# UNITED STATES
# INTERNATIONAL TRADE COMMISSION

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| In the Matter of: | ) | |
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| CERTAIN CARBON STEEL | ) | Investigation Nos.: |
| PRODUCTS FROM AUSTRALIA, | ) | AA1921-197; 701-TA-319, |
| BELGIUM, BRAZIL, CANADA, | ) | 320, 325-328, 348, and 350; |
| FINLAND, FRANCE, GERMANY, | ) | and 731-TA-573, 574, 576, |
| JAPAN, KOREA, MEXICO, | ) | 578, 582-587, 612, and |
| POLAND, ROMANIA, SPAIN, | ) | 614-618 (Second Review) |
| SWEDEN, TAIWAN, AND THE | ) | |
| UNITED KINGDOM | ) | |
| (CORROSION-RESISTANT) | ) | |

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

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| CERTAIN CARBON STEEL PRODUCTS FROM AUSTRALIA, BELGIUM, BRAZIL, CANADA, FINLAND, FRANCE, GERMANY, JAPAN, KOREA, MEXICO, POLAND, ROMANIA, SPAIN, SWEDEN, TAIWAN, AND THE UNITED KINGDOM (CORROSION-RESISTANT) | ) | Investigation Nos.: AA1921-197; 701-TA-319, 320, 325-328, 348, and 350; and 731-TA-573, 574, 576, 578, 582-587, 612, and 614-618 (Second Review) |

Tuesday,
October 17, 2006

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

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

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

DANIEL R. PEARSON, CHAIRMAN
SHARA L. ARANOFF, VICE CHAIRMAN
JENNIFER A. HILLMAN, COMMISSIONER
STEPHEN KOPLAN, COMMISSIONER
DEANNA TANNER OKUN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER

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Staff:

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SHARON D. BELLAMY, HEARINGS AND MEETINGS ASSISTANT
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DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR

CONGRESSIONAL APPEARANCES:

THE HONORABLE ARLEN SPECTER, United States Senator, Commonwealth of Pennsylvania
THE HONORABLE JOHN D. ROCKEFELLER, IV, United States Senator, State of West Virginia
THE HONORABLE JOHN P. MURTHA, U.S. Congressman, 12th District, Commonwealth of Pennsylvania
THE HONORABLE ALAN B. MOLLOHAN, U.S. Congressman, 1st District, State of West Virginia
THE HONORABLE PETER J. VISCLOSKY, U.S. Congressman, 1st District, State of Indiana
THE HONORABLE JOSEPH "JOE" KNOLLENBERG, U.S. Congressman, 9th District, State of Michigan
THE HONORABLE PHIL ENGLISH, U.S. Congressman, 3rd District, Commonwealth of Pennsylvania
THE HONORABLE MIKE DOYLE, U.S. Congressman, 14th District, Commonwealth of Pennsylvania
THE HONORABLE MIKE ROGERS, U.S. Congressman, 8th District, State of Michigan
THE HONORABLE HENRY E. BROWN, JR., U.S. Congressman, 1st District, State of South Carolina
THE HONORABLE G.K. BUTTERFIELD, U.S. Congressman, 1st District, State of North Carolina

APPEARANCES: (Cont'd.)

STATE GOVERNMENT APPEARANCES:

THE HONORABLE BILL H. STOVALL III, Speaker of the House, State of Arkansas, House of Representatives
THE HONORABLE WALTER H. DALTON, State Senator, 46th District, State of North Carolina
THE HONORABLE ED CLEMENTE, State Representative, 14th District, State of Michigan, House of Representatives
THE HONORABLE CHUCK BLASDEL, Speaker Pro Tempore, 1st House District, Ohio House of Representatives
THE HONORABLE SANDY LAYMAN, Commissioner, Iron Range Resources, State of Minnesota

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

On behalf of United States Steel Corporation and AK Steel Corporation:

JOHN H. GOODISH, Chief Operating Officer and Executive Vice President, U.S. Steel
JOSEPH R. SCHERRBAUM, JR., Vice President, Sales, U.S. Steel
PETER J. ALVARADO, General Manager, Automotive, U.S. Steel
MICHAEL N. MEYERS, Director, Industry Marketing, U.S. Steel
DOUGLAS W. GANT, Vice President, Sales & Customer Service, AK Steel
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LOUIS L. SCHORSCH, CEO, Flat Products, Americas, Arcelor Mittal
ROY PLATZ, Director of Marketing, Sales and Marketing, Mittal Steel USA
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RICK BLUME, National Sale Manager and Marketing Manager, Sheet Mill Group, Nucor
JOHN W. NOLAN, Vice President and Manager, Sales and Marketing, SDI
JOHN BATES, SR., Chief Executive Officer and Owner, Heidtman Steel Products
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In Opposition to the Continuation of Countervailing Duty and Antidumping Duty Orders:

On behalf of DaimlerChrysler Corporation, Mercedes-Benz U.S. International, Inc., Ford Motor Company, General Motors Corporation, Honda of America Mfg., Inc., Honda Trading America Corporation, Nissan North America, Inc. and Toyota Motor North America, Inc. (Collectively Auto Producers):

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CHRISTY C. TOWERS, Corporate Account Manager, Ford, Dofasco Inc.
HENRY T. WEGIEL, Manager, Government and Trade Relations, Dofasco Inc.
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<u>In Opposition to the Continuation of Countervailing Duty and Antidumping Duty Orders</u>:

<u>On behalf of JFE Steel Corp., Kobe Steel, Ltd., Sumitomo Metal Industries, Ltd., Nippon Steel Corp. and Nisshin Steel Co., Ltd.</u>:

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HEIKI MIKI, Vice President, Marketing, JFE Steel America, Inc.

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<u>On behalf of ThyssenKrupp Steel AG, Saltzgitter AG, Stahl und Technologie, ThyssenKrupp Steel N.A. Inc., ThyssenKrupp Steel Services and ThyssenKrupp Materials N.A. Inc.</u>:

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In Opposition to the Continuation of Countervailing Duty and Antidumping Duty Orders:

On behalf of TCC Steel:

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LISA W. ROSS, Esquire
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On behalf of Sollac Atlantique, Sollac Lorraine, Arcelor FCS Commercial and Arcelor International America, LLC:

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RYAN A.T. TRAPANI, Esquire
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P R O C E E D I N G S

(9:33 a.m.)

CHAIRMAN PEARSON: Good morning. On behalf of the U.S. International Trade Commission I welcome you to day one of hearings on Investigation Nos. AA1921-197: 701-TA-319, 320, 325-328, 348, and 350; and Investigation 731-TA-573, 574, 576, 578, 582-587, 612, and 614-618 (Second Review), involving Certain Carbon Steel Products From Australia, Belgium, Brazil, Canada, Finland, France, Germany, Japan, Korea, Mexico, Poland, Romania, Spain, Sweden, Taiwan, and the United Kingdom.

