000-foot order have gone to
16 Texas Steel Conversion, or would they buy Chinese? I
17 think the answer is pretty clear, so, I mean, there's
18 your demand.

19 Distributors are buying. There's four or
20 five distributors, some are the smaller drilling
21 contractors, some are the bigger drilling contractors
22 buying. I think Patterson-UTI and some others are
23 going out with requests for this year, so there is
24 demand, and it's low, but those people who are buying
25 it, and they would buy Chinese instead of buying from

1 Texas Steel Conversion but for the imposition of
2 duties.

3 COMMISSIONER ARANOFF: Okay. Mr. Barnes,
4 did you want to add something?

5 MR. BARNES: Just something to think about
6 is that in addition to the fact that because there may
7 be a mix chain, such as Mr. Morris mentioned earlier
8 from four to four and a half inch, sometimes
9 distributors will also buy at lower prices to average
10 down their cost of their inventory, and that may or
11 may not be what's happening here in some cases, but it
12 does happen.

13 COMMISSIONER ARANOFF: Okay. I guess that
14 would be true if they thought they were going to sell
15 the product in addition to what they're already
16 holding, whereas if they think demand is really bad
17 and then their carrying costs are going to exceed the
18 benefit of getting down their average inventory costs.
19 Then they wouldn't do it.

20 MR. BARNES: Sometimes what they do is that
21 they would be bidding on a new project, and in order
22 to be able to give a more competitive bid, they'll try
23 to average down the cost by buying some new and
24 supplying some from inventory.

25 COMMISSIONER ARANOFF: Okay. Fair point.

1 Let me go to my last question, and this goes back to
2 questions I was asking in the last round about
3 availability of domestic supply during the tighter
4 part of the market. I think in the committee or it
5 was in the conference someone had said there was
6 plenty of domestic supply if only buyers had called
7 around instead of maybe calling one supplier who at
8 that moment couldn't supply them and then turning to
9 the Chinese product, and so my question is this:

10 If a purchaser, particularly a fairly large
11 one, is looking for a product at this point when the
12 market was doing very well, would they typically put
13 together pipe from multiple suppliers, or would they
14 want to buy everything from one supplier? What would
15 be the typical purchasing pattern?

16 MR. PARKS: Several contractors that we work
17 with, they don't want to put all of their supply into
18 one manufacturer, so they'll have maybe an 80-percent
19 or 75-percent favorable supplier and a backup source
20 with another manufacturer.

21 COMMISSIONER ARANOFF: Are you talking about
22 an end user or a distributor?

23 MR. PARKS: I'm talking about the end user.

24 COMMISSIONER ARANOFF: Okay. Okay. And
25 would they ever take pipe from two different suppliers

1 and put it down the same well?

2 MR. PARKS: On occasion they do, but at the
3 same time on some critical wells, they'll want the
4 same manufacturer from the complete collar,
5 heavyweight and drill pipe assembly.

6 COMMISSIONER ARANOFF: Because one of the
7 things I'm trying to figure out is if maybe a number
8 of domestic producers had some smallish amount of
9 capacity available, but a purchaser couldn't get
10 everything they wanted from one or even from two
11 domestic suppliers, would it be realistic to expect
12 them to kind of call around to five people and put
13 that stuff together?

14 MR. PARKS: Absolutely. Absolutely.

15 COMMISSIONER ARANOFF: That's something that
16 would typically happen?

17 MR. PARKS: Absolutely.

18 COMMISSIONER ARANOFF: Okay.

19 MR. DE ROTALIER: A drill pipe and API are
20 free interchangeable. I mean, you would be able to
21 use a VAM Drilling drill pipe with RDT drill pipe and
22 even with Chinese drill pipe together to drill a well
23 and start pumping. They are interchangeable, and they
24 are calling to API specification.

25 COMMISSIONER ARANOFF: Well, that's

1 interesting, Mr. de Rotalier because I seem to recall
2 in the OCTG case that we asked a similar question, and
3 I thought that what I heard at that point was you
4 really wouldn't want to put pipe from two different
5 suppliers down the same well at the same time unless
6 you had to because that creates traceability issues in
7 the even that there's any kind of a problem. Is that
8 different for OCTG than for drill pipe, or was the
9 person who told me that the last time around
10 exaggerating? What's going on?

11 MR. BRAND: I've been on both sides of the
12 energy tubular business, that's supplying casing and
13 tubing and that of drill pipe, and there is an
14 interest depending upon the operator or oil company to
15 keep the string of pipe in the well all one
16 manufacturer because of the accountability in the
17 event of a failure, but that's not to say all are like
18 that. In the case of drill pipe, it may be even less
19 than the case of the casing and tubing markets where
20 blowouts can result in greater catastrophic events.
21 Do you want to add to that?

22 MR. SCHAGRIN: I mean, the other thing,
23 Commissioner, and I know the red light's on, is that
24 don't forget the drill pipe comes out after the well
25 is drilled, so the casing and tubing stay in, so

1 usually the exploration company shows up after the
2 drilling company has drilled, and their concerns in
3 the well are what the casing and tubing allow. The
4 Mikondo problem, I mean, we knows it's a problem with
5 cement, but they were in the casing phase.

6 The drill pipe was already gone, so I think
7 the reusable nature and the fact that these rigs or
8 the wells get drilled in five to 11 days and then the
9 rig and the drill pipe move on is why there would be
10 more interchangeability here versus six months down
11 the line you've got a problem in your well. You want
12 to know whose casing and tubing is that well. You're
13 not going to say six months later what kind of drill
14 pipe was used when they drilled that well six months
15 ago, so I think that would explain a lot of the
16 differences.

17 COMMISSIONER ARANOFF: Okay. Thank you.

18 MR. SCHAGRIN: I think you were told the
19 truth by the way on the casing and tubing. They did
20 tell --

21 COMMISSIONER ARANOFF: This is the great
22 thing about hearings is I always learn something that
23 I didn't know before, so I appreciate that answer, and
24 I apologize for going over time. Thank you, Madame
25 Chairman.

1 CHAIRMAN OKUN: Commissioner Pinkert?

2 COMMISSIONER PINKERT: Thank you, Madame
3 Chairman. I want to ask you about a couple of the
4 arguments that were made in Respondent's brief, and
5 first this regards future demand increases. Would you
6 say that future demand increases are likely to be
7 limited to the premium and of the market?

8 MR. FIELDS: No. I would say we're going to
9 see more and more API. It's more onshore, less
10 offshore where the premium is in high demand, so the
11 demand that's coming, it is going to move more and
12 more API. There may be some growth in premium as some
13 more difficult, long and deviated wells are drilled,
14 but primarily it's going to be API, especially as this
15 shifts more to conventional oil drilling.

16 MR. SCHAGRIN: Commissioner Pinkert, our
17 witnesses didn't read the Respondent's brief like I
18 did, so I think I probably know the source of that
19 confusion, and it's a great followup to Commissioner
20 Aranoff's questions because she was talking about
21 casing and tubing versus drill pipe. I think, without
22 doing any injustice to my learned opposing counsel,
23 that they used a lot of information from Vallourec and
24 from TMK IPSCO talking about premium casing and
25 tubing.

1 I think because Vallourec and TMK IPSCO when
2 they're talking about putting in new mills or putting
3 in their finishing facility in Brookfield, they were
4 saying, which is absolutely true, that in the
5 Marcellus Shale, they're going to want premium
6 product. They figured their audience were people in
7 the energy industry, not Washington trade lawyers.

8 They probably figured everybody knew that
9 premium product meant casing and tubing with premium
10 connections, premium threads, which is what TMK IPSCO
11 just established a new facility in Ohio to do that,
12 and that is the focus of the new V&M mill besides
13 making green tub here, and I think that's the
14 confusion. There is no doubt that on-land drilling,
15 particularly for shale, is using more and more premium
16 threaded casing and tubing.

17 That same drilling is still using API-grade
18 drill pipe, not premium drill pipe, and I think that's
19 where the confusion was, and I'm sure it's an honest
20 mistake, but we can clarify it that way, that they
21 took comments that were really focused on casing and
22 tubing, and they were right though about the shifting
23 quantities as a share of total domestic production
24 towards premium and away from API grade, but I believe
25 that's because API grade just went down so much.

1 That's why the shift, and still most of that premium
2 is for the export market, even it were shipped to
3 Houston, first.

4 COMMISSIONER PINKERT: Thank you. Now
5 turning to the reduction in net sales value in interim
6 2010 for the finished products, how do you respond to
7 the claim that reflected reduced raw material costs?

8 MR. SCHAGRIN: I don't think it's the same
9 across in our own clients, because they did read the
10 staff report very carefully, and they were like wow,
11 this doesn't look like our profit margins, and this
12 doesn't look like our raw material costs, so they did
13 some of their own work that they told me about
14 yesterday, and I'd ask Mr. Williamson to share that
15 with you.

16 MR. WILLIAMSON: Yes. Specifically, what
17 he's talking about, this profitability, we're
18 amazed --

19 COMMISSIONER PINKERT: Microphone.

20 MR. WILLIAMSON: Sorry my inexperience
21 Commissioners. Steve Williamson with VAM Drilling.
22 We're very amazed by this conclusion that the industry
23 is operating at these profitability levels, and I'm
24 absolutely confident it's not the case with VAM
25 Drilling or with the other distinguished members

1 around these tables, and so I don't have access to the
2 confidential information, but we are led to believe
3 that this might, or can imagine that this might be
4 skewed because of Grant Prideco results.

5 When we look a little deeper at the material
6 cost, the material being a very significant portion of
7 the aspects of profitability on these projects, we see
8 unusual information coming from imports from Austria,
9 which is where Grant Prideco has a joint venture in
10 Post Alpine, and we find hundreds of dollars
11 difference in what we pay for these raw materials than
12 what we find in that Austrian information, and so we
13 just wonder if maybe some of this profitability is
14 including profitability on green tubes, which we did
15 not in our data.

16 MR. SCHAGRIN: And we'll just supply you
17 with what Mr. Williamson told me about yesterday, and
18 we'll give you the data that he was looking at in the
19 import statistics, comparing unfinished drill pipe,
20 reported customs import values from Austria to the
21 reported import values from say France and Germany.

22 COMMISSIONER PINKERT: Thank you. That
23 concludes my questions. I appreciate the tone of the
24 answers in this particular set of questions, and I
25 turn it over to the Chairman.

1 CHAIRMAN OKUN: Let me check with my
2 colleagues. Commissioner Aranoff?

3 COMMISSIONER ARANOFF: One last question.
4 You've pointed to declining performance in 2009 by the
5 domestic industry as evidence of present injury, and
6 we've had some discussions about the effect of Grant
7 Prideco and its inclusion in the industry on the data,
8 and we've had some discussion about carry-over effects
9 from orders that were placed in 2008 on the data, but
10 if you look at the data for the domestic industry
11 producing unfinished drill collars, you also see
12 declining performance even though that part of the
13 industry really faced little or no import competition
14 that we're aware of from the subject product.

15 What should we make of the fact that decline
16 doesn't seem on a different order of magnitude or
17 trajectory than what we see for the parts of the
18 industry that were facing subject import competition
19 at the time?

20 MR. SCHAGRIN: I'll probably ask Ms.
21 Rutledge if she would like to add, but I think
22 certainly in the Sunbelt case, there's a combination
23 of the impact certainly on finished drill collars on
24 their business on unfinished drill collars because I
25 think you haven't heard testimony they're making both,

1 but in terms of presenting information to the
2 Commission, just because they're such a small company,
3 they weren't able to segregate the data.

4 I think she already addressed in their
5 testimony and maybe would address it again in response
6 to your question about the impact of the drill collar
7 imports, not unfinished drill collar, but drill collar
8 imports on their business of both unfinished and
9 finished. Ms. Rutledge?

10 MS. RUTLEDGE: Yes. Sunbelt is a small
11 company. We do not have a sophisticated accounting
12 system, and we were unable to distinguish between our
13 unfinished drill collar sales and our finished drill
14 collar sales, so we put it altogether under the
15 category of unfinished drill collars, but what I can
16 say about that is we sell both, and it's clear that
17 for 2010 in particular, it's clear that our business
18 has suffered because of the Chinese imports.

19 I mean, the example that I gave you in my
20 testimony of Command Energy in 2007, comparing that to
21 2010, we saw drill collar sales to them in '07 that
22 was six times higher what it's been in 2010, and what
23 we sold to them was primarily unfinished drill
24 collars, but that's happening in the industry whether
25 it's finished or unfinished drill collars.

1 COMMISSIONER ARANOFF: Okay. Thank you very
2 much for those answers. With that, I have no further
3 questions. Thank you, Madame Chairman.

4 CHAIRMAN OKUN: I turn to staff to see if
5 staff has questions of this panel?

6 MR. CORKRAN: Douglas Corkran, Office of
7 Investigations. Thank you, Madame Chairman. Staff
8 has no additional questions.

9 CHAIRMAN OKUN: Let me turn to Respondent's
10 counsel to see if they have questions.

11 MR. LEIBOWITZ: I can't use this microphone
12 here. Lewis Leibowitz, no questions.

13 CHAIRMAN OKUN: All right. For the court
14 reporter, Mr. Leibowitz indicating no questions from
15 Respondent's counsel. Before we take a break for
16 lunch, let me take this opportunity to again thank all
17 of you for being here today, for your many answers and
18 for your continued cooperation as we finish this
19 investigation, and with that, we will take an hour
20 break for lunch, so we will return at 2:40. Just a
21 reminder that the room is now secure, so please don't
22 leave any confidential business information, and with
23 that, this hearing is in recess.

24 //

25 //

1 (Whereupon, at 1:40 p.m., the hearing was
2 recessed, to reconvene at 2:40 p.m. this same day,
3 Wednesday, January 5, 2011.)
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1 statutory criteria the Commission has to apply. We do
2 not intend to ignore those criteria. There is no
3 present injury by reason of subject imports in this
4 case. The Commission found that unanimously in the
5 preliminary determination.

6 The domestic industry is highly profitable
7 in the face of the worst economic downturn since the
8 Great Depression. Nor is there a real and imminent
9 threat of material injury by reason of imports of
10 subject imports from China. In the imminent future,
11 the industry is likely to maintain its profitability.
12 Now, there are many unusual aspects to this case, but
13 I'll mention three of them at the outset.

14 First, and it's especially unusual for cases
15 involving products from China. Petitioners have
16 attempted at the last moment to construct separate
17 like products of premium and regular drill pipe. Now,
18 this record doesn't support such an artificial
19 distinction. We certainly agree with Petitioners that
20 premium drill pipe doesn't compete with Chinese
21 product, which is largely based on standard API
22 grades. In many cases, Respondents attempt to carve
23 out a separate like product, but it's unusual for
24 Petitioners to do so because Petitioners can file a
25 petition on anything they want.

1 They included this premium pipe in their
2 petition, but obviously Petitioners now would like to
3 exclude from the analysis the most profitable segment
4 of the market. Now, there's no justification for two
5 like products. There's no brightline. The Commission
6 always looks for brightlines between like product
7 classifications within the scope of a case. There's
8 no gaps, no clear dividing lines. It's a classic
9 continuum of specifications. I've had lots of cases,
10 and you obviously have had more. If Petitioners had
11 claimed separate like product status from the
12 beginning, they might have excluded premium from the
13 scope of the investigation. They didn't. We'll talk
14 about that more.

15 Second, in a very revealing departure from
16 the norm, Petitioners have attempted to exclude one of
17 the leading domestic manufacturers of drill pipe,
18 Grant Prideco, from the domestic industry because this
19 company also imports drill pipe, finished and
20 unfinished from China, but under Commission precedent,
21 the mere importation of subject merchandise isn't
22 sufficient.

23 That's the down payment on the related party
24 issue, not the coup de grâce. Such an exclusion can't
25 be based on this record. The company is too big.

1 It's too important. There is no comparison between
2 the interest of Grant Prideco as an importer and their
3 interest as a domestic producer. They, by their
4 conduct, suggested as much by not participating even
5 to the extent of getting a separate rate at the
6 Commerce Department. Their imports from China, which
7 if you believe Petitioners' assertions are the
8 predominant reason for their success in the U.S.
9 market, they're blocked. They have a 400 and some
10 percent deposit rate effective as of yesterday, so
11 this is very bizarre.

12 Third is the data. The Petitioners don't
13 like the data in the questionnaires, so they went to
14 manufacture by adjusting the import data, which they
15 agree is flawed, so they want to adjust it and turn it
16 more to their liking.

17 The questionnaire data has been verified by
18 the Commission, and Petitioners still claim it's less
19 accurate than the admittedly inaccurate import
20 statistics. Now, due to Petitioners' actions, also as
21 was discussed this morning, the scope is not quite
22 settled. Mr. Schagrin indicated he was going to
23 withdraw his OCTG scope request, but still, the data
24 in this record doesn't track the difference between
25 in-scope and out-of-scope unfinished drill pipe

1 because we have a new standard that was just
2 articulated yesterday.

3 Now, in addition to these blatant
4 confessions of weakness in their case, Petitioners
5 have other problems as well. We'll make the following
6 points. The domestic industry is highly profitable.
7 In 2009, the worst year of the POI, the domestic
8 industry earned operating profits of 23 percent based
9 on sales. In 2008, profitability was 33 percent,
10 coinciding with a time of peak imports.

11 Second, the conditions of competition tends
12 to protect large producers of finished drill pipe.
13 Favored large customers attained certainty of supply,
14 nothing wrong with that. Producers obtained certainty
15 of income since many contracts have a long-term take
16 or pay provision. When demand for drill pipe surges,
17 such as in 2007 and 2008, larger customers have the
18 drill pipe supplies they need while smaller customers
19 are left out in the cold. Here, again, Petitioners
20 attempt as they must to rewrite the recorder arguing
21 that lead times didn't increase. You'll hear a
22 different view today.

23 Third, there is no real and imminent threat
24 of material injury by reason of subject imports. The
25 imports of subject merchandise peaked in 2008 and were

1 accompanied by extremely high profits in the domestic
2 industry. The future also looks bright. Oil prices
3 are high. They are nearly \$90 per barrel as of
4 yesterday, and everyone predicts that they will
5 continue to go up. We'll also have some things to say
6 about natural gas prices during the course of our
7 presentation and the questions and answers.

8 Now, under these conditions, imports of
9 subject merchandise are very unlikely to rise to
10 injurious levels within the imminent future, say a
11 year or so. Chinese drill pipe is widely considered,
12 as you'll hear, to be unsuitable for certain drilling
13 environments. U.S. customers are unwilling to
14 purchase product if it's untried and if domestic
15 product is available. Subject imports are simply
16 uncompetitive with the domestic product, even at the
17 same API specification and certainly in the main
18 growth areas of premium pipe.

19 This is not a case where imports compete
20 based solely on price because so much can go wrong out
21 in the field. Chinese capacity, fairly measured, is
22 not capable of significantly increasing its
23 penetration into the U.S. market. There are actually
24 very few Chinese producers that are capable of
25 supplying U.S. needs as is readily shown by the

1 imports of subject merchandise in this case.

