

## STATEMENT OF THOMAS BAKER

Good morning. My name is Thomas Baker, CEO of Wieland Copper Products. I had the pleasure of meeting members of the Commission staff recently when they came to our facilities in North Carolina, and I appreciate the opportunity to be here today. Wieland has two copper tube plants in the United States — one in Pine Hall, North Carolina, and another in Wheeling, Illinois. In total, we employ approximately 530 American workers at our facilities.

I'd like to focus the first part of my testimony on the product itself, how it is made, and how it gets sold in the U.S. market.

Copper tube is typically characterized as either plumbing tube (which is produced to standard ASTM specifications) or industrial tube (which might also be produced to a standard specification, or OEM specific standards). Copper tube comes in a wide variety of dimensions, depending on its intended use. There is hard and soft tube in straight lengths, and there is soft tubing sold in coils. There is OXY/MED tube for the transportation of medical gases. There is also refrigeration service tube (RST), which is used for the conveyance of refrigerants. And you also have line sets, which are coils of liquid lines and suction lines, with one or both being insulated.

As you can imagine, these varying forms of copper tube are used in a wide range of applications. For example, in the construction industry, copper tube is used in single family houses at one end of the spectrum, and in hospitals, shopping malls, schools, and large commercial buildings at the other end. Not surprisingly, smaller diameter tubes are commonly found on the housing end, and larger diameters are found in commercial buildings.

There is a similar continuum of HVAC applications ranging from residential air conditioning units in houses to large chillers for office buildings. And there are specialty applications such as ice makers, refrigerated cases, and kitchen and bath fixtures. The point is that copper tubes are used in a wide range of applications, and there are no clear dividing lines among them.

I have with me just a few samples:

- **Sample #1:** This is a 1” Type K plumbing tube produced by our competitor, Cerro. You might find a product like this on the shelf at your local Home Depot.
- **Sample #2:** This is ½” Type L plumbing tube. It is similar to the first example, except for a smaller diameter and a thinner wall.
- **Sample #3:** The next example I am holding is also a ½” tube, and you may think this looks like plumbing tube, and you would be right. But technically speaking, this is an engineered straight length produced to an OEM’s specification. We call this “commercial tube” or “industrial tube.”
- **Sample #4:** Here you have a 3/8” diameter Refrigeration Service Tube, in a 50 foot coil. It is produced to an ASTM spec and sold at retail as well as wholesale, so most folks in the industry would call this plumbing tube. But if you had the same tube packaged as a large level wound coil, and sold to an OEM, we would treat it as commercial tube.
- **Sample #5:** Finally, I have here a small piece of commercial tube from a level wound coil. This is also 3/8” diameter, but it is not smooth bore. If you look carefully on the inside, you will see that it is internally enhanced to optimize heat exchange. This is also referred to as IGT, or inner-grooved tube.

Now I would like to give you a brief overview of the production process. There are three main steps to producing copper tube. The initial step is called pre-fabrication, and this can be done using either an extrusion process or a cast and roll process. Producers typically use one or the other. Wieland, in fact, uses both methods. The extrusion process involves vertical casting with solid billets that are hot-work extruded, while the cast and roll process involves horizontal casting of a shell that is then hot-worked through planetary rolling. In either case, the pre-fabrication process results in the creation of a “mother tube” and the remaining steps are the same for all downstream products.

The second step is called intermediate fabrication, and involves various iterations of cold drawing to produce tubes in a variety of diameters, thicknesses, and lengths.

The final step is finishing. Here, producers use a variety of finishing methods to create smooth bore level wound coils, pancake coils, inner-grooved tubes, smooth straight lengths, or other types of copper tube products.

Ultimately, the difference among all of these products are subtle, and created by minor adjustments in the manufacturing process. The key point I want to make is that no matter which pre-fabrication technology is used, a finished product manufactured to a given specification will always be the same.

Now, let me describe the way copper tube is sold.

First, I should explain that there are four basic channels of distribution in the United States: (1) mills which sell to a master distributor, who in turn resells to a wholesaler; (2) mills which sell directly to wholesalers; (3) mills which sell directly to retailers; and (4) mills which sell directly to original equipment manufacturers.

Nearly all plumbing tube sales are spot sales. Bidding is generally based on a published price sheet which is adjusted periodically to account for changes in the copper metal cost and other market conditions. Usually, a customer invites bidding for an estimated quantity of pounds, and competition takes place on the basis of a negotiated multiplier applied to the list price. Multipliers change very frequently based on metal prices and head-to-head competition among suppliers. So, the sales price is the list price times the multiplier.

So to give a simple example, if a product has a list price of \$5.00 per foot, and the winning bid is a multiplier of 0.5, then the actual sales price to the customer is \$2.50 per foot.

The sales process for commercial tube generally involves annual contracts that specify forecasted volumes for a 12 month period. Because sales occur over an extended period, and because copper prices are often extremely volatile, the metal cost is passed-through, and competition occurs based on the fabrication charge, which is expressed on a dollar per pound basis. Just to be clear, all producers pay the same global price for the copper metal.

In other words, the pricing process for plumbing tube and commercial tube products is fundamentally the same in that the metal price is intended to be static among all producers, while the competition occurs based on how much companies charge for copper tube fabrication. This is the same regardless of whether a customer purchases domestically produced tube or an import.

Once copper tube is produced to a given specification, products from different sources are generally viewed as interchangeable in the marketplace. This is certainly true for products from China, Mexico, and the United States and also true for other sources of supply as well.

At the end of the day, it's price that matters.

That is a big part of why we are so vulnerable to dumping, and why we would suffer if the orders were lifted. Prior to the orders, Chinese and Mexican producers were dumping significant quantities into the U.S. market, and threatening further additional harm. To unload large quantities of product, they reduced their price, with the result being lost sales, reduced conversion revenues, and mill closures. The orders helped to curb the large volumes of dumped imports, and helped support the U.S. industry's survival. Wieland, for example, was able to complete the integration of its cast and roll technology soon after the Orders were imposed, and was able to further invest in plant equipment throughout the period of review. These investments would not be possible without the orders. Assuming the orders are continued, we plan to make further investments in plant equipment in the future.

If the orders are revoked, we fully expect Chinese and Mexican foreign producers to target the U.S. market once again. The large amounts of unused capacity are still there in China and Mexico. In fact, we understand that Nacobre in Mexico recently added capacity, and Hailiang in China recently announced a major capacity expansion.

Both Chinese and Mexican producers still focus on exporting their product. And the United States continues to be an attractive market for subject imports for several reasons. *First*, the U.S. market is attractive because of its size. *Second*, there are relatively higher market prices here in the

United States as compared with other markets. And *finally*, the terms of sale in the United States are generally more favorable, which means better liquidity for Chinese manufacturers. If the orders are revoked, I have no doubt that Chinese and Mexican imports will once again attempt to capture U.S. market share using the only tool they have—by undercutting the domestic industry's prices.

Thank you for your attention, and I would be happy to answer any questions you may have at the conclusion of our presentation.