The purpose of these second five-year review investigations is to determine whether revocation of the countervailing duty and antidumping duty orders on certain carbon steel products from the previously listed countries would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

Today's hearing will focus on corrosion-resistant steel. Thursday's hearing will focus on cut-to-length plate.

Notices of investigation, lists of witnesses and transcript order forms are available at the

Secretary's desk. I understand that parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary.

As all written material will be entered into the record in full, there is no need to read it all to us at this time. Parties are reminded to give any prepared testimony to the Secretary. Please do not place testimony directly on the public distribution table.

All witnesses must be sworn in by the Secretary before presenting testimony.

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

Madam Secretary, before turning to you, let me issue a special welcome to those many people who are participating by video in the courtroom this morning. We regret that we don't have enough space in one room to accommodate everyone who is interested.

Let me also offer a comment on today's schedule. There is no perfect way to run a hearing that likely will be a bit long and so in concurrence with the other Commissioners we have decided to take a lunch break that will start sometime roughly between

12:30 and 1:30.

Perhaps that will be in conjunction with the end of a round of questioning, or perhaps it will just be guided by the pointed glances I'm receiving from my colleagues. At any rate, it's not our intention to hold the lunch break until after the completion of the presentation and questioning of the domestic industry. The thinking was that would go too long.

Secondly, we are tentatively planning to take an early evening break of perhaps 15 or 20 minutes that would commence sometime around 6:00. We'll sort out those details as we get closer, but I did want parties to be aware of these somewhat different arrangements that we have today.

Now, Madam Secretary, do you have any preliminary matters?

MS. ABBOTT: Yes, Mr. Chairman. With your permission, two additions to the calendar. On page 4, Elizabeth Drake, Trade Consultant with Stewart and Stewart; and on page 6, Johnny Brown, Buyer for Nissan North America.

CHAIRMAN PEARSON: Without objection. It's agreed.

MS. ABBOTT: Our first congressional witness is the Honorable Arlen Specter, United States Senator, Commonwealth of Pennsylvania.

CHAIRMAN PEARSON: Welcome, Senator.

MR. SPECTER: May it please the Commission. Preliminarily, let me note the very arduous schedule you have just outlined. Hearings in the Congress of the United States could do well to emulate that lengthy schedule. We could use more time at hearings ourselves if we had candidly the discipline to do so.

I appreciate the opportunity to appear before the Commission today on these very important proceedings evidenced by the fact that there will be 10 members of Congress scheduled to appear here.

Senator Rockefeller, who is Vice Chairman of the Steel Caucus, will be present, I appear here in my capacity as Senator from Pennsylvania and Chairman of the Steel Caucus, and eight other members of the Congress from the House of Representatives are scheduled to appear, which is a testament to the importance of these proceedings coming three weeks to the day before a national election where we are all very heavily engaged, the members of the House all running for reelection and those of us in the Senate, whether running or not, very heavily engaged.

We are here because of the importance of the issues which we are confronting. The law requires that there be a review on a five-year basis, as we all know, on antidumping and countervailing duties, and we are looking at a very critical aspect of the steel industry in the United States with respect to corrosive-resistant steel.

The nations which are involved here have the potential to overrun our country with corrosive-resistant steel, as was evidenced in 1992, the last time that orders were not in effect, when there was a very, very heavy surge which threatened the American steel industry.

We have now had a determination by the Department of Commerce, which has the responsibility, as does this Commission, to make a review. Three orders have been determined. Two have been published. On June 6, this was set forth in the *Federal Register*, 71-32508 to 32513: "The Department of Commerce determines that revocation of AD orders on CORE from Australia, Canada, France, Germany, Japan and South Korea would likely lead to continuation or recurrence of dumping."

Two have been published in the *Federal Register*. The third will be. It was entered only on September 27.

As I say, in 1992, the last year subject producers had unfettered access to our markets, they shipped 1.9 million tons of unfairly traded corrosive-resistant steel to the United States.

The imposition of the orders in 1993 led to a dramatic decline in unfairly traded imports.  If the orders were to be revoked, we would have a projected surge of corrosive-resistant steel because between 2000 and 2005 the subject country production of corrosive-resistant steel increased by some 5.5 million net tons to nearly 44 million tons.

If you take a look at the entire United States importation and the United States use of corrosive-resistant steel, it is in the range of 20 to 22 million tons per year.

The situation is complicated by the fact that China, as we all know, is not subject to any order.  China had been an importer of steel and now has drastically increased its production so that it is now an exporter.

You have the same situation with respect to the potential of India sending to the United States unfairly traded steel so that the picture is one where were the countries now limited by existing countries to be free to come in here with subsidized and dumped steel it would greatly damage the American steel industry, and it would strike at the core of our industrial capacity.

Steel has had tremendous problems, as we all know, over the last three decades. I've been in the United States Senate now for 26 years, and one of the first issues that I tackled when coming to the Senate was the issue of what was happening to the steel industry and the tremendous impact that it has had on my state and on many, many states.

We now have 150,000 steelworkers in the United States, which is a reduction from a figure where there had been in the range of 500,000 people employed in the steel industry, and where we have the industrial base at stake if we are to permit unfairly traded steel to come into this country and to decimate our steel industry we may well face the situation where we do not have a vibrant steel industry, where in time if we were on our knees the importers would raise their prices if they felt it possible to do so.

If we felt the deterioration of our own domestic steel industry and our industrial base, we would be hard pressed to defend the United States in time of war. The threats that face our nation today, ongoing in Iraq, potential in Iran, potential in North Korea, potential anywhere in the United States, and without a strong steel industry we would be at the mercy of other nations.

Just a word or two about some of the considerations advanced by the automobile industry. It's very important to have a strong automobile industry in the United States.  Automobile production has always been a core and basic issue, but it would be manifest injustice to subject the steel industry to unfair subsidies and dumping from foreign importers to help one phase of the American industry at the expense of another.

Here again there might be some short-term gains, but if the United States was not able to maintain its own steel industry your foreign importers could raise the prices of the automobile industry or other users of steel, corrosive-resistant steel.  It would work to the long-range detriment of the automobile industry and other industry.

As we project the future of the industrial base, project the future of 150,000 steelworkers and retirees as well because the retirement funds are based on the average price of steel, if that comes down the retirement benefits of the retirees will be in jeopardy as well.

This is a matter of enormous importance to my state, to many states, but most fundamentally to the United States. It is very reassuring to have the kind of attention and deliberation which this distinguished Commission gives to these issues. It is a pleasant change from my other senatorial duties to come here almost like a lawyer and to have an opportunity to present a case.