2 Moreover, demand for drill pipe is rising
3 sharply in China itself and in several other
4 international markets in Asia, Africa, Russia and the
5 Middle East where drilling conditions are more in line
6 with Chinese producers' capability. The U.S. is not
7 the sole significant market for Chinese drill pipe,
8 not by a longshot. Speculation about additional
9 Chinese drill pipe producers by Petitioners is way off
10 the mark, and you'll hear more about that this
11 afternoon. There is no evidence of substantial
12 additional capacity coming online in the immediate
13 future.

14 Now we're going to present testimony that
15 reinforces these points. We have with us today two
16 representatives of a leading Chinese producer of drill
17 pipe, DP-Master, a company which has worked diligently
18 to establish a reputation for quality in this
19 industry. We also have witnesses from two of the
20 major importers who've developed the U.S. market and
21 have unsurpassed knowledge about market conditions and
22 trends affecting the Commission's injury decision.

23 Our first witnesses from DP-Master will be
24 Patrick Murphy and Kitty Wu, in that order. Mr.
25 Murphy traveled from Singapore. Ms. Wu traveled from

1 China to be with us today, so we greatly appreciate
2 their presence here. Mr. Murphy?

3 MR. MURPHY: Madame Chairman, Commissioners,
4 good afternoon. My name is Patrick Murphy. I am the
5 director of sales and marketing at DP-Master
6 Manufacturing Company. I began working for DP-Master
7 four months ago. Prior to working for DP-Master, I
8 worked for Command Energy Services, VAM Drilling and
9 Grant Prideco in senior management positions. As a
10 result of this diverse professional background, I'm
11 intimately familiar with the operations of U.S. drill
12 pipe producers, U.S. importers and Chinese producers.

13 Today, I want to share my knowledge of drill
14 pipe production and marketing in the United States and
15 in China. I will first address how Grant Prideco and
16 VAM use the cyclical nature of the business to their
17 advantage. Building up production backlogs is a
18 regular aspect of their business model. I will next
19 discuss capacity, calculations and market conditions
20 in China.

21 In sum, Grant Prideco and VAM's business
22 models combined with market conditions have destroyed
23 most Chinese competition. Grant Prideco and VAM have
24 the largest U.S. customers tied up in long-term
25 contracts. Their customers are highly invested in

1 Grant Prideco's and VAM's proprietary connections.
2 Beyond the largest customers, many other drilling
3 companies in the United States and in other
4 international markets simply don't trust Chinese drill
5 pipe manufactured by new, unproven producers.

6 Because buyers generally do not trust
7 Chinese drill pipe, remaining inventory in China is
8 unlikely to move into international markets. Drilling
9 companies around the world will not risk millions of
10 dollars of investment in equipment and operating costs
11 on unproven Chinese drill pipe. I believe that most
12 Chinese drill pipe inventory will eventually wind up
13 being used in the Chinese domestic market on shallow
14 wells and water wells where the risks of using drill
15 pipe have questionable or unknown quality are
16 relatively lower.

17 Drill pipe is a cyclical business that
18 follows the booms and busts in the oil and gas
19 industry. In the up cycle, the major U.S.
20 manufacturers like to build a full backlog of 12
21 months or longer. Backlog for Grant Prideco and VAM
22 gives the Wall Street analyst visibility on their
23 earnings for several quarters ahead and also enables
24 them to have pricing leverage. In the up cycle, Grant
25 Prideco and VAM offer positions in their backlog to

1 their alliance partners like Nabors, Weatherford,
2 Ensign, Champions Pipe, Patterson, H&P and so on.

3 For example, in the last up cycle, Nabors
4 had a 6,000 joint per month allocation, which is
5 enough to replace the drill strings on nine to 12
6 drilling rigs per month. That allocation was at Grant
7 Prideco. As the backlog grows, Grant Prideco and VAM
8 tell their customers they better order now as the
9 delivery is getting longer. Price is escalating and
10 new quotations will have escalation clauses in them.
11 Escalation clauses increase sales price for increases
12 in raw material and energy costs.

13 With a one-year delivery period, customers
14 ordering at the end of the backlog are then ordering
15 for projected needs one to two years out. When the
16 market crashed in 2008, both VAM and Grant Prideco had
17 at least 10-month backlogs. In addition, they had
18 cancellation clauses in their sales agreements that
19 exact significant penalties if orders are canceled, so
20 as the rig count dropped, Grant and VAM were still
21 making pipe and delivering to their customers.

22 Customers had a huge inventory of pipe from
23 idle rigs, and when the rig count dropped by over 50
24 percent, they still had new inventory coming in each
25 month from their long-term contracts with Grant and

1 VAM. VAM and Grant Prideco don't experience a real
2 reduction in sales until well after the rig count has
3 started to decline. When the rig count begins to
4 recover, it takes a while to burn through the
5 inventories stockpiled by customers. Therefore, the
6 recovery for the drill pipe manufacturers lags the rig
7 count recovery.

8 We have now entered into a more steady
9 market where rig count is stable, demand for drill
10 pipe is more stable, no shortages, and to my
11 knowledge, while backlogs are building, we are not yet
12 anywhere near a 10- to 12-month backlog at the major
13 manufacturers. Another aspect to consider strongly in
14 all of this argument is how capacity is calculated.
15 Grant Prideco is the benchmark. They can manufacture
16 about 15,000 tons per year on one weld line running 24
17 hours per day with only holidays taken into account.

18 Of course, they're extremely efficient, and their
19 processes, as you would imagine, are perfected. When
20 capacity calculations of other drill pipe manufactures
21 are made by VAM and Grant Prideco, they use the same
22 reference points, but this is just for internal
23 statistics. It would be absurd to calculate the
24 capacity of the new well lines in China on this basis
25 because the well lines in China do not operate nearly

1 as much or as efficiently.

2 In my experience in China, Chinese
3 manufacturers run on a standard eight-hour day, and
4 most have efficiency problems. Thus, each weld line
5 in China only puts out less than a third of Grant
6 Prideco's or VAM's standard. Petitioners' internal
7 capacity estimates regarding China most likely are not
8 realistic. Beyond capacity miscalculations, I believe
9 the market conditions in China have been
10 misrepresented.

11 Although drill pipe manufacturing capacity
12 increased in China from 2006 to 2009, there were many
13 unqualified entrants into the market. For example,
14 one of the new startup companies was set up by a
15 property tycoon. These companies entered the market
16 primarily in 2008 expecting instant success because of
17 soaring demand for drill pipe in the U.S.A. and China.
18 Some Chinese drill pipe producers built inventory on
19 speculation. They believe that if you build
20 inventory, like houses, it will sell.

21 This has not transpired for them. They
22 cannot sell their inventory. Lower demand conditions
23 after 2008 highs choked off the newcomers in China,
24 and they will never recover. The inferior quality of
25 most Chinese drill pipe prevents these products from

1 being accepted around the world and shuts them out of
2 any possibility in export markets. I believe that
3 it's highly that there will be more inventory building
4 in China on speculation. The market reality has
5 caused credit to dry up. Interest rates have
6 tightened. Building inventory on speculation is over.

7 The few manufacturers that sell to export
8 markets do not build inventory because they have to
9 outlay money for tubes and tool joints up front.
10 Plus, the specifications of all the orders are
11 different. This is why we rely on distributors like
12 Downhole and Command Energy Services to place orders
13 with us. Regarding the domestic Chinese market, in
14 DP-Master's experience, Chinese domestic customers
15 Sinopec, CNPC and CNOOC buy primarily from Chinese
16 producers that produce the quality drill pipe, but are
17 not limited in regards to sources.

18 They buy low-quality drill pipe also, but
19 only for use in shallow, low-risk wells. A recent bid
20 document DP-Master has from one of the big three oil
21 companies in China lists a total of 10 different
22 domestic drill pipe producers that are approved
23 suppliers for 2010 and 2011. These drill pipe
24 producers named in the bid document are not the same
25 as those named in similar bid documents from other

1 Chinese drilling companies, but the quality drill pipe
2 suppliers tend to be the same.

3 China customers are as conservative as we
4 are in the west. Nobody wants to risk buying drill
5 pipe from a new, untried, non-field proven
6 manufacturer. Only the few quality drill pipe
7 suppliers have any real possibility of selling drill
8 pipe into the U.S. market as U.S. purchasers are not
9 likely to buy from low-quality drill pipe
10 manufacturers.

11 As for a company's considered low-quality
12 drill pipe manufacturers, if the Chinese will only buy
13 drill pipe for shallow wells or won't buy from them at
14 all, you can bet that U.S. purchasers won't go near
15 them. I believe that most of the Chinese inventory
16 will find its way into domestic oil fields for shallow
17 well drilling, and some will be used for water well
18 drilling. You have to remember that customers buying
19 drill pipe, no matter where in the world they are, are
20 a fairly conservative bunch.

21 Price is a consideration, but they will not
22 just buy from any Johnny come lately new startup plant
23 down the road because they can't accept risk presented
24 by low-quality drill pipe. Many of the new drill pipe
25 manufacturers in China will close down over the coming

1 year or two as they don't have domestic or
2 international business. Many of the drill pipe
3 producers that will produce that will survive are
4 those that are owned by China oil fields, companies
5 that drill and operate wells under the big three
6 Chinese oil and gas companies.

7 Some of these manufacturers include Dagang,
8 Xinjiang, Shengli oil fields, all of which are owned
9 by China oil companies. These manufacturers will keep
10 their equipment for strategic reasons. In fact, it is
11 not new that the China oil fields have invested in
12 equipment to try and be self-sufficient. This has
13 been a trend for decades in China in various products
14 and services in the oil fields. For example, Shengli
15 oil field has had its own drill pipe plant for many
16 years, but it's not a serious producer.

17 For example, Shengli makes some drill pipe
18 for shallow wells, and they re-tool joint used pipe,
19 but the oil field still buys all of its requirements
20 from the Chinese market from the high-level producers
21 because it knows the quality of its own production is
22 substandard. The upshot of the China oil fields'
23 attempt to become self-sufficient in various products
24 and services is that they only have been able to do so
25 to a certain level.

1 Once wells get more challenging, that is
2 deeper, extended reach drilling, sour gas, higher
3 temperature, horizontal and directional, then the
4 China oil fields have to call in expert foreign
5 companies like Baker Hughes, Halliburton, Schlumberger
6 and so on. Because of this, these China oil field-
7 owned companies, which represent between 10 and 20
8 percent of the total Chinese producers are not serious
9 players in the domestic nor the international markets.
10 They rarely export, if at all. They typically produce
11 only for limited internal consumption.

12 Chinese producers have been looking at their
13 options. It is well known in the market that Hilong
14 is trying to diversify away from drill pipe and into
15 services. Longbright is definitely for sale, and we
16 know that VAM has been looking closely at them for
17 some time. VAM has a stated goal that it is trying to
18 become a domestic manufacturer in the Chinese market.
19 In conclusion, in light of the decrease in demand
20 based upon my years of work in China, the argument
21 that Chinese drill pipe industry presents a threat to
22 the U.S. market is not plausible. Thank you.

23 MR. LEIBOWITZ: Thank you very much. Ms.
24 Wu?

25 MS. WU: Madame Chairman, Commissioners,

1 good afternoon. My name is Kitty Wu. I am the import
2 and export manager for DP-Master. I have submitted my
3 testimony in writing as it addresses confidential
4 information about our export capacity. I want to add
5 only that Chinese production in China in follows the
6 Chinese rigs in China, and Chinese rigs overseas. As
7 the Chinese oil and gas companies expand overseas, the
8 amount of drill pipe they buy in China also increases.
9 We have seen this trend at DP-Master.

10 As a premier producer of drill pipe in
11 China, we expect a growth in the domestic Chinese
12 market for DP-Master because of this. I will be able
13 to answer any of the Commissioners' questions to the
14 extent I can with public information and will be happy
15 to provide other information with a post-hearing
16 brief. Thank you.

17 MR. LEIBOWITZ: Now from Downhole Pipe, Mr.
18 David Lesco.

19 CHAIRMAN OKUN: I'm not sure your microphone
20 is on.

21 MR. LESCO: I'm sorry.

22 CHAIRMAN OKUN: There you go.

23 MR. LESCO: Good afternoon, Madame Chairman,
24 Commissioners and staff. My name is David Lesco. I
25 am a co-owner and general manager of Downhole Pipe and

1 Equipment Limited Partnership of Houston, Texas.
2 Downhole Pipe has been an importer of record of
3 Chinese drill pipe since 2006. We have been a
4 supplier of used and new drilling equipment and
5 tubular goods used by drilling contractors since 1974.
6 Our expertise is directed solely to the drilling
7 industry.

8 As we predicted last January, we feel that
9 the downturn of 2009 had bottomed out, and the market
10 has slowly improved throughout the year. Rig count
11 currently stands at about 1,700, which is an increase
12 of around 500 rigs since we testified in January. The
13 price of oil is at its highest since 2008 before the
14 recession. The outlook for 2011 remains optimistic
15 for the drilling industry.

16 Exploration companies previously oriented to
17 natural gas production are now during their efforts
18 towards the exploration of oil and have announced
19 increases in their exploration budgets and individual
20 rig counts. Rather than dwell on facts discussed or
21 to be discussed by my fellow importer witnesses, I
22 would choose to present from personal knowledge a
23 rebuttal to some of the Petitioners' latest
24 allegations in the public version of their recent
25 prehearing brief.

1 In an effort to characterize an imminent
2 Chinese threat to this Commission, Mr. Schagrin states
3 clearly, "One Chinese producer alone, Hilong, has
4 pledged to gain major market share with below-market
5 prices and has the means to do it." He further refers
6 and offers as evidence an email from a Birkin Pipe and
7 Equipment, which he called "the U.S. distributor of
8 Hilong Group."

9 With all due respect to Mr. Schagrin, Birkin
10 Pipe and Equipment is not the United States
11 distributor of Hilong. As I myself had never heard of
12 this company prior to reading the brief, I contacted
13 Mr. Leonard Lu, who is a vice president of Hilong, and
14 he was in Dubai when I contacted him, and I contacted
15 Lu Song, who is the deputy manager of Hilong. Neither
16 individual had ever heard of Birkin Pipe. Both of
17 them told me the only U.S. distributor of Hilong is
18 their own company, which is Hilong U.S.A.

19 To my knowledge, Hilong U.S.A. has not
20 imported any pipe since 2008, during which they
21 imported approximately 2,000 tons of pipe, and they
22 have gradually reduced this amount since then. Birkin
23 Pipe, the supposed distributor, is not a stocking
24 distributor at all. It has no real inventories. The
25 email that they sent in August of 2009, I ran a check.

1 They incorporated in Texas in September of 2009. It
2 is one of a dozen of phantom traders that have been.
3 It is a single person with a phone number and a fancy
4 website who offers product it does not have and then
5 tries to make deals after the fact with suppliers.

6 Counsel also stated in reference to the
7 questionnaires sent to the importers that "These
8 reports of inventory are not complete" because Birkin
9 Pipe did not file a questionnaire response, and its
10 website supposedly reports inventories of 110,000 feet
11 of pipe. He further states that Birkin and other
12 Chinese drill pipe distributors "post their
13 inventories on their websites." As noted, Birkin
14 filed no importer questionnaire because it is not an
15 importer, and it has no inventory at all.

16 Another example cited by counsel, "Coastal
17 Pipe, which did not file an importers questionnaire
18 response, helpfully explains its current inventory of
19 over 5,000 tons is from Baoshan." What counsel does
20 not explain to the Commission is that, number one,
21 Coastal is not an importer. They purchase their pipe
22 from Baosteel U.S.A., who reported the import in 2008.

23 Two, Coastal's published inventory in
24 Exhibit 22 is exactly the same as listed in trade
25 publications in the second quarter of 2009 with the

1 exception of an addition of approximately 300 tons of
2 four-inch drill pipe, which is not stored in the
3 United States. It's in Canada. I personally
4 confirmed this last night with Mr. Mike Sanders, owner
5 of Coastal Pipe.

6 Being in the business since 1974, we feel we
7 know who are the real competitors in the U.S. market.
8 We constantly try to keep up with the market in
9 determining supply. We know who stocks pipe and what
10 their inventory is. The only inventory of Chinese
11 drill pipe in the United States is held by my company,
12 Downhole Pipe, by Command Energy, by Coastal Pipe, by
13 Hilong U.S.A. and Longbright U.S.A. Based on our
14 understanding of the markets, inventory of Chinese
15 drill pipe in the United States has decreased
16 substantially over the last year.

17 On the other hand, inventory produced by
18 domestic producers far exceeds any Chinese produced
19 inventories. We verified with officers of NOV
20 Tuboscope last evening the current inventory owned by
21 drilling contractors and distributors of the
22 Petitioners, and stored in Tuboscope's facilities is
23 approximately 50,000 tons in just one company storage
24 facility, and this would not include domestically
25 produced inventory held by drilling contractors in

1 their own facilities.

2 We would emphasize that Chinese producers do
3 not represent a threat for another reason, the manner
4 by which drill pipe is marketed in the United States.
5 We dispute Mr. Schagrin's statement that "Chinese
6 factories are managed to fund direct customer
7 relationships." While this may apply to Diamond saw
8 blades for which Mr. Schagrin has attached an exhibit,
9 it simply does not equate to how drill pipe is
10 imported and marketed into the United States.

11 Drill pipe is purchased by China from only a
12 very few companies such as DPE (Downhole Pipe and
13 Equipment), and Command Energy. We must pay for the
14 drill pipe in advance before it's shipped to the U.S.
15 We have to tie up a lot of our capital just to get the
16 product into our hands. We are small companies. We
17 do not have the fiscal capacity to purchase and import
18 massive amounts of drill pipe for inventory purposes.
19 To use Mr. Schagrin's words, "Under the United States
20 capitalist system, we are an entrepreneurial company
21 who borrows from banks that we have to repay in order
22 to invest in inventory."

23 We are cognizant of the golden rule of
24 marketing of supply and demand. We would not
25 intentionally create a surplus market even if we had

1 the ability to. The Petitioners' brief also claims to
2 contradict my own experience as I previously testified
3 regarding the extremely long lead times that my
4 customers have faced from U.S. producers. I
5 previously stated, and I restate now for the record,
6 that there are two grades of customers in the United
7 States producers' eyes: the favored, the high-volume,
8 long-term preferred customers and everybody else.

9 The favored customers are assigned first
10 priority to the U.S. producers' output, and everyone
11 else must wait. Yet, Petitioners' counsel insinuates
12 that we have misled the Commission by stating that
13 would-be purchases face lead times during 2007 and
14 2008 of 12 to 18 months for deliveries from the U.S.
15 producers. The Petitioners' briefs cites to public
16 data on lead time compiled in the staff report showing
17 the U.S. lead times of much less than the 12 to 18
18 months I reference.

19 However, the data in the staff report are
20 averages. Some U.S. customers did indeed get three-
21 to four-month lead times. Those are the preferred
22 priority customers, but the customers that I sell to
23 are on the other end of the spectrum, and they did
24 indeed wait 12 to 18 months for delivery from U.S.
25 producers. Since that long of a wait is not

1 economically or commercially viable for them, they
2 find my alternative, imports from China, to be an
3 important alternative.

