UNITED STATES INTERNATIONAL TRADE COMMISSION

TAPERED ROLLER BEARINGS FROM CHINA
INV. NO. 731-TA-344 (THIRD REVIEW)

TESTIMONY OF PHILIP FRACASSA
Senior Vice President and Controller of the Bearings & Power Transmission (B&PT) Group
The Timken Company

Good morning. My name is Phil Fracassa. I am Senior Vice President and Controller of the Bearings and Power Transmission Group at The Timken Company. In this role, I serve as the lead financial executive overseeing Timken's global bearings and power transmission business, which includes the company's Mobile Industries, Process Industries, and Aerospace and Defense reporting segments. My team includes the segment controllers, as well as regional controllers around the world, each of whom manages their segment or region's financial affairs. My testimony this morning will address several aspects of the current condition of the domestic industry, using our company as a surrogate, and will amplify several of the points Jim Griffith has made.

As the Commission is aware, demand for tapered roller bearings is based on the demand in the end market industries where TRBs are used. As such, TRB demand is generally tied to the overall economy. The U.S. economy, in 2008 and 2009, went through the worst recession since the Great Depression. The recovery has been slow and remains slow today. If you look at the numbers we provided in our producer questionnaire, you will see that our production capacity for TRBs in the U.S. remained fairly flat from 2006 to 2011. During this time, we converted one of our facilities to produce tapered roller

bearings, and all of our facilities engaged in continuous improvement activities intended to increase productivity and capacity and reduce costs over time. However, also during this time, we closed two facilities and operated many of our plants far below their capacity, leaving portions of the plants idle as our shipments significantly contracted. As Jim Griffith testified, the contraction in volume was due in large part to the continued price aggression of our Japanese competitors and our inability to match such depressed prices and still earn our cost of capital. Thus, during the period under review, we have lost large volumes of TRB sales, including wheel hub assemblies, resulting in our production, capacity utilization, shipments, and employment being far below where we would have expected them to be but for that price aggression.

With the order on imports from China in place, our company has focused its efforts on securing new business where pricing supports an adequate return on our investment. Our company has been buffeted for years by aggressive dumping in the U.S. market by many of our competitors, resulting in the company <u>not</u> earning its cost of capital on its domestic TRB business over many years. During the period being reviewed by the Commission in this sunset review, following the recession we have begun to see returns on our much smaller volume that, if maintained, should permit us to cover our cost of capital over the business cycle. This is obviously welcome news to our management team, to our workers and to our investors, as it will provide a basis for Timken's continued leadership in the design and manufacture of TRB products here in the United States. Indeed, the poor profitability over much of the last decade has directly resulted in the reduced capital investments that can be seen in our questionnaire response for U.S. operations. If we can

obtain sustained returns that permit us to earn our cost of capital, as a company we will continue to do what is needed to ensure our facilities are the best that they can be. Without sustained returns, our footprint in the U.S. will continue to contract. In our view, maintaining the order on imports from China during this time of slow economic growth is critical to avoid a significant further contraction to our operations.

Timken has historically been the industry leader in innovation. Yet long-term inadequate profitability has resulted in some reduction in the R&D expenditures the company makes in the U.S. TRB business, as reflected in our questionnaire response. Obviously, a further contraction of our position in the U.S. market will result in a further shrinkage in the R&D effort as well. As Jim Griffith has reviewed, revocation of the order on imports from China in light of the developments in the last five to ten years in their TRB manufacturing situation would seriously undermine our company's ability to achieve, on an ongoing basis, adequate returns on TRBs in the U.S. That, in turn, would result in plant closures, significant layoffs, further reduced R&D and capital expenditures, and, of course, serious erosion of our profitability.

Therefore, we respectfully request that you make an affirmative determination and maintain the order on TRBs from China. Thank you.