I thank you for the opportunity. It's nice to be on this side of the podium without a gavel. We urge you to follow the lead of the Department of Commerce, which has given very extensive consideration, the Executive Branch and to maintain these orders which are very, very important for the welfare of our country.

Thank you.

CHAIRMAN PEARSON: Thank you, Senator. It's very good to see you again.

Do any of my colleagues have questions for Senator Specter?

(No response.)

CHAIRMAN PEARSON: Okay. Thank you very much.

MR. SPECTER: Well, that's lucky. Thank you.

MS. ABBOTT: Our next appearance is the

Honorable John P. Murtha, United States Representative, 12th District, Commonwealth of Pennsylvania.

MR. MURTHA: Good morning, Commissioners.

CHAIRMAN PEARSON: Good morning, Congressman Murtha. Welcome.

MR. MURTHA: Thank you very much. Nice to be here.

I've been here a few times before, and I appreciate the complexity of the work that you do, but it's had a real impact over the years. As I mentioned to a couple people, during the Reagan Administration we were able to work out something, and even though he was a free trader, because of national security.

I remember saying to the President at a small meeting with John Hines and a couple other people there, Mr. President, we've got a national security problem, and it's with steel. He said well, Abraham Lincoln had the same problem. I remember that, he said. I thought, he does remember that.

As we went through this thing, he directed them to put in place the quota system which we had for five years that reduced the imports from 30 percent down to 18 percent. The steel industry was able to modernize working with the steel unions, working with the companies and working with the country. We were able to allow them to reorganize.

Now, we still have 30,000 steelworkers in western Pennsylvania. I've got my Steeler tie on. They finally won. You folks wouldn't notice that, but steel has always been so important in western Pennsylvania.

We had a serious flood in 1977 in Johnstown where 50,000 people were outside their homes. We lost 5,000 steelworkers then because of the flood, but since that time we've lost 7,700 steelworkers because of the flood of subsidized imports into the United States, basic steel jobs. Of course, the other jobs that are related to it had a dramatic impact.

The 30,000 steelworkers still working, if they're not protected by the law and the interpretation of the law, we feel we've got a real problem.

I have testimony which I'll leave with you, but our capacity -- I'm on the Defense Subcommittee Appropriations. We still use steel in ships. We still use steel in armor. We still use steel in tanks. If we couldn't get it, we'd have a heck of a problem.

For instance, I remember during the Carter

Administration we started working on synthetic fuels to reduce our dependency on foreign oil. Because of the pressure, the money pressures, and this is what you'll hear today. You'll hear a lot of people saying well, it costs more to have to buy steel in the United States. Well, this is subsidized steel coming in from other countries.

The point is if we had spent money on synthetic fuels in the old days, we would have had less dependence on foreign oil right now. If we don't do that we'll have to buy steel overseas, and it will be a lot more expensive in the long run. We need a reliable supply of high quality, domestically produced steel. This is no question since 9-11.

The question you have before you today is straightforward. Would you remove the antidumping and countervailing duty orders likely to lead to material injury to our domestic producers? Looking back to when these orders were first put into place, imports from the affected producers plummeted by 48 percent, a sure indication that their success in the market was directly related to their ability to sell unfairly traded imports.

The Department of Commerce, after an extensive investigation, determined these foreign producers will continue to send dumped and subsidized steel into our market. Many of our foreign producers that are the subject of the investigation are the most sophisticated in the world, and they have been certainly and will be aggressive in expanding their market share with dumped.

The point I'm making is we spent $962 billion in defense in the last nine months -- that's the defense bill -- including the money we spent on the Iraq War, but the point is we've got to have a basic steel industry in the United States. It's a national security issue.

I appreciate the complexity of your decision. I know it's sophisticated. You're dealing with sophisticated law, but this is simple to me. It's just we need to protect the basic steel industry from unfair, against-the-law subsidized steel coming into the country.

I'd be glad to answer any questions you may have.

CHAIRMAN PEARSON: Thank you. Any questions for Congressman Murtha?

(No response.)

CHAIRMAN PEARSON: Thank you very much. We appreciate the time you've taken to come here today.

You've got an election coming up. You're doing well to take time to come here to Washington to see us.

MR. MURTHA: Thank you very much.

MS. ABBOTT: The Honorable Alan B. Mollohan, United States Representative, 1st District, State of West Virginia.

CHAIRMAN PEARSON: Welcome, Congressman Mollohan.

MR. MOLLOHAN: Mr. Chairman, members of the Commission, Commissioner Lane, how are you today? Thank you for the opportunity to testify today on the sunset review of orders on corrosion-resistant steel from Australia, Canada, France, Germany, Japan and Korea.

I appreciate all the good work that you and your staff do to help create a level playing field with our foreign competitors. When the ITC helps U.S. companies fight back against dumping by foreign producers or neutralize subsidies by foreign governments you provide hope across the country to those that are fighting to preserve jobs in our steel communities and to save our industrial base.

I represent the 1st Congressional District of West Virginia, including the steel producing community of Weirton that is facing the consequences of unfair foreign competition.  Since 1909, Weirton Steel has produced high-quality steel and has provided high wage, high skilled jobs to the people of its community.

It is now owned by Mittal Steel USA and is one of the largest employers in my district and in the state.  The long-term health of this plant is critical to the long-term economic prospects of this community, this region and our state.

It is not just the actual employment at the plant, but the multiplier effect that matters to the region.  When the plant was doing well, jobs provided by suppliers, transportation companies, local retailers and even government increased.  When times are tough, families lose income, health care coverage or retirement benefits, and the whole region suffers.

Unfortunately, all too often people in Weirton have experienced job loss and dislocation. There is no question that the plant, its workers and the town of Weirton are facing significant economic challenges at this moment due to conditions in the global steel market.

The people of Weirton are strong, loyal and patriotic.  They have a work ethic second to none that will help attract new investment while keeping Weirton Steel open and competitive. I'm especially proud of the work that the Independent Steelworkers Union and Mittal Steel USA have done together in Weirton to ensure that the plant remains one of the premier tin mill producers in North America.

Today I appear here on behalf of the workers and the community of Weirton and the company. While Mittal's Weirton facility almost exclusively produces tin mill at present, dumped or subsidized corrosion-resistant steel undermines the viability of the company as a whole and thus jeopardizes the facility and the community of Weirton.

Continuation of the existing orders on corrosion-resistant steel is crucial for the overall U.S. steel industry to remain competitive. By nature, steel is a highly capital-intensive industry, and facilities must operate at a high rate of capacity utilization in order to cover their costs.

As countries around the world increase their capacity and output, we can expect to see the continued ways of dumped products as foreign producers try to take advantage of the attractive prices in the U.S. market.