4 We hope we have been clear in our
5 statements, and we urge you to find no injury. We
6 have encouraged a vigorous defense of our stance from
7 the very outset of this original filing. We are
8 passionate in our belief that a ruling of anything
9 other than no injury would be an injustice. Thank you
10 for this opportunity to testify, and I do look forward
11 to your questions.

12 MR. LEIBOWITZ: Thank you very much, Mr.
13 Lesco. Mr. Garvey and Mr. Mostoway from Command
14 Energy Services are next in that order. Mr. Garvey?

15 MR. GARVEY: Good afternoon. Good
16 afternoon, Madame Chairman and members of the
17 Commission. My name is Charlie Garvey. I'm the
18 President of Command Energy Services, Ltd. I've been
19 in the oil and gas industry for over 30 years. I
20 began in the oil field inspection business inspecting
21 drill pipe, tubing casing and drill collars. I owned
22 an inspection company for 15 years with 250 employees
23 in Canada. My drill pipe experience of both new and
24 used is extensive.

25 In 1992, I founded, and I'm still the owner,

1 of Command Energy Services, perhaps one of the
2 industry's largest inventory holders of drilling
3 tubular products, which include products made not only
4 in China but also in the U.S. and Canada. We were one
5 of five distributors for Grant Prideco, the leading
6 products manufacturer for 14 years until 2007. We
7 were also the sole distributor for VAM Drilling
8 Products in 2008 and 2009.

9 In this role as a distributor, we were able
10 to assist these producers by buying inventory and
11 having it readily available to meet short-term needs
12 of our and their customers. Our customers generally
13 are small, independently-owned companies in Canada and
14 the United States. I'd like to discuss some important
15 developments in the domestic market since I last
16 appeared before the Commission at the preliminary
17 phase.

18 Demand conditions look very different from
19 last January. As predicted in our testimony in
20 January, due to rising oil prices, rig counts have
21 increased about 40 percent over the last year.
22 Overall demand for drill pipe has increased. However,
23 spending for developing new fields and re-entry of
24 existing fields as well as new drilling technologies
25 and offshore drilling technologies have resulted in

1 increased demand in particular for premium drill pipe.

2 A lot of this growth in high technology
3 drilling practices have become more prevalent in the
4 last year. Horizontal drilling plays like the plays
5 in the Bakken oil play in North Dakota have increased
6 demand for premium drill pipe. Unlike a vertical well
7 where a drill string is drilling vertically down hole,
8 horizontal drilling, the string will actually bend in
9 the well going horizontal up to 10,000, 12,000 feet.
10 This drilling yields more production to the operator.

11 Because of the increased stress and wear on
12 the drill pipe, higher torque, heavyweight drill pipe
13 is needed for this application. Also, because drill
14 collars do not fit in this type of drilling practice,
15 drill collars generally aren't used here. This kind
16 of drilling is approximately 50 percent more costly
17 than a standard well, but the results in the well is
18 two to three times more productive than a standard
19 vertical well.

20 Premium drill pipe is used especially in the
21 deeper wells such as the 20,000-foot wells that are
22 prevalent in the Bakken Oilfield play in North Dakota.
23 Similar horizontal drilling plays are going on in
24 recent oil and gas finds in Texas, Pennsylvania and
25 Wyoming. Demand for this premium pipe is boosted by

1 the fact that premium pipe wears out more quickly than
2 standard drill pipe for vertical use because it is
3 laying horizontally on its side. Instead of the usual
4 two- to three-year life expectancy for standard drill
5 pipe, premium drill pipe wears out in one to two
6 years. Therefore, customers need to order and replace
7 premium pipe more frequently. Also, because of new
8 drilling technology, drilling contractors have very
9 little inventory of premium pipe to draw from.

10 Therefore, they need to come to suppliers
11 for repeated purchases.

12 The growth, we see the growth in the premium
13 market. The Chinese industry does not make this type
14 of premium pipe. The domestic industry enjoys higher
15 growth margins on premium pipe. It costs 10 to 15
16 percent more to manufacture than API, but they can
17 charge 30 to 40 percent more.

18 Based on our experience, the domestic
19 industry is looking more to sales of premium pipe.
20 Our orders that we just placed with domestic producers
21 has at least 120 days lead time for delivery. Based
22 on pricing of premium pipe in 2009 and '10, due to
23 demand from emerging markets and offshore drillers,
24 horizontal ultra-long-reach wells, high technology,
25 and our premium pipe business source from the domestic

1 industry, business looks quite good.

2 I'd like to comment also on the Command
3 swaps for new and used product. We have a trade
4 program with some of our customers. Basically, if a
5 customer requests swap of products, Command will
6 consider trading that product from a U.S. purchaser,
7 whether it's new or used, and trade it for new
8 product. And generally we're trading a dollar-for-
9 dollar value.

10 If we have an estimated value of \$100,000 of
11 new or used product from the customer, I'll give him
12 \$100,000 of the product that they're looking for.

13 Because of my decades of experience in the
14 inspection business and the sale of drill pipe
15 products, I can appraise new or used pipe that has
16 already been sold by a domestic or international
17 producer, determine the market value for that pipe.

18 On several occasions I have agreed to trade
19 with purchases, used or even new domestic, not
20 Chinese, pipe that was not being used, with pipe, with
21 new pipe that they can readily use. Customers have
22 come to us after U.S. producers have refused to do
23 this type of trade.

24 The price we charge is not necessarily the
25 lowest price, but because we're willing to do a swap,

1 the U.S. purchasers came to us and paid a higher
2 price.

3 I also wanted to add the point about the
4 domestic industry lead times. In 2008 and 2009, as
5 distributor for VAM, we received preferential lead
6 times of five to six months for orders. Like other
7 preferred large customers under high-volume, long-term
8 contracts.

9 For the smaller companies who do not receive
10 preferential terms from producers, they recorded lead
11 times of up to 12 months, which is why distributors
12 like Command play an important role in the market. We
13 can supply pipe to these smaller customers more
14 quickly than domestic producers.

15 In conclusion, the domestic industry is not
16 threatened with material injury by Chinese imports.
17 Demand trends are moving towards premium pipe for high
18 technology, horizontal drilling, and ultra-deep
19 drilling.

20 For those reasons I urge the Commission not
21 to find injury or threat of injury by reasons of
22 imports from China. Thank you.

23 MR. LEIBOWITZ: Thank you. Mr. Mostoway.

24 MR. MOSTOWAY: Good afternoon, Madame
25 Chairman and members of the Commission. My name is

1 Jim Mostoway. I am currently the Vice President,
2 Product Control, of Command Energy Services. Prior to
3 that I worked for Grant Prideco, at Cougar Tool and
4 Superior Tube.

5 At Grant Prideco, one of my roles was to
6 negotiate long-term contracts with the larger
7 customers and manage the backlog. My current
8 responsibilities with Command is to ensure that we are
9 ordering product to meet our customers' needs.

10 My testimony today will be focused on
11 current demand trends in the United States, and what
12 we see, going forward.

13 As a distributor, we have visibility to
14 gauge what we see for needs of premium and API drill
15 pipe in the market.

16 Changes, there's been big changes since last
17 year at this time, because the, as stated earlier, the
18 rig count has increased from 1200 to 1700 rigs. And
19 we see that that trend is going to keep growing as the
20 price of oil and gas eventually will come back.

21 We are also seeing a big trend to premium
22 drill pipe being used, as Mr. Garvey has just
23 discussed. And for the use of these long-reach
24 horizontal gas or oil plays and also gas plays, and
25 that these pipe are wearing out rather quickly.

1 We are getting calls constantly, daily
2 almost, from customers in the U.S. looking for premium
3 product that they need to drill these wells, that
4 isn't readily available.

5 Given the rising oil prices, we project
6 companies like Grant Prideco to do very well next
7 year. Because its customers, the largest drilling
8 companies, are slated to ramp up, and spending for
9 offshore and land exploration has gone up.

10 As I alluded earlier about my experiences
11 regarding purchasers' preferences for U.S.-made versus
12 Chinese-made API pipe, we see about 60 percent of our
13 customers will not purchase Chinese drill pipe for us,
14 nor can we sell it to them, because Chinese do not
15 manufacture a premium class of drill pipe.

16 One of our customers can't overcome the
17 perception that they have inferior quality, also. And
18 I guess rightfully so, because there are a lot of
19 Chinese mills that are inferior.

20 Our customers, even at a premium, will buy
21 U.S.-made product sooner than they buy Chinese
22 product.

23 The segments that we, that we serve more so
24 are the smaller customers that have been shut out of
25 doing business directly with domestic producers, who

1 make the high-volume, lower-priced sales to larger
2 preferential customers under long-term contracts.

3 During my time at Grant Prideco,
4 preferential customers, otherwise known as alliance
5 customers -- Nabors, H&P, Transocean -- made up more
6 than half the production volume of Grant Prideco.
7 Grant negotiates year-long contracts with these
8 alliance customers.

9 Because of the purchasing volume by Alliance
10 customers, they receive preferential pricing and
11 preferential delivery times. Smaller drilling
12 customers are quoted published prices, which can be 25
13 to 50 percent over the larger customer's.

14 With higher prices and longer lead times,
15 these customers turn to us to source products for
16 them. This was especially the case in 2008. However,
17 due to lower supply constraints in 2009 and 2010, many
18 of our smaller customers, when given a choice, buy
19 U.S. pipe that's available.

20 To summarize, rising oil prices and rig
21 counts has resulted in increased orders for drill
22 pipe. We are sourcing this product from the domestic
23 industry and anywhere that we can get product to
24 supply our customers, to meet their needs.

25 The next 12 to 18 months look very robust

1 for the U.S. industry. And for this reason, I urge
2 the Commission not to find injury or threat of injury.
3 Thank you.

4 MR. LEIBOWITZ: Thank you, Mr. Mostoway.
5 Our final witness, last but certainly not least, is
6 Bruce Malashevich, our consulting economist, from
7 Economic Consulting Services.

8 MR. MALASHEVICH: Good afternoon, Madame
9 Chairman, members of the Commission, and staff. I am
10 Bruce Malashevich, President of Economic Consulting
11 Services, LLC.

12 My colleague, Alex Cook, and I submitted
13 prepared statements three business days in advance of
14 this hearing, because they necessarily contain BPI
15 information, so as to rebut the principal economic
16 arguments made in Petitioner's prehearing brief. I
17 hope you have copies of our testimonies and the
18 associated exhibits before you.

19 So my public summary would be quite brief.
20 There is no reason to change the Commission's
21 preliminary determination that there was no current
22 material injury to this industry as a consequence of
23 subject imports. Any arguable case rests on
24 threatened injury claimed.

25 And in this regard, I urge the Commission to

1 consider the plausibility of Petitioner's arguments.
2 For example, Petitioners fill many pages pursuing the
3 time-worn argument that Chinese capacity is large and
4 oriented to export to the United States.

5 While perhaps correct in other cases, this
6 case is unique. As I point out in my testimony, and
7 as you heard from the industry witnesses just now,
8 Chinese producers lack the capability and credibility
9 to serve the so-called premium segment of U.S. demand,
10 which is expected to serve, to account for nearly all
11 the near-term net growth in that demand.

12 They also have commitments to serve the
13 strong demand in the home market, and in third
14 countries. Indeed, the record shows that in general,
15 the Chinese producers are constrained in bringing
16 about any substantial increase in exports to the
17 United States of the subject merchandise. The data of
18 record, I believe, prove these points.

19 You have read the BPI testimony of the
20 Chinese producer, DP-Master, whose significance is
21 obvious from the record. The constraints on its
22 capability to expand exports to the United States are
23 clear. Representatives obviously are here today to
24 answer questions. Their presence is rather unusual in
25 these kinds of cases, and I urge you to take advantage

1 of that in your questioning.

2 Petitioners focus much attention on
3 inventory levels. But as I point out in my BPI
4 testimony, this attention is misplaced.

5 I also understand that certain of the
6 statistical data concerning inventory in the
7 prehearing report is subject to change in the coming
8 days.

9 At this late date in this year-long inquiry,
10 Petitioners' case for threatened injury rests on an
11 assertion that the elasticity of Chinese supply, to
12 use the term of art, is, in effect, infinite. But it
13 is only an assertion, not supported by the record, and
14 should be dismissed.

15 In a brief survey of the list of alleged
16 producers passed out by Petitioners' witnesses this
17 morning, I learned from the industry witnesses present
18 here that many of those companies' names no longer
19 exist, and have been closed for a period of years, to
20 make just one example. Thank you.

21 MR. LEIBOWITZ: Thank you very much. That
22 concludes Respondents' affirmative presentation.

23 CHAIRMAN OKUN: Thank you. Before we begin
24 our questioning, let me take this opportunity to thank
25 all the witnesses for being here. For those who

1 traveled a great distance in particular, I appreciate
2 you taking that extra time to be here, and to answer
3 our questions.

4 Just a reminder to repeat your names so the
5 court reporter has it when you respond to questions.
6 And we will start our questions this afternoon with
7 Vice Chairman Williamson.

8 VICE CHAIRMAN WILLIAMSON: Thank you, Madame
9 Chairman. And I, too, want to express my appreciation
10 for, to the witnesses for coming today, and especially
11 for those who've traveled across the Pacific to join
12 us today. Thank you.

13 It's hard to figure out where to start. We
14 had, this morning, we had a discussion about demand,
15 particularly about demand for natural gas versus oil
16 prices, and the fact that natural gas prices have not,
17 a diversion in recent months about the, between the
18 natural gas and oil prices.

19 And I don't think I heard you discuss that
20 in your testimony. So I was wondering what are your
21 views on that? And why this diversion has occurred.

22 MR. GARVEY: Charles Garvey commenting.
23 What we're seeing in that natural gas market is that
24 long-term growth. Talking with some of our customers
25 in both the oil companies and the drilling

1 contractors, planning ahead for 2012.

2 We know it's flat today because there is a
3 gas bubble; there's no doubt about it, there's lots of
4 inventory. But going forward, they're all planning to
5 see the prices actually increase, starting next year.

6 VICE CHAIRMAN WILLIAMSON: So for 2012.

7 MR. GARVEY: Yes.

8 VICE CHAIRMAN WILLIAMSON: Okay. And why
9 has this, why is that going to, you know, there is a
10 lag there? As opposed to what we see for gas, for
11 oil.

12 MR. GARVEY: The lag really on the pricing
13 today is more of a marketing issue. But there is a
14 surplus. And the surplus is global. And the volumes
15 right now are just, of consumption, are to the point
16 where the numbers should run up yet.

17 Now, oil is another situation. The prices
18 are high and strong, you know. The government here
19 has got an energy policy to try to replace some of the
20 importing oil that they're bringing in, and try to
21 domestically find their own. And it's, worldwide
22 demand has driven up the prices of oil. So depending
23 where the drilling is good these days.

24 VICE CHAIRMAN WILLIAMSON: Given the lag in
25 the natural gas prices, and I assume that means the

1 lag in increased demand for it, isn't a large part of
2 the -- what does that say about the demand for drill
3 pipe? Given that there's so much more, you know,
4 exploration for natural gas in the U.S. compared to
5 other places.

6 MR. GARVEY: Well, today, just as the
7 Petitioners stated, it's about a 60-percent activity
8 in drilling for oil, and there's about 40 percent for
9 gas. There still is a demand for drilling for gas
10 domestically, because self, you know, self-sufficiency
11 going forward. Whether it's in Canada or the United
12 States, it's quite similar.

13 But you know, I just see, once the
14 consumption comes back, manufacturing comes back on,
15 like we mentioned, or they mentioned earlier, that
16 we'll see the volume of gas decrease, and the prices
17 start to rise with it.

18 The drilling in some aspects is still
19 continuing in the natural gas sector. There's been
20 some good finds throughout the country, and activity
21 is still going on.

22 VICE CHAIRMAN WILLIAMSON: And what kind of,
23 what kind of pipes are used for that type of drilling?
24 Is it standard or premium?

25 MR. GARVEY: Generally when they're long-

1 reach in deeper wells exceeding 12,000 feet, which
2 quite a bit of the gas drilling is, it's the premium-
3 grade drill pipe that we've been talking about.

4 VICE CHAIRMAN WILLIAMSON: So you heard the
5 domestic industry this morning talking about the
6 demand for premium versus regular pipe, particularly
7 given the fact I guess a lot of the, the strongest
8 demand, of course, is in off-shore. What would, do
9 you want to comment on their, their comments this
10 morning?

11 MR. GARVEY: Yeah. Well, like Jim mentioned
12 earlier in his testimony, we're getting daily calls
13 for premium pipe, to go back into these long-reach
14 horizontal three-inch U wells, which are primarily for
15 gas. And there's quite a bit of oil, also.

16 But there's a large demand for premium. And
17 we see that, as a distributor, as being probably our
18 goal for 2011 is the increase in premium pipe sales.
19 Stronger than API, definitely for ourselves.

20 VICE CHAIRMAN WILLIAMSON: And this is for
21 the U.S. --

22 MR. GARVEY: Correct, correct.

23 VICE CHAIRMAN WILLIAMSON: Domestic market.

24 MR. GARVEY: Correct.

25 VICE CHAIRMAN WILLIAMSON: I mean for

1 consumption, for use in the U.S.

2 MR. GARVEY: Correct, correct.

3 VICE CHAIRMAN WILLIAMSON: As opposed to
4 being shipped to Houston, then overseas.

5 MR. GARVEY: Yes. And the industry leaders,
6 they're in the same position today -- Grant Prideco --
7 they are booked out quite seriously on premium pipe to
8 meet these needs, both heavyweight and drill pipe
9 right now.

10 MR. LEIBOWITZ: Mr. Vice Chairman, if I
11 could just add a point of personal experiences in the
12 legal issue.

13 I spend a lot of time in northern
14 Pennsylvania, and there is gas drilling galore in
15 northern Pennsylvania. It's all anybody talks about
16 up there.

17 These are exploratory wells, but it's a
18 formation called the Marcellus Shale formation, which
19 extends through New York State, down through West
20 Virginia into the southern United States.

21 So the demand for gas has not caught up yet
22 with these enormous supplies, which have just come on
23 as proven reserves very recently. But the drilling is
24 commencing, and it will continue. And it is primarily
25 horizontal and fracking wells, which is the premium

1 pipe that, that Charlie is talking about.

2 VICE CHAIRMAN WILLIAMSON: I don't know
3 what's happening in Pennsylvania, but I think the
4 Governor of New York had some problems with, the next
5 six months or so, about how much frack utilization is
6 going to go on.

7 MR. LEIBOWITZ: Well, we'll see what the
8 current Governor of New York has to say about that,
9 but the former one certainly did have more problems
10 than the former Governor of Pennsylvania did.

11 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
12 Let's see. I guess you sort of disagreed, or sort of
13 given a different cast on the staff report about
14 orders never exceeding five months during the period
15 of investigation. Is this, you know, it's a question
16 of availability. And you talked about I guess mostly
17 your smaller customers having to wait a long time.

18 Now, is this, do we have, is this document
19 on the record? What kind of, how do we sort of
20 resolve these conflicting statements about
21 availability?

22 MR. LEIBOWITZ: This is Lewis Leibowitz.
23 Perhaps the post-hearing submission could supplement
24 whatever there is on the record. But I'd invite the
25 other witnesses to comment.

1 MR. LESCO: I think I may be able to produce
2 documents that would show 18-month delivery with price
3 in effect at time of delivery.

4 VICE CHAIRMAN WILLIAMSON: This is, for what
5 period would these --

6 MR. LESCO: In the 2007/2008 time that I had
7 stated and testified twice that there were 12- to 18-
8 month delivery times, according to some of my
9 customers. That's why I'm here. That's how I got in
10 this business. Because I couldn't provide new pipe to
11 some of my customers.

12 VICE CHAIRMAN WILLIAMSON: Okay. What
13 would, okay. And were those really short-term
14 contracts, long-term contracts generally?

15 MR. LESCO: I would call 12- to 18-month
16 delivery time --

17 VICE CHAIRMAN WILLIAMSON: Delivery time,
18 but did --

19 MR. LESCO: I mean, I listened to this,
20 these testimonies this morning, and I'm trying to
21 figure out in my mind. We have a gentleman here that
22 says Grant Prideco can produce one line, 15,000 tons.

23 Logically, and I like to think logically,
24 let's say that I'm a customer, I'm Nabor Drilling.
25 And I go get him an order for 15,000 tons. Now, that

1 ties up one year's production, right?

2 VICE CHAIRMAN WILLIAMSON: Uh-huh.

3 MR. LESCO: Now, let's say you own a
4 drilling company, and you go to him and say I'd like
5 to order another 15,000 tons. Now, if he's only got
6 one line, when is he going to be able to quote you?
7 He's going to quote you 12 months. Because he's
8 already got a whole year tied up in production.

9 I can provide, I will --

10 VICE CHAIRMAN WILLIAMSON: You didn't have
11 to listen. I had to listen to --

12 MR. LESCO: Well, I mean, I'm thinking,
13 because I've been through the cycle so many times.
14 This happens every time in a down time, or a boom
15 time, where the, the producers book up their well
16 lines. They can only produce so much.

17 Now, if I'm a small contractor, and I can't
18 afford to buy my pipe on a yearly budget, I have to
19 wait until the last minute. And, and, in fact, Mr.
20 Schagrin even says in here that, that it's a matter of
21 record that when you buy a drilling rig, you go ahead
22 and order your pipe. Because you know when your -- I
23 know of two drilling rigs coming out in Houston, Texas
24 that are coming out in April, the contractor still
25 hasn't ordered the pipe. And he's asking me to quote.

1 And I said well, I'm leaning on what I have. But he's
2 actually waiting, thinking the price is going to come
3 down.

4 Now, what happens if something happens, and
5 that pipe's gone? And then Mr. Garvey down here has
6 got the only string of pipe in town. Well, he's going
7 to go up on price.

8 The smaller contractors can't, they don't
9 have the annual budgets that some of the bigger
10 players have. They can't predict that far out into
11 the future.

12 VICE CHAIRMAN WILLIAMSON: Okay.

13 MR. LESCO: And historically, especially in
14 times of, of what we call the boom, which happened in
15 the years that we're talking about, the smaller
16 contractors, they're left, they're left behind.

17 VICE CHAIRMAN WILLIAMSON: Okay. My time
18 has expired, but I would appreciate, post-hearing, the
19 documentation that you have offered.

20 Thank you, Madame Chairman.

21 CHAIRMAN OKUN: Commissioner Lane.

22 COMMISSIONER LANE: Thank you. Your brief
23 in the appendix deals with green tube. How do you
24 define green tube?

25 MR. LEIBOWITZ: I'm going to let someone

1 else go first.

2 MR. MURPHY: This is Patrick Murphy. Green
3 tube is the, is the as-rolled tube that comes out of
4 the seamless rolling mill. Before any heat treatment,
5 or up-setting, or any other added process is made to
6 it. That's what green tube is.

7 COMMISSIONER LANE: Okay, thank you. What
8 effect, if any, does the fact that there are limited
9 imports of premium products into the United States
10 from China, have on the Commission's analysis? If the
11 Commission were to determine that premium drill pipe
12 was not a separate like product, should the apparent
13 lack of subject import competition for premium drill
14 pipe nonetheless constitute a condition of
15 competition?

16 MR. LEIBOWITZ: We would argue yes, it
17 should. We think there definitely is, based on
18 Commission precedent, a single like product here, with
19 a continuum of specifications. Many, many
20 specifications. Dimensional, yield, yield strengths,
21 thicknesses, and so forth.

22 At the end of the day, the high-end, what's
23 been called the premium pipe, competes very little in
24 the applications that require. So we have a classic
25 case of attenuated competition between subject imports

1 and this, and this premium pipe.

2 But if you look at the domestic industry as
3 a whole, as the statute indicates, the welfare of the
4 domestic industry, taking into account all the
5 conditions of competition, including the recession,
6 showed that the domestic industry has not been
7 injured, and is not threatened with future injury by
8 reason of subject imports.

9 And it is all the more clear that that's
10 true because the subject imports don't compete with
11 this very important and highly profitable end of the
12 market that the domestics dominate.

13 COMMISSIONER LANE: Dr. Malashevich.

14 MR. MALASHEVICH: Thank you, Commissioner.
15 Just one point to add to Mr. Leibowitz's testimony.

16 I think it definitely is an important
17 condition of competition, particularly when evaluating
18 whether or not there is threat. Because it provides a
19 rather, an important barrier entry, if you will, that
20 limits the ability, the capabilities of a subject
21 import to gain market share in the United States.

22 COMMISSIONER LANE: What is keeping the
23 Chinese from manufacturing premium drill pipe?

24 MR. MURPHY: This is Patrick Murphy. For
25 premium drill pipe you need millions of dollars of

1 investment in R&D to actually come up with the
2 products that are required.

3 For example, on the connection side, you
4 need to find connections within high-torque
5 capabilities. And this is, there's a very limited
6 scope for development because of the patented areas
7 that VAM and Grant Prideco have already done.

8 So it's a question of R&D and investment.

9 COMMISSIONER LANE: If the product coming in
10 from China is to API standards, why, then, is there
11 this issue that certain U.S. users will not use
12 Chinese pipe, if it's all to the same API standard
13 that the U.S. pipe has to adhere to? Mr. Lesco.

14 MR. LESCO: Well, that's an interesting
15 question. I wish all the contractors I dealt with
16 were as, had your attitude. It would be --

17 COMMISSIONER LANE: It's not my attitude,
18 it's my question.

19 MR. LESCO: No, I understand. I went kind
20 of blank there.

21 We had to work very, very diligently to have
22 DP-Master's accepted. Now, we have an advantage with
23 DP-Master's in that they have an alliance with NOV
24 Tuboscope, where all their product is inspected, prior
25 to welding, by Tuboscope. It's the most recognized

1 inspector in the world.

2 They're the only company in China that has
3 this. As in other products, Chinese are known for not
4 producing a quality product. And, as previous
5 testimony on both sides, my friends on the other side
6 and we have testified, a contractor must have quality.
7 He's not going to risk losing the cost of the hole.
8 If anything happens to that pipe and it's lost down
9 the hole, he's lost millions of dollars, lost time,
10 production, and in the replacement of the pipe.

11 COMMISSIONER LANE: Okay. Are you saying
12 that some pipe comes in from China that says it meets
13 API standards, but it doesn't really?

14 MR. LESCO: Yes, ma'am.

15 COMMISSIONER LANE: So whose fault is that?

16 MR. LESCO: I can't answer that, whose fault
17 that is.

18 COMMISSIONER LANE: Okay, thank you.

19 MR. MURPHY: This is Patrick Murphy,
20 Commissioner.

21 COMMISSIONER LANE: Yes, yes, Mr. Murphy.

22 MR. MURPHY: Yes. API grant their monogram
23 to manufacturing facilities based on an audit, a one-
24 time audit. And it's valid for three years, I think.

25 The audit is pretty light. It's a

1 generalization based on, they have processes in place
2 and a quality system in place.

3 What really matters for a quality product is
4 that you have consistency in the processes in
5 manufacturing over a period, a long period of time.

6 Now, some of the larger customers today want
7 more than an API certification for a plant before
8 they'll buy their drill pipe. And DP-Master has held
9 NS-1 qualification, which is a much higher level of
10 certification, to allow to buy drill pipe.

11 So this is the area where API, there are
12 some dubious issues.

13 COMMISSIONER LANE: Okay, thank you.

14 MR. LESCO: Commissioner Lane, may I, one
15 more thing?

16 COMMISSIONER LANE: Yes, yes. Go right
17 ahead.

18 MR. LESCO: Drilling contractors are, are
19 very particular about who they buy from. I would
20 speculate that even RDT, Mr. Morris, my friend from
21 the other side, when he first started his company, he
22 has a lifelong reputation in our industry as having
23 produced quality pipe. But there were customers
24 initially that didn't, until his product became
25 proven, that wouldn't even have bought his pipe.

1 Until it was proven that he could manufacture a
2 quality string of pipe.

3 Even the domestic people, you'll have a
4 contractor that says well, I won't buy Grant Prideco
5 pipe because I've had some problems with them. I'll
6 only buy a VAM, or I'll only buy an RDT. You see what
7 I'm saying?

8 COMMISSIONER LANE: Yes. Yes, I understand.

9 MR. LESCO: Now, in the United States, these
10 are recognized companies. Now we're bringing in,
11 they're trying to introduce a company from China
12 nobody's ever heard of, it makes it even more
13 difficult.

14 COMMISSIONER LANE: Okay, thank you. Either
15 now or in the post-hearing brief, could you please
16 discuss the typical markup that importers make on
17 their imports of subject merchandise from China, prior
18 to reselling the merchandise to end users or
19 distributors?

20 And do you provide extra services along with
21 that markup?

22 MR. LEIBOWITZ: We'll be happy to address
23 that in post-hearing.

24 COMMISSIONER LANE: Okay, thank you. Okay.
25 Well, I'll wait until the next round.

1 CHAIRMAN OKUN: Commissioner Aranoff.

2 COMMISSIONER ARANOFF: Thank you, Madame
3 Chairman. I join my colleagues in welcoming all the
4 witnesses here this afternoon. I appreciate your
5 being here.

6 There has been a lot of discussion, both
7 this morning and among this panel, about whether
8 premium drill pipe is the growth market, and how much
9 does domestic demand account for.

10 Do all of you agree with the domestic
11 industry's assessment that premium pipe is about 15
12 percent of the domestic market? Or, I sense that
13 you're saying it's more, at least right now.

14 MR. MOSTOWAY: This is Jim Mostoway. My
15 past experience at Grant Prideco would tend to differ
16 from that, because I think our product mix -- and
17 actually, Mr. Murphy could help -- I think our product
18 mix was running probably about 60 or 70 percent API,
19 and 30 or 40 percent premium. And that was four years
20 ago.

21 So I would tend to disagree with that.
22 Because the drilling technique, the easy oil has been
23 found. So your plays are a lot different, your
24 drilling technology is deeper, horizontal, extended-
25 reach.

1 So I would tend to disagree that it's only
2 15 percent.

3 COMMISSIONER ARANOFF: Okay. Now, does
4 anyone on this panel think that the reason why there's
5 this disagreement is definitional? It is the way
6 people are defining what premium pipe is? Or does
7 everyone more or less agree on that, and really it's
8 just a disagreement on where the, where the pipe is
9 going?

10 MR. GARVEY: Charles Garvey here. Three of
11 the Petitioners don't produce the premium drill pipe.
12 So that's a bit of an issue, because they would have
13 no experience in the sales and really understand the
14 market of it.

15 Really, the only here that does is VAM. So
16 you know, if they tell you that 15 percent of their
17 sales today are premium drill pipe, then you could
18 understand it. The others have really no experience
19 in it, as they all stated earlier today.

20 Our sales, Command as a distributor today,
21 we're probably selling 25 percent of our sales in this
22 premium-class drill pipe.

23 COMMISSIONER ARANOFF: Okay. I've had a lot
24 of testimony from both sides on this. I don't know if
25 we have -- has anyone, you know, done an outside

1 study, or is there an objective source that's looked
2 at relative demand in the U.S. market currently for
3 premium versus API-grade? If anyone can find anything
4 like that and put it on the record, that would be
5 really helpful.

6 MR. LEIBOWITZ: We'll take a look,
7 Commissioner.

8 COMMISSIONER ARANOFF: Thank you. Now, I
9 seem to recall from, probably from the casing and
10 tubing case that we finished in 2010, that there was a
11 great deal of discussion in looking at future demand
12 about what demand in the shale plays was going to be
13 like, with some people asserting that there was this
14 mini-surge because people needed to do some drilling
15 to keep their leases current. And then it was going
16 to drop off.

17 And I guess I want to ask for an update on
18 that. Where people see demand particularly in the
19 shale. And as I understand it, that's entirely a
20 premium-pipe market?

21 MR. GARVEY: Charles Garvey here. A, it's
22 not primarily a premium-pipe market. Because the
23 shallower wells in those shale plays don't require
24 premium pipe. They can be drilled at API.

25 As a relation, I know, as you get into the

1 deeper, exceeding 12,000 feet, generally the premium
2 pipe starts to become an issue. So percentage-wise,
3 it's may be half and half, or even less than that, for
4 premium pipe at this time.

5 The shale plays are still quite popular,
6 Because the volume of gas recoverable is, is quite
7 profitable. Even though today we've got a low price
8 of gas, the drilling of these wells with new
9 technology actually is making the cost of drilling
10 instead of maybe five dollars an NCF to break even,
11 it's more closer to three, three-and-a-half dollars.
12 Because the technology is able to increase the volume
13 and the production.

14 COMMISSIONER ARANOFF: Okay. Mr. Garvey,
15 you testified, and I think Mr. Lesco did too, that
16 domestic producers give priority to certain large
17 customers that they have these ongoing relationships
18 with. And you testified that a lot of your customers
19 are smaller purchasers who don't have those preferred
20 relationships.

21 And so I guess my question to you is, well,
22 if you're such a large distributor, why don't you have
23 that preferred relationship, and then are able to pass
24 that benefit on to your customers purchasing domestic
25 product?

1 MR. GARVEY: Some of our customers are on
2 the larger side since last year. And we treat our
3 customers similar to like Grant or VAM would do: the
4 larger volume they buy from us, of course, the better
5 pricing.

6 Being a distributor, our deliveries are
7 generally a little quicker. And generally, our
8 biggest customers are, to a degree, taken care of.
9 I'd say first come, first served.

10 COMMISSIONER ARANOFF: Right. But in terms
11 of your relationship with domestic producers, why
12 don't they treat you as a large purchaser, the way
13 they treat a large end-user purchaser?

14 MR. GARVEY: It's an interesting question.
15 I wish I could answer it.

16 COMMISSIONER ARANOFF: But the answer is,
17 they don't.

18 MR. GARVEY: They don't.

19 COMMISSIONER ARANOFF: No.

20 MR. GARVEY: Well, Grant Prideco had some
21 preferential pricing for us when we were one of the
22 suppliers for them, for, you know, a 14-year run. We
23 had a small benefit from them, but there were a lot of
24 struggles in that relationship.

25 COMMISSIONER ARANOFF: And in terms of place

1 in the queue when there's a backlog, the size of your
2 potential purchase doesn't entitle you to, you know,
3 go to the head of the line for delivery?

4 MR. GARVEY: It hadn't, no.

5 COMMISSIONER ARANOFF: Okay. Mr. Lesco, is
6 that the same for you?

7 MR. LESCO: Yes, ma'am.

8 COMMISSIONER ARANOFF: Okay.

9 MR. LESCO: I've been in business since
10 1974. And I've tried on many occasions to become a
11 distributor with the, quote-unquote, "majors" back
12 before Grant Prideco was Grant Prideco and VAM was
13 small benefit from VAM.

14 We go way back, to back in -- a long time
15 back. And I've tried on many occasions to become a
16 stocking distributor. But at the times, I was denied.

17 COMMISSIONER ARANOFF: Okay. Let me turn
18 back to the, the quality issue. We've had a lot of
19 discussion with Petitioners' panel this morning about
20 the Commission's price comparison data that we have in
21 the staff report, and how they tend to show over-
22 selling for a good portion of the period.

23 Now, the Respondents, in your brief you
24 argue that U.S. purchasers will pay a premium for a
25 better-quality product; and that they prefer the U.S.

1 product. And you testified that they don't trust a
2 lot of things, products.

3 And yet, our data show that Chinese imports
4 were higher priced in the majority of comparisons.
5 And I'm trying to reconcile those two. Does that mean
6 that Chinese imports are actually higher quality than
7 domestic product, or some purchasers perceive them
8 that way? Or are you -- because I think your
9 testimony would contradict that -- are you then forced
10 to agree with the Petitioners that there is something
11 wrong with our price comparison data?

12 MR. MALASHEVICH: This is Bruce MALASHEVICH,
13 Commissioner. Let me just take a stab at that.

14 I'd like to -- I know the answer to your
15 question. It necessarily relies on BPI data. But I
16 think part of the answer, which would not be BPI, is a
17 lot of those Chinese producers that do not have
18 acceptable quality either do not participate in the
19 U.S. market at all. Or their share -- and there is a
20 particular page in the prehearing brief that's
21 referenced in Respondent's prehearing brief, as well,
22 looking at the distribution of exports to the United
23 States by supplier.

24 And you'll see, you'll see the lack of
25 dynamism, and the way the percentages are spread, in

1 light of the testimony you heard from the DP-Master
2 witnesses. But I'd like to spin that out in greater
3 detail, if I may, post-hearing.

4 COMMISSIONER ARANOFF: Okay, okay. Yes, I
5 really want to know how the over-selling that we see
6 is consistent with the story on quality that we're
7 hearing.

8 MR. MALASHEVICH: I understand your
9 question. And it is consistent, for reasons I have to
10 elaborate on at a later time.

11 COMMISSIONER ARANOFF: Okay, I appreciate
12 that.

13 MR. LEIBOWITZ: And if I might add, we do
14 not find any fault with the methodology of the price
15 comparison.

16 COMMISSIONER ARANOFF: Okay, good. Well,
17 I'm almost out of time, and I went over every time
18 last round, so I will pass it back to the Chairman.
19 Thank you.

20 CHAIRMAN OKUN: Commissioner Pinkert.

21 COMMISSIONER PINKERT: Thank you, Madame
22 Chairman. And I thank all of you for being here to
23 help us to understand what's happening and what's
24 likely to happen in this industry.

25 You heard Mr. Schagrin earlier talk about

1 why you pursued the scope issue with respect to the
2 green tube, particularly at the Commerce Department.
3 And I'm wondering if you can perhaps enlighten us as
4 to what your reasons were for that.

5 MR. LEHNARDT: This is Mark Lehnardt. We
6 pursued that at the beginning, before initiation, in
7 part because if green tube had been excluded, then --

8 CHAIRMAN OKUN: I'm sorry to interrupt, but
9 can you just pull your microphone closer?

10 MR. LEHNARDT: Oh, sure. In part because
11 before initiation, there are questions of volume and
12 industry standing, industry support and standing. And
13 those were, the comments we filed at the Department of
14 Commerce were directed at that issue.