This is beginning to put downward pressure on domestic producers who will be unable to compete with the unfairly priced products. In fact, we've already seen evidence of this as countries not covered by the orders have more than doubled their market share since the first review in 2000.

This has put downward pressure on prices and led to declines in capacity utilization at domestic facilities. Imports of corrosion-resistant steel from the six countries under sunset review rose by 17.3 percent in 1992. Once the original orders were put on back in 1993, import shares decreased to eight and nine percent.

Since 2000, total imports of corrosion-resistant steel from the subject countries have ranged from 7.5 to 13.2 percent. China in particular is adding exceptional amounts of steelmaking capacity and poses a serious threat to the domestic market for corrosion-resistant steel.

As China is able to produce more of its own steel and meet its own domestic demand, it displaces those exports that used to supply its market. This creates a situation of oversupply in the global arena, putting downward pressure on prices and affecting U.S. producers' ability to compete. In addition to these Chinese competitive pressures, raw material and energy costs that remain well above historical averages are also undermining steel producers.

In a time of surging global trade deficits, the ITC's work to make sure that our trade remedy laws are effectively enforced is more important than ever. So far this year the goods trade deficit is up 14 percent, and if that trend holds we'll face an $800 billion trade deficit in 2006. Dumped or subsidized product from abroad should not be allowed to inflate that figure.

Mr. Chairman and members of the Commission, your work remains critical for U.S. companies and U.S. workers. I urge you to extend these orders on corrosion-resistant steel for an additional five years. Combating dumped and subsidized product from abroad is the right thing to do for the U.S. communities, workers and companies.

The trade remedy laws were developed so that domestic companies can compete on a level playing field. The orders under review today have enabled our corrosion-resistant steel industry to deal with the global pressures it faces from increasing imports and unfair trade practices.

While there are additional challenges looming ahead, continuation of these orders will provide necessary relief to domestic steel companies and help keep plants open in my district and throughout the country.

The Commerce Department in June of this year already ruled that the same countries will start dumping the same products in the U.S. again if the remedies are taken off.

Mr. Chairman and members of the Commission, on a final note I understand that on Thursday you will be reviewing dumping orders and duties on cut-to-length steel plate. Let me take this opportunity to encourage the Commission to seriously consider keeping those orders in place as well.

The U.S. plate producers, including Mittal, will appear before the Commission because plate is an important steel product which is used in a variety of applications, including transportation products, offshore drilling rigs and railroad cars and others.

I understand that current import data from the Commerce Department indicates that imports for 2006 are consistently above those in 2005, and 2005 reflected an increase over '04.

I also understand it is estimated that imports of plate will be about 15 percent of the domestic market. Overall these plate producers have weathered the storm, but have only been able to do so by having antidumping and countervailing duty orders on plate products that were traded unfairly. We must maintain orders on these products to ensure that fair trade continues to prevail in the global market.

Mr. Chairman, members of the Commission, I appreciate the opportunity to testify before you today. I urge you to find in favor of the U.S. steel industry and keep all of these orders in place.

I do thank you for your consideration of this proceeding and also your consideration and favorable decisions in the past. Thank you so much for allowing me to appear before you.

CHAIRMAN PEARSON: Thank you.

MR. MOLLOHAN: Yes, sir.

CHAIRMAN PEARSON: Are there any questions for Congressman Mollohan? Commissioner Lane?

COMMISSIONER LANE: I just want to thank the congressman for taking time out from what I know is his busy schedule to come here and represent the interests of West Virginia. Thank you.

MR. MOLLOHAN: Thank you, Commissioner. We appreciate your hard work and good work here in Washington. Thank you so much.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Thank you.

MS. ABBOTT: The Honorable Peter J. Visclosky, United States Representative, 1st District, State of Indiana.

CHAIRMAN PEARSON: Welcome back, Congressman.

MR. VISCLOSKY: Thank you very much. It is good to be back, and I appreciate the opportunity to testify. The Commission has my prepared remarks.

I simply would ask for your continued careful and deliberate and judicious consideration of all of the testimony and evidence that will be provided to you in this sunset review on corrosion-resistant steel last entered in 2001.

I must say personally I regret that some in the auto industry may use today's hearing as an opportunity to fault the domestic steel industry. Thanks to some of the decisions made by this Commission and others, as well as their endeavors over the last decade, they are now on a level playing field and actually making a profit in the United States of America, which I thought is exactly what we ought to be doing in this country.

I am not without sympathy to those who are facing trouble in that particular industry. Ford

Motors has a manufacturing facility in Forest Heights, Illinois, that abuts my congressional district, and a third to one-half of the people in that particular facility actually live in the 1st Congressional District.

I look at the overall climate as far as auto manufacturing in the United States, and again that's not the subject of this hearing, and recognize that those who are transplants in the United States are estimated to increase their capacity in this country by 50 percent over the next five years, hardly an unhealthy environment.

I'm also not here to talk about the cost of steel and the problems it potentially has caused to some in the domestic auto manufacturing sector, given the fact that corrosive-resistant steel represents about $473.62 to the cost of the average North American light vehicle that sold in the second quarter of this year for $27,800, about 1.67 percent of the selling price.

I checked with *Consumer Reports* yesterday and found that all season performance tires, a good set of four, range from $130 to $520, so I'm not here to talk about that.

I'm not here to talk about the suggestion that there is a short supply or shortage of this particular product in the United States. I see it being made in the 1st Congressional District of Indiana every day by producers such as U.S. Steel and Mittal Steel, and there are 10 other producers in this country who also make that product.

What I am here to ask your careful consideration of are the two key issues I believe you must make a decision on. That is, if the sanctions are lifted, will abuse occur again, and will a surge occur? I absolutely believe that those events will occur.

Imports from nonsubject countries jumped 47.3 percent from the first half of 2005 to the first half of 2006, and on June 6 in the *Federal Register* the Department of Commerce said that the Department determined that the revocation of the antidumping dumping orders on CORE from Australia, Canada, France, Germany, Japan and South Korea would be likely to lead to continuation or recurrence of dumping at the following weighted average percentage margins ranging on companies from Germany to 10 percent, in Japan 36 percent.

The second question is whether or not injury will occur. Your staff report shows that from 2000 to

2005 the domestic industry cut its unit labor costs by 29.3 percent, and during this same period the industry's productivity improved by 68 percent. They continue to have burdens such as the price of the zinc that increased by a factor from $1,300 per metric ton to $3,300 per metric ton this past August, but in any event continue to need that fair playing field.