15 COMMISSIONER PINKERT: Thank you. Now,
16 another sort of foundational question. Do you have a
17 position with respect to the proper application of our
18 semi-finished product analysis in this case?

19 MR. LEIBOWITZ: Yes. This is Lewis
20 Leibowitz. Before yesterday, I would have candidly
21 found fault with the semi-finished product analysis
22 that was done in the preliminary determination here.
23 Because one of the linchpins of that analysis is that
24 there is a limited or no alternative use of the semi-
25 finished product, other than to make subject

1 merchandise. And, or the finished like product.

2 And in this instance, green tube can be
3 used, and it's, in my view, at least until yesterday
4 afternoon, in many cases indistinguishable. Whether
5 green tube is going to be used for drill pipe or other
6 kinds of oil country tubular goods, casing and tubing,
7 or even some alternative uses than those, too.

8 So that linchpin of the semi-finished
9 product analysis doesn't fit, now that the Commerce
10 Department has determined the scope of the
11 investigation includes some green tube. And we
12 haven't thoroughly analyzed it yet. So I'd like to
13 kind of reserve judgment on what it means for the
14 semi-finished product analysis until post-hearing,
15 because I just have to, have to get my head around
16 those issues.

17 But it complicates the issue, because there
18 may or may not be significant alternative uses for the
19 green tube that isn't within the scope at this point.
20 But the green tube that is outside the scope, green
21 tube that is not used for drill pipe and doesn't have
22 these chemical signatures, we think is not a part of
23 the same like product.

24 COMMISSIONER PINKERT: You'll expound on
25 that in the post-hearing?

1 MR. LEIBOWITZ: With pleasure.

2 COMMISSIONER PINKERT: Thank you. Now,
3 focusing specifically on the unfinished product
4 subject to this investigation. Why did subject import
5 market share jump in 2009? You heard me ask that
6 question this morning, and I wanted you to have an
7 opportunity to comment on that.

8 MR. LEIBOWITZ: This is Lewis Leibowitz. I
9 think when you look at a singular situation like 2009,
10 there was a mammoth spurt in demand in 2007/2008. And
11 then import orders were placed. By the time the
12 imports got here, you know, the market had crashed.

13 So the import market share can increase,
14 even though the imports are old. They were ordered,
15 they were pre-ordered, and they were arriving after
16 the fire was out, so to speak. And I think that's
17 what happened.

18 In addition, demand plummeted, so that the
19 market-share percentages shoot upward because the, the
20 leftover imports that had been previously ordered are
21 weighed against the denominator, that is shrinking.
22 So, plain and simple, I think that's what happened.

23 COMMISSIONER PINKERT: Thank you. This next
24 question is probably better answered in the post-
25 hearing. But I wanted to ask you what the

1 relationship between the subject and non-subject
2 imports of the unfinished products are. What the
3 relationship is, if any.

4 And in particular, if the, if the subject
5 unfinished products had exited the market during the
6 period under examination, what would have happened
7 with the non-subject imports of the unfinished?

8 MR. LEIBOWITZ: We'll be happy to address
9 that in post-hearing. I think let's move on right
10 now.

11 COMMISSIONER PINKERT: Thank you. Now, the
12 petitions in this case were filed on New Year's Eve,
13 2009. And this question is directed to Mr.
14 Malashevich.

15 Why didn't the domestic industry producing
16 finished drill pipe and drill collars perform better
17 in 2010, after the petition was filed?

18 MR. MALASHEVICH: As we mentioned in the
19 prehearing brief of Respondents, the staff performed
20 the variance analysis, as it usually does. And the
21 variance analysis shows that over the period as a
22 whole, volume effects predominated in affecting, in
23 affecting with an A, the domestic industry's
24 performance.

25 And that's significant because after 2008,

1 the trend in subject imports was distinctly downward.
2 So the volume effects could not have been caused by
3 the subject imports. It had to have been as a
4 consequence of changes in demand.

5 And as for 2010, I think that the answer is
6 found in the testimony of the importing gentleman, who
7 said there is a natural lag between when the market
8 turns around, and when the drill-pipe producers enjoy
9 improved health. They are probably in a better
10 position to expound on it than I am. That's my
11 understanding.

12 COMMISSIONER PINKERT: Please do expound on
13 that, other members of the panel.

14 MR. MURPHY: Yes, this is Patrick Murphy. I
15 worked for many years as a vice president at Grant
16 Prideco. And the lag effect of the boom and bust was
17 always a major talking point.

18 As we explained earlier on, when the rig
19 count crashes -- and it always does, very quickly,
20 within a few months -- the customers have excess
21 inventory from the idled rigs. They have new
22 inventory coming in from the orders which have been
23 placed in the backlog with the majors.

24 So if you, if you add these together, they
25 have enough pipe for the next two or three years at

1 the rig count that they're working at. So it's a
2 demand issue.

3 COMMISSIONER PINKERT: But you're talking
4 now about the rig count, and I understand that. I'm
5 just wondering if you, we observe a situation where
6 the, in the first part of 2010, the market share of
7 the subject finished products declines; should we
8 attribute that to impact of the petition?

9 And then also, if we cede that, and we
10 attribute it to the impact of the petition, why
11 doesn't the domestic industry benefit more in terms of
12 its performance? It's really more of an economic
13 question than it is a question of, of the lag time
14 that you're referring to, Mr. Murphy. Mr.
15 Malashevich, or Mr. Leibowitz?

16 MR. MALASHEVICH: Yes, I could, I could help
17 in part on that. I think, as Mr. Leibowitz has said
18 in his opening remarks, in the Commission's parlance,
19 it shows a lack of correlation, a lack of a necessary
20 causal link between the behavior of subject imports
21 and the condition of the domestic industry, broadly
22 defined.

23 After all, it did its best, when the imports
24 were at its highest level. And it goes without saying
25 that if domestic industry did improve with substantial

1 preliminary duties in place, and a decline in subject
2 imports market share, to me, that's sort of icing on
3 the cake in pulling together the argument we've made
4 from the beginning of this case, that the causal link
5 is simply missing.

6 COMMISSIONER PINKERT: Mr. Leibowitz?

7 MR. LEIBOWITZ: Yes. I would only add that
8 there is, there is little evidence that imports, that
9 import volumes correlated with the worsening of
10 conditions in the boom times, and there is little
11 correlation in the condition of the domestic industry
12 when imports went down, the forces of the domestic
13 industry went down, as well. There's just no, there's
14 no correlation on either end. I think it's a fairly
15 clear case, as these things go.

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

18 CHAIRMAN OKUN: Thank you again to all the
19 witnesses. As I have listened to this panel and our
20 prior panel, obviously a long history, long years of
21 experience in the drilling business, and among the
22 different companies. So it's very helpful to have you
23 here to answer our questions.

24 Mr. Murphy, maybe I'll start with you, to
25 talk a little bit more about the impact of long-term

1 contracts. Because we look at what's collected in the
2 staff report, I wouldn't view this as an industry that
3 has a lot of long-term contracts. And so I guess I
4 take from what you were saying, is that it might be
5 primarily Grant Prideco who is able to operate under
6 long-term contracts. I just want to see if that's an
7 accurate observation of this market.

8 MR. MURPHY: I think Grant Prideco would be
9 the leader in long-term contracts with our alliance
10 partners. I think with VAM the size they are, they
11 probably have a few long-term contracts, as well, with
12 major international drilling contractors.

13 CHAIRMAN OKUN: Okay. And so that -- I'm
14 just trying to think about that in terms of the
15 information we have on the record, with respect to
16 both this lead-time issue, which I think you've
17 testified to in great detail -- and obviously I need
18 to go back and look at the breakout of what was
19 actually in the question, as opposed to the averages
20 that we have in the staff report, to understand that
21 better.

22 But I'm also trying to understand that with
23 respect to what that may or may not mean for pricing
24 data or other information we have here. So maybe Mr.
25 LEIBOWITZ, I'll go back to you, Mr. Malashevich, just

1 to get some further thoughts from you on the pricing
2 data. I know that Commissioner Aranoff has talked
3 about what could be a disconnect between, you know,
4 some perception of low-quality Chinese product versus
5 our pricing data.

6 Petitioners obviously take a great deal of
7 issue with who is selling to whom, and what prices we
8 collected. So if I could just have you elaborate a
9 little more on, both on what should give us confidence
10 about the pricing data; and then also just to get your
11 further thoughts on, if we were to use AUV as an
12 alternative, what the problems are with that in this
13 particular record.

14 MR. LEIBOWITZ: Certainly -- this is Lewis
15 Leibowitz. Certainly we will do that in the post-
16 hearing brief.

17 If I could, I want to tie together a couple
18 points. Because Commissioner Lane and Commissioner
19 Aranoff and you also raised these issues. And Mr.
20 Murphy spoke about long-term contracts, and there are
21 undoubtedly long-term contracts.

22 But I think the testimony indicates that
23 there is more at work than simply contracts, offer,
24 acceptance, and consideration. There is, this is an
25 industry that is governed by relationships, and by

1 reputation, and by course of dealing. And it may be
2 that some companies, without long-term contracts, will
3 nevertheless treat customers as favored, because they
4 are priority customers for them. They want a long-
5 term symbiotic relationship with them, and they will
6 deal with them differently than people that aren't on
7 their priority list, whether they have long-term
8 contracts or not. There are quite a few industries
9 like that.

10 CHAIRMAN OKUN: Mr. Malashevich?

11 MR. MALASHEVICH: Madame Chairman, just to
12 answer the latter part of your question of a moment
13 ago on the subject of AUVs.

14 In my experience, with very limited
15 exceptions, the Commission invariably relies on
16 exactly the methodology shown in the prehearing
17 report. And the exception that is -- all parties had
18 an opportunity to comment on the questionnaire,
19 comments were received and considered by staff.

20 The staff did nothing different from what it
21 normally does in comparing prices. I don't see any
22 reason to change that. And in the past, AUVs have
23 been relied on in only two circumstances that I can
24 think of. One where there is very little pricing data
25 reported, and there is nothing else to look at.

1 And/or you have a high degree of homogeneity in the
2 mix of the products at issue. And in the latter case,
3 I throw out certain hydraulic cement as an example of
4 such a case.

5 In this case, the Commission has very good
6 coverage volume-wise through the products it surveyed.
7 It received very robust, as I would call it, pricing
8 data for the products surveyed. I just don't see any
9 need to resort to the blunt instrument of AUVs, when
10 you have reasonably complete and comprehensive, in
11 terms of coverage, pricing data in the individual
12 pricing products.

13 CHAIRMAN OKUN: Okay, I appreciate all those
14 comments. And coming back to you, Mr. Murphy. You
15 had, I believe, in your testimony commented on the
16 charts that had been provided by VAM Drilling today
17 with respect to companies operating in China. And
18 that it was, I believe, your testimony that a number
19 of these maybe were not operating any longer. Was
20 that, am I correct?

21 MR. MURPHY: Yeah, I would say some of them
22 are, the plants are still existing, but there's
23 nobody, there's no production coming out of those
24 production lines.

25 CHAIRMAN OKUN: Okay. And for purposes of

1 post-hearing and completeness of understanding the
2 Chinese capacity export, if you could go through and
3 provide whatever record of it you can with respect to
4 these particular companies.

5 And I think that anything else we've had
6 discussion, I think you testified to it as well, of
7 these companies, who would be primarily serving the
8 home market because of their qualifications. And
9 whether those are also exporters. I was a little bit
10 unclear on that. If they would, if they're qualified,
11 would they also be serving an export market? Whatever
12 information you could provide on that.

13 MR. MURPHY: Yes, Madame Chairman, we would
14 provide it on post-hearing.

15 CHAIRMAN OKUN: Okay. And there's a
16 question for all the folks here, which is, in terms of
17 the data provided, data provided in the staff report,
18 as well as the additional information that will be put
19 on the record with regard to Spears's estimates. Do
20 you take any issue, do you look at anything else to
21 say where demand is going to be? Mr. Murphy.

22 MR. MURPHY: Yes. The Spears rig count is
23 very famous. We have all used it for many years, for
24 calculating demand going forward, projections and so
25 on.

1 However, they're very conservative. They
2 are more accurate for the U.S. domestic market Because
3 there is more data available from Baker Hughes and
4 from other surveys, on a weekly or monthly basis.

5 However, for the international market,
6 they've always understated the rig count
7 substantially. They're more difficult to track,
8 especially when you get to Russia and China. These
9 are notoriously difficult to track, because there's no
10 public information.

11 When I was in China as Operations Manager
12 for Grant Prideco, we had salespeople in all of the
13 oil fields who reported back to us what the actual rig
14 counts were. And during the period that I was there,
15 1995 to 1997, our estimated rig count for China was
16 1,500 rigs drilling.

17 CHAIRMAN OKUN: Okay. All right. Well, if
18 there's anything else post-hearing that you would
19 suggest we put in the record, as far as looking at
20 alternative measures of consumption and demand in
21 overseas markets, I'd be particularly interested in
22 looking at that.

23 And Mr. Garvey, let me turn to you, or Mr.
24 Mostoway, I'm not sure. Obviously there was a great
25 deal of, quite a bit of discussion about Command

1 Energy and your operations in the market, and what
2 impact it did or didn't have.

3 I know that there is information submitted
4 in the prehearing brief. But I wasn't sure if there
5 was anything else specifically that you could testify
6 to with respect to some of the allegations made. I've
7 got a couple here, but there may be others. The
8 75,000 feet of, of the order for Texas Steel. How
9 you, I think you talked about why you're ordering
10 domestic now, but if you could elaborate on that
11 further.

12 MR. GARVEY: Basically, the order was
13 awarded to them because of delivery being the first
14 issue, and price being the second issue.

15 CHAIRMAN OKUN: Okay. And would you have --
16 in order for us to evaluate whether the story is that
17 the order, that having a case filed means that you
18 would be buying more domestic, and would have been
19 buying more domestic. I mean, I guess I'm trying to
20 understand better how you look at this market, and how
21 we should evaluate your, your buying patterns.

22 MR. GARVEY: I'd probably just prefer to
23 give that in your post-hearing brief.

24 CHAIRMAN OKUN: Okay, I appreciate that.
25 I'll come back in my next round and ask some more, ask

1 some other specific questions that also might require
2 a post-hearing response. But I appreciate that.

3 And now I will turn to Vice Chairman
4 Williamson.

5 VICE CHAIRMAN WILLIAMSON: Thank you, Madame
6 Chairman. Mr. Murphy, you indicated that the downturn
7 of left -- left inventories -- purchases on
8 inventories that may take several years to work off.
9 And I was wondering, does this mean that the domestic
10 industry is vulnerable because of depressed and
11 current future demand?

12 MR. MURPHY: Because of what, sir?

13 VICE CHAIRMAN WILLIAMSON: Because of
14 current demand and future and depressed future demand?
15 I mean, if it's going to take several years to work
16 off these inventories, what does that say for the
17 domestic industry?

18 MR. MURPHY: It says that until the rig
19 count goes back to where it was, yes, that there will
20 be some inventory available to those drilling
21 contractors who will purchase less for a couple of
22 years.

23 VICE CHAIRMAN WILLIAMSON: Okay. So that
24 means, in a sense, the domestic industry is going to
25 be in a kind of a vulnerable state, I would think.

1 MR. MURPHY: Unless of course there's a
2 shift to some different products, as well. Which, you
3 know, if there's more of a shift to the premium side,
4 then there will be more demand in that type.

5 VICE CHAIRMAN WILLIAMSON: I think this
6 morning we heard some testimony about that even as the
7 rig count goes back or goes back up, that with new
8 technology and all, that there may be less, demand
9 wouldn't necessarily respond. Do you agree with that?
10 Or does anyone want to comment on that testimony?

11 MR. MOSTOWAY: Yes. This is Jim Mostoway.
12 The life expectancy of drill pipe's always been a kind
13 of a hard one to predict because of the different
14 applications of drilling.

15 But right now with the shale plays, with the
16 extended-reach drilling, and even I think it was
17 actually Pete Miller on NOV on one of its conferences
18 was saying that they're really liking what's happening
19 now, because they're wearing out drill pipe in under
20 two years.

21 So by saying that, you would expect that the
22 demand is going to be quite good. And with the shift
23 of product mix also with these extended-reach
24 horizontal wells and wearing out that pipe that quick,
25 and I think, what was it, 250 rigs are scheduled to be

1 working in the North Dakota area; you should see a
2 pretty good spike in drill pipe sales.

3 VICE CHAIRMAN WILLIAMSON: Now, who was --
4 you cited a person, I wasn't sure who that was.

5 MR. MOSTOWAY: Peter Miller is Chairman of
6 NOV.

7 VICE CHAIRMAN WILLIAMSON: Okay.

8 MR. MOSTOWAY: Grant Prideco.

9 VICE CHAIRMAN WILLIAMSON: Okay, okay. I
10 just wanted to get that clarified. So in other words,
11 you're suggesting that maybe there will be, that
12 demand will pick up faster than we heard this morning.

13 MR. MOSTOWAY: We're seeing, I mean our
14 phones are ringing pretty steadily. So personally,
15 for Command, we are seeing that there has been a
16 pretty decent demand pickup in the last especially
17 four months.

18 VICE CHAIRMAN WILLIAMSON: And you may have
19 already said. For what types of applications?

20 MR. MOSTOWAY: Well, we're seeing both. I
21 mean, we do sell API product, and we also sell premium
22 product. But in both applications in the shale and
23 gas plays, and the horizontal premium plays. We've
24 seen a pickup all around.

25 Especially heavyweight drill pipe, also.

1 With this product shift and the technology shift, what
2 we're seeing is we're not seeing many drill collars
3 being used. So there's a higher demand of more drill
4 pipe, I'd like to say heavyweight drill pipe,
5 especially with the premium connection. And less
6 drill collars used, as they were saying earlier today,
7 about conventional wells.

8 Well, the shift of the different drilling is
9 using sort of a different product mix. So you know,
10 hearing the statement earlier today, the drill collar
11 sales were, you know, slow; we're seeing the same
12 thing. And that's just because of the different
13 technology in drilling today.

14 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
15 Mr. Garvey, with the discussion about the, the record
16 contains some evidence of transactions that include
17 the seller taking used inventory drill pipe from the
18 buyer. And I asked this question this morning.

19 I was wondering what your view is how these
20 transactions work, how common are they. And how can
21 the Commission evaluate them.

22 I'm particularly thinking about if the, most
23 of the domestic firms aren't interested in doing this,
24 or do you do this more than the domestic firms are
25 willing to do this? And how do, are you like, in a

1 sense are you giving the customer a discount, because
2 you're doing something that, providing that service?

3 MR. GARVEY: Okay. Number one, it's not a
4 large part of the business, but is it, in fact, part
5 of the business. No, we don't give a discount on it.

6 It depends on the item that we're trading.
7 Sometimes we trade new goods. An example, let's say
8 five-inch drill pipe for new four-and-half-inch drill
9 pipe. There's a market value of both. We calculate
10 that out to the net dollar value that we're trading:
11 100, 200, 300 thousand dollars.

12 For us, it's quite common. I know the, some
13 of the Petitioners this morning said they wouldn't do
14 it because it wouldn't take other manufacturers' drill
15 pipe. Being a distributor, I carry two or three
16 different manufacturers' drill pipe, and I have no
17 fear of taking one or the other.

18 So as far as API processes and qualities and
19 our history of the manufacturing process this year,
20 we're quite confident in most of the ones that we
21 trade on the new side.

22 On used, it's a bit like buying a used car.
23 I have an extensive experience in drill pipe, both new
24 and used, to the inspection history. And it's a
25 question of evaluating the product that they have

1 available, that they are not going to use it because
2 it's become redundant, and give them a value for it.
3 And then we turn around and trade an equal dollar
4 value for whatever product they may be searching for
5 at that time.

6 VICE CHAIRMAN WILLIAMSON: Okay. How should
7 we evaluate -- in addition to all that inventory that
8 was talked about earlier, Mr. Murphy mentioned, does
9 the fact that this service is out there, does that
10 mean there is reduced demand for new drill pipe?

11 MR. GARVEY: Not necessarily. I don't think
12 the volumes are quite as large as maybe others have
13 let on.

14 VICE CHAIRMAN WILLIAMSON: Okay.

15 MR. GARVEY: I don't think it's a
16 significant impact on inventory.

17 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
18 This is probably for post-hearing. The financial data
19 for the finished drill pipe is striking for how one
20 company stands out in 2009, and for half of 2010. And
21 it's the petitioners' claim this is because of the
22 company's ties to the Chinese industry.

23 And I was wondering if you, post-hearing,
24 could analyze the performance of this company, and why
25 it has such a different experience.

1 Also for post-hearing, could you please
2 respond to Petitioners' argument on pages 53 to 57 of
3 their brief, concerning how the Commission should
4 evaluate certain production involving steps that occur
5 in the United States and Mexico?

6 MR. LEIBOWITZ: This is Lewis Leibowitz.
7 We'd be happy to do so.

8 VICE CHAIRMAN WILLIAMSON: Good. Okay,
9 thank you. I was wondering how you respond to the
10 Petitioners' argument, on page 12 of their brief, that
11 imports have access to, access to both small and large
12 drilling contractors, as evidenced by actual sales
13 during the period for which the data were, our period
14 of investigation.

15 MR. LEIBOWITZ: Lewis Leibowitz. We'll
16 certainly address that in the, in the post-hearing
17 submission. I would say I'm not sure how much in the
18 way of sales went to which companies. One company
19 might be buying a trial order, and another company
20 might be buying a year's supply. And I think the way
21 it was presented is pretty much the same.

22 VICE CHAIRMAN WILLIAMSON: Okay. And you
23 might get into whether, Command might want to address
24 their ability to sell to large companies, as well as
25 to small ones.

1 MR. LEIBOWITZ: Yeah, we'll reply in the
2 post-hearing.

3 VICE CHAIRMAN WILLIAMSON: Okay, thank you.
4 I don't know if anyone has asked this. What is your
5 view of how has the Deepwater Horizon oil spill
6 affected the demand, or the types of products that
7 might be demanded? Anyone want to offer views on
8 that?

9 MR. GARVEY: Charles Garvey again from
10 Command. I really can't comment on that. We don't
11 have a lot of customers in the off-shore business at
12 this time, so we can't really comment.

13 MR. MALASHEVICH: Excuse me, Vice Chairman.
14 It's an exhibit, and it's all public information, an
15 exhibit to Respondents' prehearing brief that contains
16 a large stack of literature prepared by third parties,
17 analyzing the industry. And there were studies
18 performed concerning the impact on the demand for
19 drilling equipment, let's say, because of the Gulf
20 problem and the moratorium.

21 And all the studies say the impact was
22 small. Because the number of rigs affected was small.
23 As sad and as major as the environmental effects were.

24 VICE CHAIRMAN WILLIAMSON: Okay. Okay,
25 thank you for that response. My time is about to

1 expire. Thank you for your testimony.

2 CHAIRMAN OKUN: Commissioner Lane.

3 COMMISSIONER LANE: Thank you. Mr.
4 Leibowitz, Mr. Schagrin said this morning that
5 Respondents would concede material injury to the
6 domestic industry by reason of subject imports if
7 Grant Prideco were excluded. Is that true?

8 MR. LEIBOWITZ: Not today.

9 COMMISSIONER LANE: Okay. I just thought I
10 would ask that.

11 Now, Mr. Mostoway, you said, in answer to
12 prior questions, that you handle both API pipe and
13 premium pipe.

14 MR. MOSTOWAY: That's correct.

15 COMMISSIONER LANE: Now, is that API pipe
16 both Chinese and domestic?

17 MR. MOSTOWAY: Yes.

18 COMMISSIONER LANE: Okay. Why don't you
19 refresh my memory, then, about how that plays into the
20 testimony that we heard earlier, that nobody wants to
21 buy Chinese pipe, even if it's API, because of the
22 quality?

23 MR. MOSTOWAY: I really didn't -- well, I
24 don't know who said nobody wants to buy.

25 COMMISSIONER LANE: Well, they said there

1 wasn't much demand for it, because people didn't want
2 to deal with people they didn't know. And even though
3 it had API standards.

4 MR. MOSTOWAY: That is, how should I answer
5 that, that really only comes into play if the supply
6 side is so tight that it opens up, you know, more
7 doors for customers to look at options. In my
8 testimony I said that typically, if U.S. customers can
9 be provided and supplied with U.S. pipe, they would
10 rather take the U.S. pipe, even at a premium price.
11 And some U.S. customers, they just want to support
12 U.S. manufacturers.

13 COMMISSIONER LANE: Okay, thank you. At
14 pages 8 and 9 of the prehearing brief, Petitioners
15 allege that imports from China began appearing in the
16 U.S. market beginning around 2006. When did imports
17 from China first become available in the U.S. market,
18 as far as you remember? And why did these products
19 become available? Mr. Lesco?

20 MR. LESCO: Yes, ma'am, David Lesco. I
21 imported our first product in the first quarter of
22 2006. To the latter part of your question, why, why
23 did I --

24 COMMISSIONER LANE: Yes, why did you do
25 that?

1 MR. LESCO: Actually, I first had DP-Masters
2 at the request of a drilling contractor customer of
3 mine, who was having, once again, had been quoted 18-
4 month delivery from the domestic producer. He had
5 increased his rig production, rig count. He was, he
6 couldn't find pipe.

7 We ran out of good-quality used pipe to sell
8 him. He said I've got to have a source for new pipe,
9 or I got to have a source for better used pipe. I
10 actually flew to DP-Masters in the summer of 2005.
11 And I took two highly qualified inspectors, recognized
12 third-party inspectors there.

13 We left DP-Masters with a list of upgrades
14 to their procedures that we would need for them to do,
15 for us to enter an order. They contacted me and asked
16 me to come back, and that they had put these required
17 suggestions in force and wanted us to verify them.

18 We did, and we placed our first order. And
19 I believe I placed the order actually in, in November
20 of 2005, and took delivery in February of 2006. So
21 that's how I began with DP-Master.

22 COMMISSIONER LANE: That was a little over a
23 three month lead time.

24 MR. LESCO: Yes, Ma'am.

25 COMMISSIONER LANE: And has it been your

1 experience that that lead time has continued since
2 that time?

3 MR. LESCO: Well, once we became very
4 comfortable with our relationship with DP-Master, as
5 far as the quality, we increased our orders for stock
6 purposes. So, I mean, I would order certain amounts
7 for every month delivery.

8 And I believe that they probably -- I would
9 probably suggest -- I just don't know what their lead
10 time was back then. I mean, I was 60 days, and
11 including 30 days for shipment.

12 COMMISSIONER LANE: And did you maintain
13 that relationship today with that company that you got
14 the pipe from?

15 MR. LESCO: Excuse me? I'm sorry.

16 COMMISSIONER LANE: Do you still have a
17 relationship with that same company?

18 MR. LESCO: DP-Master?

19 COMMISSIONER LANE: No, in China, the one
20 where you got the pipe.

21 MR. LESCO: DP-Master is it. I am sitting
22 here with --

23 COMMISSIONER LANE: Yes, okay. And so is
24 your lead time today still 30 to 60 days?

25 MR. LESCO: Well, I don't know what it would

1 be today quite seriously because of the actions taken
2 at the first of the year, and I haven't ordered any
3 pipe lately from them.

4 COMMISSIONER LANE: Okay.

5 MR. LESCO: Historically, I -- well, let me
6 go back. I do, quote, international staff. I think
7 that if they do not have something in stock, and if
8 they have to buy the green tubes from the mills, and
9 heat treat that tool joint is 60 days.

10 MR. MURPHY: Yes, and, Madam Commissioner,
11 if I could clarify. It is 90 days for standard
12 products for our delivery today.

13 COMMISSIONER LANE: Okay. Thank you.

14 MR. GARVEY: Charles Garvey here. May I
15 comment on that question also?

16 COMMISSIONER LANE: Yes.

17 MR. GARVEY: Ourselves, we started bringing
18 in DP-Master pipe into the United States also around
19 in 2006. We were bringing Baoshan drill pipe actually
20 in earlier 2002, and the main reason why we went
21 offshore to China to get drill pipe was that we were a
22 distributor at the time for Grant Prideco. Lead times
23 were quite long, and there are price escalation
24 clauses in there also. My customers asked me what
25 alternative do we have. I have a rig being built in 3

1 to 4 months, and I can't get pipe for 6 or 7 months,
2 number one.

3 And, number two, you are telling me that it
4 is going to be approximately \$40 a foot, but until it
5 is delivered, I can't have a firm price, and that was
6 due to Grant Prideco's escalation clauses at the time.

7 So we needed to find an alternative for our
8 customers, but the main thing was quicker delivery,
9 and that's why we went offshore ourselves.

10 COMMISSIONER LANE: Okay. Thank you. At
11 pages 11 and 12 of the pre-hearing brief the
12 Petitioners assert that Command gave false testimony
13 at the preliminary staff conference regarding its
14 apparent inability to compete for sales to a large
15 purchaser. Would you please respond to that
16 allegation?

17 MR. MOSTOWAY: This is Jim Mostoway. I
18 don't think that we gave any false information about
19 time, because we weren't during -- well, roughly this
20 time last year, we weren't dealing with any really
21 large customers. After the hearing of last year, we
22 started to deal with one of the larger customers, yes.

23 MR. GARVEY: Charles Garvey here.

24 COMMISSIONER LANE: Go right ahead.

25 MR. GARVEY: It was actually at this hearing

1 last year that one of the Petitioners told us that we
2 were awarded a large contract by a large drilling
3 contractor. Approximately three weeks after that
4 date, we received a purchase order.

5 So at the time of the hearing, we had not
6 received any orders, number one; and, number two, they
7 had told us that it was a three thousand ton order,
8 where in fact our first initial order from them was a
9 one thousand ton order.

10 So, yes, we did after the hearing, we
11 received an order from a large drilling contractor,
12 but at the point of the hearing, we had not received
13 it, and had not received a purchase order.

14 COMMISSIONER LANE: Okay. Thank you. Thank
15 you, Madam Chairman.

16 CHAIRMAN OKUN: Commissioner Aranoff.

17 COMMISSIONER ARANOFF: I want to address a
18 number of questions following somewhat on what
19 Commissioner Pinkert was asking regarding things that
20 have happened since the filing of the petition in this
21 investigation.

22 On page 21 of the Respondent's brief, you
23 point to improvements in the domestic industry's order
24 books in 2010 as evidence that the industry is not
25 threatened with injury. Now, normally the statute

1 states that the Commission is entitled to presume that
2 improvements in the condition of the domestic industry
3 after the filing of a petition may be due to the
4 pendency of the investigation, unless there is
5 evidence to the contrary.

6 I understand that improvements in demand
7 would not be the result of the pendency of the
8 investigation, but that wouldn't account for gains in
9 market share made by the domestic industry. So can
10 you explain that part to me with respect to what we
11 see on domestic producers order books, and whether I
12 should really be weighing those improvements as
13 evidence of lack of injury or threat?

14 MR. LEIBOWITZ: We would be happy to address
15 that issue in the post-hearing submission if we may.

16 COMMISSIONER ARANOFF: Okay. I guess that's
17 what I get.

18 Another question along the same lines. If I can which
19 keys I put it on. You also argued in your brief that
20 the record does not show price suppression by subject
21 imports by relying entirely on post-petition data from
22 2010, demonstrating a reduction in the industry's cost
23 of goods sold to net sales ratio for certain products.

24 So again the statute says that we can
25 presume that such improvements in the industry's

1 condition are a consequence of the pendency of the
2 investigation. Can you offer any evidence to rebut
3 that presumption, and lead the Commission to give the
4 weight that you are suggesting that we should to these
5 data?

6 MR. LEIBOWITZ: I would certainly be happy
7 to address that in post-hearing.

8 COMMISSIONER ARANOFF: Okay.

9 MR. MALASHEVICH: Excuse me, Commissioner,
10 but I just wanted to add that just following the
11 Commission's normal practice, there is an unusual
12 amount of bracketed information, even in many of the
13 statistics, and so that puts a limit on how we can
14 answer a question like that in an opening hearing.

15 COMMISSIONER ARANOFF: Don't worry, I am not
16 mad at you. I would just encourage you to answer the
17 questions fully and completely. One often finds that
18 when one can't follow up in an open hearing, one does
19 not always get exactly the answer that one is looking
20 for.

21 But I understand that there are constraints
22 here, and so of course I will work with that. This
23 morning, I asked the Petitioners panel to respond to
24 the argument in the Respondents' pre-hearing brief
25 that the underselling, that the price comparison data

1 shows for the end of the period of investigation is
2 reflective of a change in product mix for the domestic
3 industry, and they argued quite emphatically that that
4 was not true, because they didn't report any premium
5 product under our various pricing categories.

6 Do you still want to make the argument that
7 that underselling in that data is reflective of
8 changes in product mix, or do you want to offer
9 another explanation and disavow the arguments, or none
10 of the above?

11 MR. MALASHEVICH: This is Bruce Malashevich.
12 That I can answer in an open hearing, and it is
13 addressed in our brief, but I will mention it again.
14 First of all, I would characterize the instances of
15 underselling late in the POI as sporadic, as opposed
16 to constituting any particular trend.

17 It varies quite considerably among the
18 products surveyed. Secondly, I think that it actually
19 helps to prove our case on the subject of no injury or
20 threatened injury, because if you examine or if you
21 accept the Petitioners' argument that this is a
22 commodity product, and that there is underselling, and
23 whereby subject imports displace domestic production,
24 I don't agree with it, but let's accept that as a
25 working hypothesis.

1 It helps to prove our case on causation,
2 because at the very time when supposedly there was a
3 trend towards increased underselling like in the POI,
4 if pricing mattered, and if there was a lot of overlap
5 in competition, you would have expected the Chinese
6 market share to go up.

7 In fact, it went down. So we make the point
8 that it is another of the various types of evidence
9 presented showing essentially that the domestic
10 industry and subject imports have been sold
11 essentially to different classes of customers, with
12 very limited competitive overlap.

13 COMMISSIONER ARANOFF: Well, okay, with all
14 things being equal, I would understand that argument,
15 but the time period that you are talking about is
16 after the filing of the case, and so then we also have
17 this petition effect that could change the dynamic
18 figure you are describing.

19 MR. MALASHEVICH: I understand your point,
20 Commissioner, but I think what matters in my own view
21 speaking as an economist, and I am not a lawyer as you
22 know, is that it doesn't matter what the effect of the
23 petition was.

24 The fact that the -- let's assume increased
25 trends of underselling did not produce an increase in

1 subject market share makes whether or not the decline
2 was owing to the petition filing essentially a moot
3 point, and that is consistent with what we have argued
4 in the brief.

5 COMMISSIONER ARANOFF: Okay. Fair enough.
6 One more question for post-hearing, because I know
7 that you can't answer this one in the public hearing.
8 On page 16 of the Respondents' prehearing brief, you
9 argue that the top customer lists of U.S. producers
10 and U.S. importers don't overlap.

11 I find that somewhat hard to reconcile with
12 the information that is contained on page 2-6 of the
13 staff report, and so I was going to ask you to take a
14 look at that and give me some response.

15 MR. MALASHEVICH: Speaking for ESC, we will
16 do that.

17 COMMISSIONER ARANOFF: Thank you.

18 MR. LEIBOWITZ: We would be happy to.
19 Commissioner Aranoff, if I may just add to Mr.
20 Malashevich's argument about -- or points about the
21 price comparisons. I think that one of the
22 fundamental differences about this case is that this
23 is decidedly not a commodity product.

24 And I suspect that the varied sales
25 comparison figures, especially late in the period,

1 probably have a story with respect to each sale,
2 because the products are very different and the
3 circumstances are very different in each case.

4 And when I see a mixed bag like that, it
5 suggests to me that there are stories that aren't
6 reflected in the table.

7 COMMISSIONER ARANOFF: Okay. Well, I would
8 be interested in what you have to say, because I asked
9 that same question yesterday. Let me ask Mr. Garvey
10 and Mr. Lesco a question that I asked domestic
11 producers this morning about cancellation policies,
12 and whether customers can cancel orders, and just not
13 take them.

14 What are your policies on that with your
15 customers, and what was your experience in the fourth
16 quarter of 2008 when the demand dried up in the
17 market?

18 MR. GARVEY: Charles Garvey here. Regarding
19 cancellation, API products which are generally a
20 little more flexible for us to possibly move on to
21 another customer. If a customer wants to cancel that,
22 we are generally a little more lenient.

23 Special orders, with range three pipe, would
24 generally be a little longer in length, or premium
25 pipe, are generally what we call special order, and

1 those are non-cancelable. We usually get a deposit
2 for those orders, and ensure that the customer takes
3 them.

4 COMMISSIONER ARANOFF: Okay. And some of
5 the domestic producers were telling me this morning
6 that even though they had orders that were technically
7 non-cancelable, but the customers were simply not
8 paying and not taking the product, and basically they
9 could sue them.

10 MR. GARVEY: Yes.

11 COMMISSIONER ARANOFF: Or they could just do
12 nothing and hold on to the product. Did you have that
13 experience?

14 MR. GARVEY: No.

15 COMMISSIONER ARANOFF: Okay. Mr. Lesco.

16 MR. LESCO: No, Ma'am. A smaller company
17 like ourselves, we would normally try to work as much
18 as we can with my customers. I concur with Mr.
19 Garvey's statement on special order products. In
20 those cases, I have customers who put up a deposit
21 before I would even order them.

22 COMMISSIONER ARANOFF: Did you have anybody

23 --

24 MR. LESCO: I didn't have any --

25 COMMISSIONER ARANOFF: -- forfeit their

1 deposit?