If we go back just a bit in time and look at that list of 45 companies that had to file for bankruptcy from 1997 to 2004, we see companies in places like Dunkirk, New York; Vineyard, Utah; Gaston, Alabama; Ann Arbor, Michigan; Sterling, Illinois; Terre Haute, Indiana; Covent, Louisiana; Los Angeles, California; Houston, Texas; Everleth, Minnesota; and Georgetown, South Carolina.

Injury occurred before. It is my belief it will occur again and again trust to your careful consideration of the testimony that's going to be brought forward to you today and again appreciate the fact that you allowed me to testify today.

CHAIRMAN PEARSON: Thank you.

Any questions for Congressman Visclosky? Commissioner Hillman?

COMMISSIONER HILLMAN: Congressman Visclosky, since I am a native of South Bend, Indiana, I wanted to take this special time to thank you as someone who shares roots in the State of Indiana and to thank you for taking the time during this election season to be with us as well. Thank you.

MR. VISCLOSKY: And as someone who went to school in South Bend, Indiana, and still is concerned about the weather patterns in South Bend, Indiana, I thank you very much.

CHAIRMAN PEARSON: Thank you very much.

MR. VISCLOSKY: Thank you, Mr. Chairman.

MS. ABBOTT: The Honorable Phil English, United States Representative, 3rd District, Commonwealth of Pennsylvania.

CHAIRMAN PEARSON: Welcome back, Congressman English.

MR. ENGLISH: Thank you so much for the opportunity to testify today. We're most grateful to you for the complex analysis and the professionalism with which the ITC is pursuing this investigation.

Mr. Chairman and members of the Commission, I want to thank you for the opportunity to present testimony today regarding the five-year sunset reviews of antidumping and countervailing duty orders on corrosion-resistant steel.

In my view, these orders should be

maintained to ensure that domestic steel producers have a fair chance to compete. It's often stated that, and I quote, "U.S. manufacturers can compete with anyone when given a level playing field."

It is true certainly that American industries and particularly the steel industry can compete on a level playing field because they have made and continue to make the necessary capital investments and human resource decisions to remain a cutting edge in their field.

In other words, they've made tough choices that often include furloughing workers to be the most efficient producers that they can be. Producers that make these difficult choices and play by the rules should be unencumbered to use the trade remedy laws that Congress created to police our market from illegally traded imports.

To suggest that the playing field is not level when one domestic industry utilizes the trade remedy laws and impedes another from continued access to illegal dumped inputs is on the face of it an absurdity.

There should be little question about the effect of revoking these orders. While I understand that foreign producers are claiming that removing relief will have little or no impact on the market, I believe that is not what domestic auto makers are telling members of Congress.

To the contrary, what we've found is that they have strongly argued that removing relief would give them access to lower priced steel. This is highly credible in my opinion, as it is coming from sophisticated customers who well understand this market.

It is also notable that domestic producers have made only the slimmest of profits during the period in which the Commission will be examining. Domestic auto companies have also created some confusion among members of Congress by circulating materials claiming that the steel industry has been averaging profits of 12 percent in recent years. Whatever that data relates to, it is certainly not the case with corrosion-resistant steel, the issue before you today.

As I understand it, the Commission's own data shows that the domestic industry earned barely three percent in the period from 2000 through 2006 and has earned just over five percent during the improved market in 2005 and 2006.

In my view, these are insufficient margins to restore health to this highly capital intensive industry. The fundamental tenant of this debate often gets lost in Congress and elsewhere. This case is simply about whether or not the resumed dumping of corrosion-resistant carbon flat products will injure domestic producers.

The Department of Commerce has already determined that dumping will continue. The Department of Commerce's finding that dumping would continue comes as no surprise to us not because of the counterintuitive notion that steel-related trade remedy cases are somehow a conspiracy or an injustice against steel consumers, but rather, as veteran observers of the global steel marketplace well understand, the underlying distortion and government involvement in the steel market hasn't changed at all.

Taking the long view, it is clear to me that if illegal dumping continues without remedy injury to the domestic industry is certain. The only question is how devastating the injury will be.

This Commission is altogether too aware of how illegally traded steel products not only devastate the employers and the employees of the industry, but also vast communities to which the industry plays a central economic role.

I believe the facts in this case present a situation where continued utilization of our trade remedy laws are warranted and I think highly desirable.

Again, I want to thank the Commission for creating an opportunity for us to testify. I think that as someone who represents both steel producers and steel consumers and also as a member who is very concerned about continuing to have a manufacturing base in our country, I think that this is going to be a test case for whether we can have the commitment to maintaining manufacturing in this country.

I thank the Commission for the opportunity to testify.

CHAIRMAN PEARSON: Thank you, Congressman.

Are there any questions for Representative English?

(No response.)

CHAIRMAN PEARSON: Thank you very much.

MR. ENGLISH: Thank you.

MS. ABBOTT: The Honorable John D. Rockefeller, IV, United States Senator, State of West Virginia.

CHAIRMAN PEARSON: Welcome, Senator Rockefeller. It's good to have you here again.

MR. ROCKEFELLER: Good morning. You're very, very kind, and I have this awful feeling. You get me a couple times a year. I haven't been here in a while. I had an awful feeling that you were figuring well, he's going to come back sooner or later. I didn't want to disappoint you, Mr. Chairman.

I am here, and I am here on serious business in talking about --

CHAIRMAN PEARSON: Is the mic on?

MR. ROCKEFELLER: I fixed it.

CHAIRMAN PEARSON: Yes.

MR. ROCKEFELLER: Mr. Chairman and members of the Commission, it has been some time since I've appeared before you, and I know that's been welcome relief. That's a different kind of relief for you. Here I am back again and urging you to maintain the antidumping and countervailing duty orders on corrosive-resistant steel.

A lot of folks wouldn't know what that is, but it becomes a very, very important factor in my work in West Virginia and your work here. This is corrosion-resistant steel that comes from Australia, it comes from Canada, it comes from France, Germany, Japan and South Korea.

There are those probably sitting in the

audience who would like to see you do the opposite of what I'm going to suggest. I think their reasons are specious, and I won't go into those reasons.

The domestic steel industry today is at a very critical juncture. It always is. You've heard that before. It always is. Overprotection throughout the world is again contributing to a significant imbalance in supply and in demand. U.S. imports of corrosion-resistant steel are again surging dramatically.

As a result of skyrocketing raw material costs, current prices provide our domestic steel producers with only a very small operating margin. I'm going to get into that because that's an argument used by those who would have you, as I would say, break the law. Those prices are already falling due to a weaker demand.

If we open our market to a new surge of dumped and subsidized imports, the domestic steel industry will likely be forced into a tailspin of operating losses, lost market share, lower production, plant closures and significant layoffs. We have discussed this subject many times before.

We can't let that happen again. West Virginia and American steelmakers are only now recovering from the tremors that hit our domestic industry about the time that you put these orders into place. In other words, you saved the day.

For now your orders are preventing a new catastrophe. They are in effect, and they are preventing a new catastrophe. These orders, in my judgment, should be maintained for the sake of our domestic steel industry, the health of our manufacturing base and for the very real effect that they have on American steelworkers and their families.

I know without even blinking that each of you take your responsibilities very seriously, and I commend you for your public service and your dedication because you have hard decisions to make usually based upon obscure facts, but very important ones. There's a small group of us that live all of these problems, and you have to do it all the time. I am grateful for that.

I believe that you know your duties obviously very well, and you want to properly apply the law, but for the public record and for the benefit of those who will testify throughout the day I'd like to address each of the statutory factors that the law requires you to consider as you evaluate the continuation of these orders.

First, what is the likely volume of subject imports? The record shows that these producers held over 14 percent of the U.S. market -- over 14 percent of the U.S. market -- before relief was imposed by you and that after that their market share fell, but it was only after you imposed relief so that there is a very strong cause and effect relationship of your decisions and what happened in these markets.

It shows that they remain active in the market even today, that they have large volumes of unused capacity and inventory and that they are building even more new capacity. Finally, it shows that they depend on exports and that prices in the U.S. market are very attractive. In short, there is overwhelming evidence that the likely volume of subject imports will be significant if the orders were to be changed.

Secondly, what are the likely price effects of subject imports. The record shows that automotive customers are looking for lower prices, and they have been extremely active on the Hill I can assure you. They even came to see me, which was not productive. They are looking for lower prices. I can't blame them for that. Anybody would. I can assure you that that is what they are saying very strongly on the Hill.

Your record shows that the foreign producers can compete at the highest levels. In terms of product quality, the price is an absolutely critical factor in purchasing decisions. In other words, if unfairly traded products, imports, come into this market there is no reason to believe the domestic producers can maintain any sort of price premium. They will have to either cut prices or lose sales.

Third, what is the likely impact of subject imports. The record shows that with the orders in place the domestic producers have dramatically lowered their costs and improved their productivity. You've been a very large part of that.

They are still trying to recover from years and years of heavy losses, and I don't have to go into that because we've discussed that many times before during the early part of this decade, previously, losses in fact that forced eight domestic producers of this product to either declare bankruptcy or shut down entirely.

Moreover, because of rising costs and soaring imports, this industry made an operating income of only 5.2 percent in the first six months of this year. Now, 5.2 percent isn't very good. It's not very strong. Think about that, a 5.2 percent return on a high end product at a time of relatively strong demand.

Imagine what happens if the orders are revoked and a new surge of dumped and subsidized imports enters this market. Common sense tells all of us that it won't be long before the meager operating income returns turn into heavy losses.

The history of the steel industry tells us that. We simply know that. The steel industry has always been fighting to survive. It's always been marginal. It's always at the brink, so to speak, and it has its long history that way so we fight for it.

Those are the factors that you are "required" to consider under the law, and I would submit that each one of them strongly argues in favor of this relief.

I would like to contrast that analysis with what some on the other side appear to be urging, namely that you view this statute as some type of tool to weigh the relative fortunes of producing and consuming industries and pick and choose amongst them.

In this regard it has been suggested that maybe the steel industry is doing a little better than it has in the past, some auto producers are struggling, and maybe that should be part of your analysis. In other words, that you hold manufacturing of different products, producers of different components as part of the way you make a judgment.

I know that you understand that such consideration is affirmatively not part of your job, and for very good reason. This is not an either/or determination. It is based on your trade laws. Our trade laws.

Your responsibility, as you well know, is to apply a legal standard to a set of facts to determine whether the corrosion-resistant steel industry would be injured by a return of unfair trade. That's what it is. That's what the responsibility is.

It will always be true that consumers of unfair trade can get some short-term benefit from being dumped and having subsidized inputs, but Congress has determined that those benefits come at an unacceptable cost to domestic producers, to our workers, to our manufacturing capability and to the overall efficiency of the U.S. and global economy when foreign market distortions go without remedy.

I urge you not to be distracted from your task at hand or to take judgments that you are not called upon to make. I would add that the claims that I have heard from auto makers are entirely unpersuasive.

Now, I could go into a little speech about auto makers and their efforts to keep up with the times, particularly on the domestic front. As you know, these trade orders have no impact on fairly traded merchandise. That bears repeating. The orders that you have in place have no impact on fairly traded merchandise which can be imported in unlimited quantities. This is only about getting access to dumped and subsidized products, and no industry should have a right to do that.

There is also no evidence that steel prices are undermining the competitiveness of our domestic auto producers, something shown by the success of transplant auto makers in this country. It's a rather strong point, if I have to say so. It's marginal. I've had some of those companies transplant and come to me and say that they're aware of it, but they're not strong on this. Well, it costs them the same amount to purchase steel and everything else as it does others.

While some auto companies have been suggesting to Congress that these steel producers are making large profits, I go back to the 5.2 percent at the moment. I understand that your data shows conclusively that this argument is false.

The claims of selected auto makers are also terribly shortsighted in my view. The type of market-distorting behavior facing the steel industry is increasingly affecting all manufacturers. Auto makers themselves routinely complain about currency manipulation abroad. They complain about closed foreign markets. They complain about unfair trade.

A decision based on these factors would set a dangerous precedent for others to attack our trade laws. How are we to build the resolve in this country to tackle some of these problems and create a true level playing field for all manufacturers if we have one industry trying to benefit by subjecting another to unfair trade practice?

How is the auto industry going to credibly have the nerve to ask for help to deal with the foreign market distortions it faces after it has tried to tear down its own suppliers and force them to face the same types of practices that they themselves, the automobile industry, have been complaining about?

Let me be clear. I am not without sympathy for the difficulties of the U.S. auto makers. I believe that we should do more to help them and improve the edge of all of our domestic manufacturers.

I have offered legislation proposals that would provide some real help to our auto makers and other U.S. manufacturers. While I have not been successful, I don't yield easily on these things.

Weakening our own trade laws and revoking badly needed trade relief would be a suicidal policy in terms of strengthening American manufacturing, in my judgment. We need a real manufacturing for all American manufacturers, and that needs to start with the most effective and aggressive possible enforcement of our trade laws.

Commissioners, I hope that you will apply the law as it is written and consistent with your own duty and responsibilities, which you know far better than I do. I believe that if you do so you will find that extending this relief is the only proper course.

I thank you for your attention.

CHAIRMAN PEARSON: Thank you, Senator.

Does anyone have a question for Senator Rockefeller? Commissioner Lane?

COMMISSIONER LANE: Senator Rockefeller, contrary to what you said we always love to have you come here and testify in front of us. We're looking forward to your coming back many times.