2 MR. LESCO: I didn't have any cancellations.

3 COMMISSIONER ARANOFF: Interesting. Okay.

4 With that, I think I have concluded my questions. So
5 a thank you to all the witnesses. Thank you, Madam
6 Chairman.

7 CHAIRMAN OKUN: Commissioner Pinkert.

8 COMMISSIONER PINKERT: Thank you, Madam
9 Chairman. Mr. Malashevich, as a follow-up to my
10 question about what happened in interim 2010, I would
11 like you to look at demand in interim 2009, and
12 compare it with demand in interim 2010, and tell me
13 whether that had something to do with the performance
14 of the industry in 2010 relative to interim 2009.

15 MR. MALASHEVICH: I don't have that
16 information with me, but if you don't mind, I
17 certainly will address it post-hearing.

18 COMMISSIONER PINKERT: Not only don't I
19 mind, but I would appreciate it if you would do that.
20 Now, with respect to the threat issue, I am wondering
21 what this panel thinks we should do in considering the
22 impact of trade measures in the European Union and
23 Russia.

24 Will those trade measures potentially have
25 an impact on future Chinese exports to the U.S.

1 market?

2 MR. LEIBOWITZ: Well, we would certainly
3 like to address that in more detail in the post-
4 hearing submission if that is all right. I think that
5 this is one of the issues that the Commission is
6 supposed to look at in assessing threat.

7 Just remember that it is a real and imminent
8 threat. It is a relatively short time horizon, and
9 the status of those measures is not yet determined.
10 Keep in mind that unlike the United States, most
11 countries that have anti-dumping and countervailing
12 duty measures have a prospective system.

13 So the duties are set in advance, and
14 companies can still participate in the market without
15 fear of getting huge liabilities after the fact. So
16 that has to be taken into account in determining
17 whether exports from China would be diverted from
18 those markets to the United States.

19 COMMISSIONER PINKERT: To the extent that
20 you can in the post-hearing, it would be worthwhile if
21 you could give us an update on the status of those
22 trade measures.

23 MR. LEIBOWITZ: Certainly.

24 COMMISSIONER PINKERT: Thank you. And along
25 these same lines, I am sure that you have seen

1 allegations of potential product shifting in China
2 from other products to the production of drill pipe.
3 How should we weigh those allegations in the context
4 of a threat issue?

5 MR. LEIBOWITZ: I'll go first. This is
6 Lewis Leibowitz. I do understand your question to be
7 that there is some evidence on the record that alleges
8 that producers in China of pipe products are shifting
9 from other pipe products into drill pipe, and how
10 should we measure that as a condition of threat.

11 My detailed knowledge of the conditions in
12 the Chinese market is limited. Mr. Murphy on my right
13 has more knowledge, and so I would like him to address
14 that.

15 MR. MURPHY: Yes. I am not fully aware of
16 any companies in particular that are shifting from
17 making one sort of pipe to drill pipe. To make drill
18 pipe requires quite a different set of equipment and
19 manufacturing processes, compared to just making OCTG
20 or the seamless, and just threaded tubing and casing.

21 So I am not totally aware of anybody in
22 particular that is doing that.

23 COMMISSIONER PINKERT: Any other comments on
24 the panel on that issue? I have a follow-up, but I
25 wanted to give you a chance to explore that question

1 first.

2 (No response.)

3 COMMISSIONER PINKERT: No? Okay.

4 MR. LEIBOWITZ: Would it be possible to do
5 the follow-up first, and then we can come back to Ms.
6 Wu?

7 COMMISSIONER PINKERT: I think Ms. Wu has
8 answer.

9 MR. LEIBOWITZ: Okay.

10 MS. WU: Thank you. As far as I know, even
11 now most of the manufacturers of drill pipe, except
12 for like DP-Master, are not qualified to manufacture.
13 Like manufacturers that are manufacturers of tubing
14 and casing, they set up some lines for drill pipes to
15 actually have the capacity of those several
16 manufacturers of drill pipe, because as far as I know,
17 they shut down their facilities, and are stopping
18 their lines already, and the total year or the whole
19 year in 2010.

20 So according to the experience and no one --
21 I mean, the other manufacturers of tubing or casing
22 will shift their lines to make drill pipe. There is
23 also other manufacturers like DP-Master, and it seems
24 that they did some inventory, but actually without any
25 exact contracts, and cannot meet the Chinese domestic

1 requirements.

2 So they also shut down the facilities for
3 the whole year of 2010. I received many e-mails from
4 our domestic or Chinese manufacturers of drill pipe,
5 and they text and send e-mails, and they send me
6 inquiries because they put their specifications and
7 prices on websites, and got some inquiries from
8 overseas.

9 But they don't produce the drill pipe by the
10 end of 2009, or 2010, and so they have to buy drill
11 pipe from DP-Master and send inquiries to me, and some
12 of them came from DP-Master once they set up their
13 facilities to offer positions, and salaries, and
14 organize a bid team to make drill pipe, because they
15 think making drill pipe can make big profits when they
16 establish their business.

17 But finally they don't have any orders and
18 they can't be approved by Sinopec or CNPC in China,
19 and so there can be no exports if you are overseas,
20 and cannot be exported to the end-user in the USA
21 because the end-user will not order any drill pipe
22 from those new manufacturers who are not qualified
23 even for China's oil fields, like Sinopec or CNPC.

24 So as far as I see it, most of those new
25 manufacturers, they don't produce any drill pipe in

1 2010, and know that others would do that for sure.

2 Thank you.

3 COMMISSIONER PINKERT: I think you
4 anticipated my follow-up, Ms. Wu, but let me try to
5 shift the focus of the follow-up a little bit. You
6 talked about these new producers, and we had testimony
7 about how quickly the new producers were able to add
8 capacity.

9 Now, if one can add capacity quickly, or
10 create capacity quickly, does it stand to reason that
11 one could also shift product mix quickly, or is that
12 just a misunderstanding of the way that the production
13 can unfold?

14 MR. MURPHY: This is Patrick Murphy. If you
15 are talking about shifting product mix from OCTG to
16 drill pipe?

17 COMMISSIONER PINKERT: Yes.

18 MR. MURPHY: Okay. Yes, there is a lead
19 time on the equipment. It used to be about 12 months
20 to set up a plant. Yes, there is an investment, and
21 there is an investment of about \$10 million per weld
22 line, and a lead time of 12 months.

23 So it is feasible to do it, but I think the
24 OCTG companies in China are fully aware of the
25 situation with the drill pipe market. So I don't see

1 any of them shifting product mix from OCTG over to
2 drill pipe.

3 COMMISSIONER PINKERT: Thank you. Ms. Wu,
4 go ahead. I have one more minute.

5 MS. WU: I am asking about those new
6 manufacturing -- and excuse me for my English, but I
7 was asking if they would have the capacity to come up
8 soon if the demand of drill pipe is coming up, and
9 making drill pipe. We need green tubes, but there are
10 not many good suppliers of green tubes in China.

11 And as far as our other facilities, like in
12 the USA, those manufacturers of drill pipe should know
13 that in China, only like TPCO can supply good green
14 tubes. But TPCO will not sell good green tubes to all
15 the manufacturers of drill pipes, except for like DP-
16 Master, or like TPCO's own manufacturers, and maybe
17 they can buy the green tubes.

18 And also without good cash flow, you are not
19 buying any green tubes from TPCO. They have very
20 strict payment terms for their green tubes, and
21 secondly, because they have shut down their facilities
22 for like one year, or even longer, one-and-half years,
23 it is very difficult for them to have laborers back.

24 It is not difficult for Chinese people to
25 have jobs in China right now, and the third thing, I

1 don't think that those manufacturers will produce
2 qualified drill pipes in a short time because overseas
3 markets, or even Chinese domestic markets requirements
4 for drill pipes will be higher and higher on the
5 specifications.

6 So they need to have more certificates, and
7 like API, they need to renew in like three years, or
8 like other certificates, and also it is very difficult
9 for them to be approved by Sinopec and CNPC.

10 You will find out that there will always be
11 those five to six suppliers approved, and are always
12 the same, and you will never see any new manufacturing
13 to enter into CNPC or Sinopec supplier lists.

14 COMMISSIONER PINKERT: Thank you very much.
15 Thank you, Madam Chairman.

16 CHAIRMAN OKUN: If I could just follow up
17 with I think a similar request that I made to Mr.
18 Murphy with respect to the Chinese companies listed by
19 VAM Drilling in their charts, which is any specific
20 information that you can provide that would indicate
21 plants or lines have closed down through
22 correspondence or anything else obviously would help
23 us evaluate whether these are lines that are ready to
24 just turn on the light and start producing again,
25 versus lines that don't have the possibility of doing

1 that.

2 MR. LEIBOWITZ: Yes, Madam Chairman, we will
3 provide that in the post-hearing brief.

4 CHAIRMAN OKUN: Okay. And then I am not
5 sure if this information was provided, but related to
6 whether we would see products shifting out of those
7 OCTG and seamless pipe. Are you aware of whether
8 Chinese exports of those products found other markets
9 outside of -- you know, products that had gone to the
10 United States, and whether that product is going
11 elsewhere, or whether it is not being produced.

12 MR. LEIBOWITZ: It is not being produced.

13 CHAIRMAN OKUN: Okay. And again any
14 information that is on the record, which might already
15 be there, I think it would be important for us to see
16 as well. Then I am not sure, and I know that there
17 has been some discussion about inventories with this
18 panel, but just with respect to the threat factor, Mr.
19 Leibowitz, I wondered if you wanted to comment on how
20 the Commission should evaluate inventories in this
21 particular case.

22 MR. LEIBOWITZ: Yes, I would be glad to,
23 Chairman Okun. The statute provides virtually no
24 guidance. We all know that. The Commission has a
25 great deal of discretion in determining the role that

1 inventories play.

2 The specific legal question that was
3 commented on earlier was whether inventories that are
4 sitting in the United States are a legitimate subject
5 of inquiry for threat of injury. An interesting
6 question. One wonders why an anti-dumping or
7 countervailing duty order would benefit the domestic
8 industry with respect to inventories that had already
9 entered.

10 It is not like a 337 case, where you have
11 the power to issue a cease and desist order, as well
12 as an exclusion order. There is no cease and desist
13 order in trade remedies, and so the inventories that
14 are here are, I think, arguably not the subject of the
15 injury analysis, because the remedy doesn't address
16 the problem.

17 Those are an issue that I would like to
18 expound further in the post-hearing submission, of
19 course, but that is my comments this afternoon.

20 CHAIRMAN OKUN: Okay. I appreciate you
21 expanding on that in the post-hearing with reference
22 to the statute, and any court cases that might give us
23 further guidance. And then just for post-hearing, Mr.
24 Leibowitz, if you could look at the OCTG and seamless
25 cases, and I think that you have done this some, but

1 just in a concise manner give me your thoughts about
2 what is different about those cases with respect to
3 threat, the threat factors that we looked at in those
4 cases, versus this case.

5 MR. LEIBOWITZ: We would be happy to do
6 that. I think that I would start with the fact that
7 the product at issue is very different from those
8 cases.

9 CHAIRMAN OKUN: Okay. I appreciate it, and
10 I will look at that. Mr. Murphy, I'm not sure, or Mr.
11 Garvey, whether this is relevant given what you have
12 testified to today, but one question is when
13 evaluating whether there is likely to be additional
14 volume, and again looking at potential threat factors
15 from Chinese product.

16 With respect to contracts that your
17 companies, Mr. Lesco, and I guess I would put you in
18 this as well, is there anything that is not on the
19 record with respect to the import volume or order
20 books that we should be aware of evaluating what
21 amount of Chinese product is likely to come in?

22 MR. LESCO: Would you mind repeating the
23 question?

24 CHAIRMAN OKUN: Well, again, we are post-
25 petition, and so I don't want to say that this has

1 lots of weight, but I am just trying to in some cases
2 where we are looking at threat factors, there are
3 instances where the companies are able to demonstrate
4 what contractual commitments they have, and therefore
5 there is either an upper limit on volume, or we could
6 see what is likely to happen.

7 I don't think we have that in this case, but
8 I am trying to make sure that I understand the folks
9 sitting in front of us, and whether there is any
10 information that we don't have that would be relevant
11 and create an unlikely volume of Chinese product.

12 MR. LESCO: David Lesco here. If you are
13 asking if Downhole have any contractual obligations
14 with DP-Master at this point, or any orders in place
15 to bring to the United States, no. Is that what you
16 are asking?

17 CHAIRMAN OKUN: Yes, and I don't want to put
18 words in your mouth, but in your position that is
19 because of the preliminary order?

20 MR. LESCO: Well, yes, Ma'am.

21 CHAIRMAN OKUN: Okay. That's all I wanted
22 to know. Anything else with respect to whether
23 Chinese product is heading, if not to the United
24 States?

25 MR. GARVEY: Charles Garvey here. We have

1 no outstanding orders for Chinese product coming to
2 the States like David just said. And with Canada,
3 yes, we have ongoing business there. Not a
4 significant volume, but we have some.

5 CHAIRMAN OKUN: Okay.

6 MR. MURPHY: Madam Chairman, this is Patrick
7 Murphy.

8 CHAIRMAN OKUN: Yes.

9 MR. MURPHY: Yes, we have -- DP-Master has
10 opened an international sales and marketing office in
11 Asia Pacific, and we are increasing our sales and
12 shipments to Asia Pacific, to the Middle East, and to
13 Africa, and we see growing business opportunities in
14 these areas.

15 Also for the fact that there are more
16 Chinese oil companies taking up leases and drilling in
17 these areas with more Chinese drilling rigs, and also
18 being exported to these areas to drill.

19 CHAIRMAN OKUN: Okay. If that information
20 is not already on the record, and if you can make sure
21 that is done with some specificity on whether there
22 has been -- or where there were increases and with
23 respect to specific companies, that would be helpful.
24 Mr. Leibowitz, did you want to add something?

25 MR. LEIBOWITZ: We would be very glad to

1 supplement that.

2 CHAIRMAN OKUN: Okay. And then just a
3 question, and I don't know if it is fair to put to
4 you, but for those few -- and I will mention Grant
5 Prideco, either because you worked there, or they used
6 to be a customer, or a client, but has the role of
7 Grant Prideco in the market changed over the period of
8 investigation, and if so, why?

9 What role do they play in the U.S. market,
10 whether it is with respect to prices, volumes,
11 customers?

12 MR. MURPHY: Shall I take a stab at an
13 answer to that question?

14 CHAIRMAN OKUN: Sure.

15 MR. MURPHY: I still have a lot of friends
16 at Grant Prideco, and my understanding is that they
17 are still the price leader, and they are very busy.
18 Their factories are quite busy, and they have not
19 suffered very much in the downturn because of their
20 product mix, and their customer base.

21 You have to understand that during the
22 downturn in the U.S., there is still an ongoing boom
23 in manufacturing of off-shore rigs, which are being
24 manufactured in Singapore, and Korea, and China, and
25 Grand Prideco and VAM obviously supplied their premium

1 products to these companies. So my information is
2 that they are doing well.

3 CHAIRMAN OKUN: Okay. I appreciate those
4 comments. And I don't know if we went back to this,
5 but in discussion with producers, domestic producers
6 today with respect to the premium market, and this
7 discussion about whether customers want a dual source,
8 or want a single source, and I think a distinction
9 being made between casing and tubing, and drill pipe,
10 because drill pipes are move, and there is not the
11 same liability concerns.

12 Is that your impression as well on how the
13 market operates, or how contractors operate? If you
14 could comment on that, Mr. Murphy.

15 MR. MURPHY: Yes. I think that the major
16 contractors, like Nabors, is one, and they have a very
17 close relationship with Grant Prideco because of the
18 significant volumes that they need. So they tend to
19 place 100 percent of their business.

20 And this is pretty true of most of the
21 majors. Some for strategic reasons, like Weatherford,
22 for example, which is a very large drilling and rental
23 company, will probably have two suppliers just for
24 strategic reasons.

25 But certainly the top two or three drilling

1 contractors will tend to stick with Grant Prideco or
2 whatever.

3 CHAIRMAN OKUN: Okay. I appreciate all of
4 that, and I don't think I have any additional
5 questions, and I want to thank you for all those
6 responses, and we will look forward to post-hearing
7 submissions. Let me turn to Vice Chairman Williamson.

8 VICE CHAIRMAN WILLIAMSON: Just a couple of
9 questions. Mr. Garvey, you had mentioned I guess that
10 you had had some problems in terms of the status of
11 some of your customers because Grant Prideco had
12 escalation clauses in their contracts, which made it
13 hard for you to tell your customers what the price
14 would be.

15 I was wondering whether or not if that is a
16 fairly common practice among other domestic producers,
17 or is that something that they had at a particular
18 time? How significant is this?

19 MR. GARVEY: No, we experienced that with
20 another manufacturer also, and what it was, is that
21 when lead times were out at some length, demand was
22 high, and prices were rising in an almost monthly, and
23 for sure quarterly, and to protect themselves going
24 forward, the deliveries were so long that they put the
25 escalation clauses in, and you were subject to pay

1 them upon delivery.

2 VICE CHAIRMAN WILLIAMSON: Are those still
3 common, or was that --

4 MR. GARVEY: No, with the lack of demand
5 today, we don't see them.

6 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.
7 Thank you for the clarification. Mr. Leibowitz, you
8 had mentioned that because the Office of Investigation
9 didn't think there was injury, I was wondering what
10 should we make of the employment numbers in this case,
11 and how should we take that into account in
12 considering whether or not there is injury to the
13 domestic industry?

14 MR. LEIBOWITZ: I think the employment
15 numbers are relevant, but I think attributable largely
16 to the recession. I think in point of fact that it
17 sounds complicated, but it is actually quite simple.

18 If imports of subject merchandise were
19 devastating to the U.S. market, it would be because as
20 the Petitioners put it, this is a commodity product,
21 and everybody cares just about price. I think this
22 afternoon that we have established that, or I hope we
23 have, that that is not true.

24 But let's assume that it is true. Then the
25 profitability would be the first thing that you would

1 see happening. The prices would go down, and the
2 profits would go down with it. Employment is not so
3 sensitive. There is something else going on. I think
4 that would be my take on the employment numbers.

5 And we don't have to look very far to see
6 what is going on. It is the downturn.

7 MR. GARVEY: Charles Garvey here. If I may
8 comment. Going back to the preliminary hearing and
9 when we were sitting in here, some of the Petitioners
10 explained how they ramped up production in 2006, and
11 2007, and 2008, and added lines, and added
12 staff, and everything.

13 And so to a degree I think on the employment
14 side, they have created some of their own problems.
15 Sure, it was a busy time, and they all attempted to
16 ramp up for capacity, and to of course manufacture as
17 much drill pipe, and get the larger share of the
18 market.

19 But with that ramp up, it will also affect
20 where they hired staff and that, and I think the
21 numbers are a little skewed, because when you go back
22 to laying them off later, you have done a significant
23 run up in '06, '07, and '08, and now you turn around
24 and lay off a lot of that stuff. I think that threw
25 the numbers off a little bit also.

1 VICE CHAIRMAN WILLIAMSON: Okay. I was just
2 wondering about that, because we have seen in other
3 cases where the fall in employment was much more
4 dramatic than changes in profitability, and so it made
5 me wonder maybe the employment is more sensitive than
6 the profits.