MR. ROCKEFELLER: Commissioner, I'm very

grateful for that statement. I'm not entirely sure it is shared by all of your fellow Commissioners, but I am nevertheless grateful for that.

COMMISSIONER LANE: Thank you.

CHAIRMAN PEARSON: I would just observe that it's seldom the Commission has such a thorough discussion of the trade statutes from a member of Congress. Your expertise is very much recognized and appreciated.

MR. ROCKEFELLER: Thank you, sir.

CHAIRMAN PEARSON: Okay. Thank you.

MS. ABBOTT: The Honorable Mike Doyle, United States Representative, 14th District, Commonwealth of Pennsylvania.

CHAIRMAN PEARSON: Good morning, Congressman Doyle.

MR. DOYLE: Good morning. Thank you all for allowing me the opportunity to comment on these five-year reviews, reviews that are not only extremely important to my constituents, but to anyone who cares about the future of manufacturing in the United States.

The antidumping and countervailing duty orders before you today are among the most important orders that the United States has imposed on unfair trade. In fact, it's not too much to say that without these orders much of the remaining U.S. domestic steel industry would have been lost.

Let me explain why. Corrosion-resistant steel is a high-end, high-value product, particularly important for the production of automobile bodies, as well as other high-end applications like construction and appliances.

As worldwide production of lower quality steel products has surged, steelmakers in the United States have become increasingly focused on technologically advanced products such as corrosion-resistant steel.

Focusing on the high end of the steel market is easier said than done. American producers of corrosion-resistant steel must invest in the research and development necessary to remain on the cutting edge. They must train their workers to meet the demanding requirements of their customers.

They must deal with significant fluctuations in their cost such as the recent increases in the price of zinc necessary to make corrosion-resistant steel. Most importantly of all, they must obtain a return on their investment that will justify further expenditures on this product line. These difficulties are all part of market competition, and American steel companies work hard to meet them. Indeed, they must in order to survive.

There's another type of difficulty, however, which no American company should be forced to meet, the difficulty of competing with dumped and subsidized steel. Unfairly traded imports such as those you are considering today are not the result of market forces. Indeed, they are made possible only through market distorting practices such as government subsidies and closed home markets.

For many years, U.S. policy on this issue has been clear. This market is open to free trade so long as it's fair trade. In these reviews, the record strongly indicates that the order has played a vital role in limiting unfairly traded imports.

In the last full year before the orders were imposed, unfairly traded imports from subject countries held more than 14 percent of the U.S. market. The next full year their market share fell to 6.3 percent, and they have never held more than five percent of the U.S. market in any subsequent year.

The orders have been particularly important in providing U.S. producers with a fair opportunity to compete for contracts with major automobile companies.

Due in large part to these orders, the efforts of U.S. producers to remain competitive in the corrosion-resistant steel have been successful.

Consider the steel crisis that began during the late 1990s when prices for all steel products collapsed to unsustainable lows. That crisis had devastating effects on U.S. producers and forced many of our largest companies completely out of business.

It disturbs me to think about how much worse that crisis would have been or how many factories would have been closed for good if U.S. producers had no relief from dumped and subsidized imports of corrosion-resistant steel. Thus, there can be no doubt that the orders have played a vital role in preserving this high tech industry.

The orders continue to play that role. The record before you indicates that U.S. producers face aggressive import competition from many sources around the world, including China, India and Taiwan. Indeed, imports from nonsubject countries held 11 percent of the U.S. market during the first six months of 2006.

If in addition to these imports U.S. producers must also deal with unfairly traded imports from some of the largest and most aggressive steel companies in the world, as they will if these orders are revoked, the long-term future of this industry will be at risk.

In short, the idea that revoking these orders would not lead to material injury is simply ludicrous. Accordingly, I urge you and I ask you to keep these vital orders in place, and I thank you for the opportunity to testify before you today.

CHAIRMAN PEARSON: Thank you, Congressman.

Any questions for Representative Doyle?

(No response.)

CHAIRMAN PEARSON: Thank you very much.

MR. DOYLE: Thank you very much.

MS. ABBOTT: The Honorable Mike Rogers, United States Representative, 8th District, State of Michigan.

CHAIRMAN PEARSON: Welcome, Congressman Rogers.

MR. ROGERS: Thank you. Good morning, Mr. Chairman.

CHAIRMAN PEARSON: Is this your first time here?

MR. ROGERS: This is my first time in oral testimony. I've submitted testimony in the past.

CHAIRMAN PEARSON: Okay. Great. Thank you.

MR. ROGERS: Thank you.

CHAIRMAN PEARSON: Please proceed.

MR. ROGERS: First of all, let me compliment the Commission for putting those who represent the steel industry and those of us who represent steel consumers in the same room this morning. It made for some lively conversation. I appreciate the opportunity to be here today.

I do appreciate the opportunity to testify. I come from a manufacturing state. I personally had the great privilege to work in two manufacturing facilities. I was able to put some money away to go to college early in my career.

This is a group with a keen appreciation for manufacturing and all that it's done not only for Michigan, but all over the country and really the world. American manufacturing is still the envy of the world and, more importantly, manufacturing remains a major engine in the American economy.

I'd like to take this opportunity to encourage the Commission to take particular note of the testimony it receives regarding the impact on steel consuming industries that the current antidumping order has had.

It's important for the Commission to recognize that the long-term health of steel producers is inextricably linked to the health of the steel consuming industry. The damage done to steel consumers cannot be isolated from the rest of the economy.

I believe that the ITC should be considerate of the impact of a diminished American-based steel consuming market and what that will do to steel producers.

The major steelmakers should be congratulated for the excellent work they have done in recent years. Management and labor have worked together to dramatically reshape the steel industry.

Today, U.S. steelmakers enjoy significant market power, and I think that, and I would draw the attention of the Commission to that, is an important factor in the decisions you'll make on the antidumping order.

That market power, in fact 70 percent of the flat-rolled steel production capacity, is held by three steel companies. This consolidation has allowed steelmakers to gain new control over the price, and the market shows us this. The price of corrosion-resistant steel is up nearly 70 percent since the recent round of steelmaker consolidations.

Manufacturing capacity is also an essential component of our national security, an argument steel producers have aggressively advanced over the years. We build things from steel in Michigan, and as a member of the House Intelligence Committee I can assure you that the work done in Michigan and across the United States is indeed essential to our national security.

There is no doubt we must have a healthy and robust steel industry in the United States, but we cannot have a steel industry unless we have a healthy manufacturing company to buy that steel.

In World War II, American manufacturers went from building trucks in six weeks to building artillery shells when their government knocked on the door and called them to service. If you can imagine that process, and it happened again and again across American manufacturers. They turned their shops over, changed their businesses and built airplanes and engines, bullets and bombs. Manufacturers did not just build the weapons to win the war. They also set the nation firmly on a path of prosperity that we enjoy today.