7 Okay. Thank you. I was just wondering
8 about that, because you had mentioned the possibility,
9 but had not talked about employment. And I think with
10 that, that I have no further questions, and I also
11 want to thank the panel for their testimonies this
12 afternoon.

13 MR. LEIBOWITZ: Thank you, Mr. Vice
14 Chairman.

15 CHAIRMAN OKUN: Commissioner Lane.

16 COMMISSIONER LANE: Yes, thank you. Do
17 importers of subject merchandise arrange for adders
18 once the product has arrived in the United States, but
19 before a sale to a particular customer?

20 For example, do importers of subject
21 merchandise perform internal coding or arrange for
22 internal coating of imported products from China in
23 the United States prior to the sale of the products to
24 the U.S. market?

25 MR. LESCO: David Lesco.

1 COMMISSIONER LANE: Yes.

2 MR. LESCO: I do both. Tuboscope put up a
3 plant in China that I do have adders put on it. Many
4 times for stock, I prefer to just bring to the United
5 States without adders because sometimes I will have a
6 customer that doesn't want anything, and then I have
7 another customer that just wants to add hard banding,
8 or then I will have a customer that wants to add hard
9 banding and interior coating, and which Tuboscope does
10 all these things.

11 COMMISSIONER LANE: So you say that you have
12 the adders put on while it is still in China?

13 MR. LESCO: Sometimes.

14 COMMISSIONER LANE: And sometimes you --

15 MR. LESCO: It depends if I am -- well, most
16 of my stock that I order when I ordered pipe just for
17 inventory purposes, I would not have adders put on
18 over there.

19 COMMISSIONER LANE: Okay. Do you put adders
20 on some of your product once you get it to the United
21 States?

22 MR. LESCO: Yes, Ma'am, but it depends on
23 what the customer wants.

24 COMMISSIONER LANE: Okay. Why do purchasers
25 consider different combination of adders for drill

1 pipe?

2 MR. LESCO: David Lesco again. Various
3 customers will not drill with internal pipe coating,
4 for example, because of costs, but also because of the
5 type of drilling where they are drilling at.

6 I have one particular customer that wants
7 plastic coating, but he doesn't want hard banding, and
8 he wants to run it for a while, and then he will hard
9 band it. So everybody has different reasons,
10 depending upon the type of application.

11 COMMISSIONER LANE: Okay. Thank you. Does
12 anybody else want to add to that?

13 MR. GARVEY: Yes, Charles Garvey. The
14 majority of our pipe brought into the United States,
15 the adders are done here. A lot of times, you like to
16 roll the dice, and try to anticipate what your
17 customer wants.

18 But generally it is preferred for us to have
19 the adders done here so we are consistent with what
20 the customer wants, and generally it varies as per
21 each customer, like David just mentioned. They all
22 want something a little different.

23 COMMISSIONER LANE: Okay. Thank you. And I
24 want to thank all of you for your answers, and Madam
25 Chair, that is all that I have.

1 CHAIRMAN OKUN: Commissioner Aranoff?
2 Commissioner Pinkert? I don't think there are any
3 other questions from myself or my colleagues. Let me
4 turn to the staff and see if the staff has questions
5 of this panel.

6 MS. ALVES: Thank you, Madam Chairman. Mary
7 Jane Alves from the General Counsel's Office. I have
8 just one final question. This morning there was some
9 discussion of what production activities would you
10 consider to be a definitive finishing activity for the
11 drill pipe.

12 If you could comment what types of
13 activities you consider to be definitive, or that
14 provide some sort of a substantial transformation.

15 MR. MURPHY: Yes, this is Patrick Murphy.
16 We would consider friction welding as being a
17 definitive finishing activity for drill pipe. Would
18 you like some more?

19 MS. ALVES: Yes, please.

20 MR. MURPHY: Yes, friction welding adds the
21 tool joints to the tube, and the tool joint is
22 threaded as well, and that is a finishing activity.
23 So these would be two critical finishing activities.

24 MS. ALVES: Okay. Any others?

25 MR. MURPHY: Well, if you want to take a

1 step back, in the process from the green tube, after
2 the green tube is produced, you upset it. You make
3 the ends bigger in preparation for friction welding,
4 and then there is the heat treatment of the tube.

5 So these are the various processes upsetting
6 the heat treatment, and friction welding, threading,
7 finish.

8 MS. ALVES: Okay. Thank you. And if I
9 could ask both Petitioners' counsel and Respondents'
10 counsel to comment on this issue further in their
11 post-hearing briefs, that would be helpful. Thank
12 you. Madam Chairman, those are all the questions that
13 I have at this point.

14 CHAIRMAN OKUN: Okay. Thank you. Let me
15 turn to Mr. Schagrin and see if the Petitioners have
16 any questions for this panel.

17 MR. SCHAGRIN: Madam Chairman, the
18 Petitioners have no questions of this panel. We thank
19 them for their participation as well.

20 CHAIRMAN OKUN: Thank you. Let me before I
21 return to our closing statements, let me again take
22 the opportunity to thank this panel for appearing here
23 and answering our questions, and we look forward to
24 the information that you will provide post-hearing.

25 And then I am just going to go through the

1 time allocations, and then we will go ahead and
2 finish. The Petitioners have a total of seven minutes
3 remaining from their direct and five for closing. The
4 Respondents have a total of 18 minutes remaining, 13
5 from their direct, and five for closing.

6 If there is no objection, we can go with our
7 regular practice of having those times combined, and
8 we will take just a few moments to bring Mr. Schagrin
9 up for his closing.

10 MR. LEIBOWITZ: Thank you, Madam Chairman.

11 CHAIRMAN OKUN: Thank you, and thank you
12 again to this panel.

13 MR. LEIBOWITZ: Thank you.

14 (Pause.)

15 MS. ABBOTT: If the room will come to order.

16 CHAIRMAN OKUN: Mr. Schagrin, you may
17 proceed.

18 MR. SCHAGRIN: Thank you, Chairman Okun, and
19 Members of the Commission. Let me begin first before
20 I get into some of the rebuttal points, by apologizing
21 to my opposing counsel, and to the Members of the
22 Commission for any aspersions or sort of ad hominem
23 context this morning.

24 I went out of my way in preparing for this
25 hearing, saying that I would refrain from any of

1 those, and if I slipped in spite of my preparations, I
2 apologize. I learned a long time ago that I am not a
3 mistake-free practitioner.

4 I have made many mistakes in my 30 years of
5 practicing here. I remember that I actually did the
6 first hearing in this new hearing room. I hope to do
7 a few more, and hang in there physically, and
8 mentally, and keep fighting to keep the manufacturing
9 jobs in the U.S.

10 And I learned a long time ago in my career
11 that if I made a mistake, or if I mis-spoke, either
12 correct it at the end of the hearing, or in the post-
13 hearing brief, and I intend to continue with that.

14 Now, it seemed like everyone on both panels
15 today, whether they were the Petitioners' panel, or
16 the Respondents' panel, has worked for Grant Prideco.
17 They obviously are the big company internationally in
18 this industry, and they have trained a lot of very
19 excellent people.

20 Of course, it is a pity that nobody working
21 for Grant Prideco now was here today, because I think
22 that they could have given you a lot of information
23 about this industry, and what is going on now.

24 But I think both the Petitioners and the
25 Respondents greatly agree that Grant Prideco is

1 different from everyone else in this industry. The
2 Respondents said that Grant Prideco has lots of long
3 term contracts with major producers.

4 That does not appear to be true of anyone
5 else in this industry, with the exception of VAM
6 Drilling having an agreement with major international
7 oil companies not doing business in the United States.

8 That Grant Prideco has had allegedly 12 to
9 18 months lead times. We are not aware of any other
10 domestic producer having those kinds of lead times.
11 That Grant Prideco has a 60-40 mix between API grade
12 products and premium.

13 Other than Grant Prideco, only NOV makes
14 that, and I suspect that most of Grant Prideco's,
15 because it is right in there 10Ks and 10Qs, that most
16 of their premium products are exported, and I still
17 believe, and will demonstrate it to you in the final,
18 that demand in this market is about 15 percent and 85
19 percent API grade.

20 So as we have maintained, not only is Grant
21 Prideco very different, but Grant Prideco is also a
22 major Chinese producer, and we believe that their
23 relationship with their Chinese production facilities
24 has granted them a substantial benefit, and we will
25 address that again in our post-hearing.

1 But at the very least certainly the
2 condition of competition, they are so different from
3 everyone else in the industry, that certainly that can
4 itself be a condition of competition, because as we
5 stated in our opening comments, for this industry to
6 be denied relief because of Grant Prideco, and then to
7 have Grant Prideco be the only remaining members of
8 industry, seems to be irony compounded.

9 As the injury itself to this industry, we
10 believe injury has occurred. Just as in a recent case
11 on light wall rectangular tubing, where the Commission
12 found that the fact that as U.S. prices were falling
13 the most in the last year of the POI, the fact that
14 underselling increased at the time when U.S. prices
15 were falling the most, was evidence of material
16 injury.

17 We have the same thing here. As prices were
18 plummeting in the first half of 2010, underselling
19 increased to its highest levels of the POI. It just
20 seems that the importers got hungrier to both move
21 their inventories, as well as to move new imports.

22 We agree with Mr. Malashevich on the
23 robustness of the coverage for pricing products. That
24 is why we are so amazed that when you have such
25 coverage of these commodity products that you wouldn't

1 have a correlation between the pricing products and
2 the average unit values.

3 Now, they claim that imports have declined
4 basically continuously since 2008, but the record
5 shows, including your staff report, and I believe it
6 is Table 4-2, and that is confidential, shows a major
7 increase between the second half of '09 and the first
8 half of '10.

9 And, of course, the Commerce Department
10 found that as to Drill Pipe-Masters, there was a huge
11 increase, over 200 percent, between the second half of
12 '09, and the first half of '10 imports.
13 How is that affecting the marketplace?

14 Well, Command basically to our knowledge
15 bought no domestic products between early-to-middle
16 2009, and January of 2011. Now they have admitted
17 here, and obviously PFC stated in their testimony that
18 they are buying domestic products.

19 We think that is great. We do not want to
20 put Command, Downhole, or anyone else out of business.
21 I don't want any of these law firms to go out of
22 business. I mean, obviously these guys are kind of
23 like the Midases of the business world.

24 They could afford five law firms, including
25 Hogan Lovells, and because I am not representing Grant

1 Prideco, my clients can barely afford me. But we
2 don't want to put anybody out of business.

3 This industry is operating at one-third
4 capacity utilization, and they may say, well, we
5 understand Grant Prideco is flat out. Well, your data
6 is not wrong. My clients are barely operating one
7 shift out of four.

8 They can supply Command, and they can supply
9 Downhole, and they can triple their production without
10 there being any problems. They deserve that
11 opportunity in a fair marketplace, and we do believe
12 when you look at market share based on non-premium
13 products that the Chinese market share has increased
14 between '09 and '10.

15 As to some threat arguments. First, I do
16 believe that Mr. de Rotalier was very much
17 conservative in his estimates. Even Hilong -- besides
18 this Hilong/Birkin, said their own capacity was 60
19 thousand tons, and he has it at 55 thousand.

20 Those producers who are considered the top
21 producers in China, who are qualified to sell in
22 China, their capacity alone is over 300 thousand tons.
23 That's the size of the world market. So the best of
24 the Chinese industry, and you heard that even the
25 Chinese drilling companies are very careful.

1 They can supply the world market, and there
2 is plenty of other producers there. I don't know the
3 situation with Birkin. I mean, we took this off their
4 website, and Coastal, a couple of days before the
5 briefs. So if people put on their websites that they
6 have inventory of Chinese product, I would hope that
7 we could believe it.

8 One final comment, and that is that Mr.
9 Morris asked me at lunch, and he said if we lose on
10 February 7th, and imports start coming in, are we
11 allowed to file again, or do we have to shut down, and
12 I said, Sealy, I would just hang it up.

13 Because let's say that you say imports are
14 coming in, but I don't see any import data, because
15 instead of coming in as drill pipe, it comes in as
16 widgets. We can't fight this fight over again.

17 So I ask you that there is seven or eight
18 other producers besides Grant Prideco. They can
19 easily be pushed out of business. Please keep those
20 mills and their workers working. They deserve it.
21 Thank you very much.

22 CHAIRMAN OKUN: Thank you.

23 MR. LEIBOWITZ: Good afternoon. I want to
24 thank the Commission and the Staff for its indulgence
25 today, and their attentiveness, and the great

1 questions and dialogue that we have had.

2 I am happy to inform you that I do not
3 intend to use my entire 18 minutes. I think we have
4 again a very different case here, and there are a lot
5 of factual disputes. The Commission has an enormous
6 record, but there are some relatively irreconcilable
7 points to be made.

8 We are going to do our best in answering
9 your questions in the post-hearing brief to reconcile
10 them as we can. But I think that there are some basic
11 points here that are very clear and need to be
12 resolved.

13 First, this is a different product. I
14 appreciate that Mr. Schagrin -- well, apology accepted
15 certainly. Mr. Schagrin has done many, many cases
16 involving price on tube, but drill pipe is different
17 because it is reusable, because it is not a commodity
18 product, and because the risk of using pipe that may
19 fail, or may not last as long as it needs to, is too
20 great.

21 So price is not the driver in this product,
22 and that needs to be kept in mind. There also is the
23 relationships that are involved, and the tie-in to
24 energy prices that drive drilling activity.

25 Now, 2011 is advertised by every projection

1 service that I have seen as a good year, and so this
2 industry is not going to collapse. It is not going to
3 disappear. And I certainly don't wish that on anybody
4 that appears here.

5 Anti-dumping and countervailing duties are
6 not a right. They have to be earned, and they have to
7 be earned in this agency, because the normal
8 competitive activity benefits everyone in the U.S.
9 economy, and that cannot be taken away without a
10 showing of material injury or real and imminent threat
11 of material injury.

12 There are a number of threat issues that we
13 have discussed, and some of them involve discretion,
14 and I appreciate very much the questions that were
15 asked about that, including trade restrictions that
16 may be present in other markets, some of which may be
17 major.

18 We are going to look into that, and the
19 issue of inventory, and I would only say this. When
20 the Commission has discretion, it has it because
21 Congress understands that these issues require agency
22 expertise, and the agency should not think of itself
23 as pushing the envelope to do the absolute worse that
24 it can do without being overturned in court.

25 The Commission should take its discretion

1 seriously. We expect that they will do that in this
2 case as they always do. It has to be exercised
3 wisely, and with attention to the statutory factors
4 and the other economic factors that are present in
5 this case.

6 Now, in that context, we have the inventory
7 issue. We have the issue of exclusion of one of the
8 large domestic producers, Grant Prideco. As I pointed
9 out before, Grant Prideco chose not to be here.

10 I don't know why they chose not to be here,
11 but it certainly cannot be the case that they are more
12 interested in importing product from China than they
13 are in producing it in the United States, or they
14 would have fought to continue to be able to bring
15 imports of drill pipe from China, and that they didn't
16 do that.

17 They didn't even do the relatively trivial
18 steps of requesting a separate rate for some of its
19 subsidiaries. Now, I think as far as the domestic
20 industry is concerned, we very much believe, and we
21 strongly urge the Commission to find one domestic
22 industry, and not to exclude Grant Prideco from that
23 industry.

24 They are competing in this market because
25 they are able to do so. They are a global player, and

1 they operate in the global market, and so do all of
2 the petitioners in this case. That is a fact of life,
3 and it is too late to change it.

4 This petition was too broad. This petition
5 included high end or premium drill pipe, and now they
6 want to in effect amend the petition. We heard that
7 the high end pipe is neither -- that industry is
8 neither injured or threatened with material injury.

9 And they want to circumscribe the scope, and
10 I think they should go back and file another petition
11 if they want to have it on a smaller universe of
12 product. We would like to keep some oil and gas
13 drilling in the United States and not circumscribe it
14 by elevating prices artificially, or by restricting
15 supply.

16 We think that can be done safely without
17 worrying about an avalanche of imports. So, let's
18 look at what we learned in China. The Chinese market
19 is not chomping at the bit to send everything they can
20 find to the United States market. The United States
21 is a big market, and it is an important market, but it
22 is not the only market.

23 And we have heard some evidence today, and I
24 think we will supply some additional evidence in the
25 post-hearing brief, that the other international

1 markets in which China is interested, not only as an
2 outlet for drill pipe, but as an investment for energy
3 companies in company, is much bigger than it appears
4 on the Spears data.

5 We will be looking at that and provide you
6 with all the information regarding -- that we can find
7 regarding actual Chinese production, and actual
8 Chinese capacity, and other international markets.

9 And it is a very nice sound bite to hear
10 that if you don't do what we want you to do, we are
11 going to dry up and blow away. The facts on the
12 record don't support that, and I would dismiss that.

13 We look forward to addressing the other
14 issues that the Commissioners proposed to us. They
15 are again very interesting questions. I think I would
16 just like to make two final points. On the capacity
17 utilization, that is routinely a very difficult issue
18 in cases, what is the capacity.

19 In one market, it might be using the same
20 machinery. You might be able to produce twice as much
21 in another market, as in other markets, due to energy
22 constraints. China is well known for having energy
23 constraints due to the inability or the inexperience
24 of the workforce to get the most out of the machinery
25 that is available due to raw material supplies, and

1 due to roads, bridges, other logistics.

2 So be very careful about capacity issues,
3 and the Chinese producers, such as they are, have not
4 figured out something that American producers can't
5 figure out. Their role is going to be some more
6 information about capacity utilization.

7 Now, on threat. I noted that Mr. Schagrin
8 actually subtracted the ones that were not qualified
9 even to supply the Chinese energy markets from Mr. de
10 Rotalier's list, and it does go down by about half,
11 but even that capacity utilization as I have said, or
12 that capacity rather, is highly suspect and needs to
13 be treated very carefully.

14 In point of fact, as we have established
15 today, there is no threat of injurious levels of
16 Chinese imports in the imminent future as a result of
17 a negative determination in this case, and we think
18 that the evidence amply supports a negative
19 determination in this case.

20 I think that it is inappropriate for the
21 Commission to look at this record, and this product,
22 and this industry, and determine that there is a real
23 and imminent threat of material injury by reason of
24 imports that are not going to come in. With that, I
25 thank the Commission and the Staff.

1 CHAIRMAN OKUN: Thank you. Posthearing
2 briefs, and statements responsive to questions, and
3 requests by the Commission, and corrections to the
4 transcript, must be filed by January 12th, 2011.
5 Closing of the record and final release date to the
6 parties is January 31, 2011, and final comments are
7 due February 2, 2011. With no other business to
8 come before the Commission, this hearing is adjourned.

9 (Whereupon, at 5:41 p.m., the hearing in the
10 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Drill Pipe and Drill Collars from China
INVESTIGATION NOS.: 701-TA-474 and 731-TA-1176 (Final)
HEARING DATE: January 5, 2011
LOCATION: Washington, D.C.
NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: January 5, 2011

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

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

SIGNED: Christina Chesley
Signature of Court Reporter