There is no more significant manufacturing community than the automobile manufacturing sector. Approximately 2.4 million Americans work in the United

States auto industry. Make no mistake, the auto industry operates in a highly competitive global marketplace. International corporations have choices in where they will deploy capital.

Unfortunately, federal and state governments sometimes make decisions that discourage an investment. The current steel tariffs are just such a policy. The auto industry has a strong claim to speak for U.S. manufacturing. In fact, of that 2.4 million Americans who work in the automobile industry and the other steel using industries outnumber steelworkers by more than 60 to one.

Today's auto workers face serious threats to their futures. Dozens of significant auto suppliers are currently in bankruptcy, including several of the largest auto suppliers in the world. Nearly all of these companies point to the struggles of their North American operations as a cause for their filing. Remember, the price of steel has gone up 70 percent and the materials that they use to produce car parts and automobiles here in the United States.

The ITC should consider the condition of the auto industry and manufacturing in general because it makes no sense to continue protectionist steel policy that contributes to the decimation of the steel users we need to have a healthy domestic steel industry.

My argument is more than a rhetorical one. auto makers and other steel consuming industries have legitimate standing to participate in the ITC's proceedings under current law. That is because the experience of purchasers and consumers are directly relevant to the legal question before the ITC, providing data regarding the conditions of competition in the United States, factors affecting the demand for steel and the domestic industry's market power and vulnerability to foreign competition.

Moreover, the ITC staff has determined that automotive users represent nearly half of the purchasers of corrosion-resistant steel in the United States, which can hardly be characterized as irrelevant.

You're going to hear plenty of statistics today, and rightly so. You're charged with calculating what the likely outcome will be of ending steel tariffs.

Please allow me to close with some examples of how steel tariffs can distort the marketplace. Accuride Corporation is a fairly large automobile parts supplier. They have nearly 5,000 employees across the United States and well over $1 billion in sales. Put simply, they are a real player in the auto industry and a company that has some relative control over its cost inputs.

This past July their CEO testified before the U.S.-China Economic and Security Review Commission. In this testimony, he clearly and succinctly explained why steel tariffs are hurting his operation in the United States and ultimately are threatening his entire business.

In the past year, the price of steel has steadily risen in the United States, while the cost of steel has fallen in much of the rest of the world. In most parts of our economy this would be a simple matter. Accuride would be buying steel from say China.

The existing tariffs on steel make that purchase impossible, driving the cost of importing steel above North American prices, yet at the same time U.S. tariffs on Accuride's largest product, steel wheels, is 2.5 percent. Put together, American tariffs and duties are actively encouraging companies to manufacture auto parts in China and ship them back to the United States.

I defy anyone to explain why this is beneficial to any part of the American economy, including steelmakers.  I encourage the Commission to carefully consider Accuride's predicament because it is all too common, and it is relevant to your legal charge because Accuride is indicative of the larger auto industry, and the larger auto industry is absolutely essential to a complete consideration of the sunset review.

Compare Accuride's story to one of that of the major steel industry's executive style.  The CEO of U.S. Steel has said that he expects "a healthy steel consumption level, along with further increases in flat-rolled prices in the United States and Europe."  The CEO of Mittal said in May, and I quote, "Global supply/demand equilibrium is expected to stay balanced."

Further, U.S. producers clearly do not believe that there will be overcapacity in steel.  In June, Nucor, the third largest U.S. producer, announced it would build 500,000 tons of additional corrosion-resistant production capacity in Alabama, at the same time Servicorp is building 1.5 million tons of new capacity in Mississippi.

I don't envy you.  Your job is certainly a difficult one.  Congress has charged you with deciding whether to renew or revoke a significant piece of industrial policy, but the record in this case is clear. Steelmakers have consolidated, restructured and now enjoy significant market power, which was really the intention of those tariffs.

Their public statements and investment decisions have underlined the health of the American steel industry. On the other hand, we know that steel consuming industries, the people who buy the products we are considering today, are telling us that steel tariffs are distorting the marketplace, and when coupled with other flawed trade policies are actually driving production overseas.

The existing steel tariffs have served their purpose and should be revoked. Continuing them would damage the steel consuming industry and in turn will actually weaken the position of steelmakers.

I encourage you in the strongest terms possible to revoke these tariffs. A state economy like Michigan fully depends on it. The workers of thousands and thousands of suppliers and their families and their communities who are suffering under the yoke of what these steel tariffs are doing to their industry and their jobs and their futures is real and should be a part of this consideration.

I appreciate the opportunity to testify

before you today and would welcome any questions that you might have.

CHAIRMAN PEARSON: Thank you, Congressman.

Does anyone have questions for Congressman Rogers?

(No response.)

CHAIRMAN PEARSON: Thank you very much. Appreciate it.

MR. ROGERS: Thanks to the Commission. I appreciate the opportunity.

MS. ABBOTT: The Honorable Joseph "Joe" Knollenberg, United States Representative, 9th District, State of Michigan.

CHAIRMAN PEARSON: Welcome back, Congressman Knollenberg.

MR. KNOLLENBERG: Thank you. Thank you very much. Glad to be here. I appreciate obviously you having this hearing. Shall I continue then?

CHAIRMAN PEARSON: Please.

MR. KNOLLENBERG: Thank you. Mr. Chairman and Commissioners, I want to thank you for the opportunity to testify today on the current antidumping and countervailing duty orders on corrosion-resistant carbon flat steel products.

These tariffs are hurting the American

economy, and I hope the Commission will render a decision that recognizes the importance of corrosion-resistant steel to the competitiveness of America's manufacturing sector. Commissioners, very simply I urge you to repeal these tariffs.

As you probably know, my home state of Michigan is in a one state recession. Even though neighboring manufacturing states have seen some modest progress, Michigan's economy remains stagnant. Now, much of that can be attributed to the struggles of the auto industry on which our economy is primarily dependent.

DaimlerChrysler has their headquarters in my congressional district and employs more than 10,000 workers in my district alone. Ford and GM have their headquarters just outside my district. Honda, Nissan and Toyota all are operational in the metro Detroit region.

Auto suppliers also dominate the southeast Michigan landscape. In my district alone, there are more than 1,500 manufacturing establishments, including the headquarters of Delphi, Arvin-Meritor and the Robert Bosch Corporation.

However, the vast majority of these auto suppliers, more than 90 percent, are small businesses employing less than 100 people. These are the companies struggling to compete in the global market.

The auto industry has numerous challenges to address such as health care and pension issues. These are not easy things to fix, and the ITC cannot help these companies on those issues.

However, one of the challenges that the Commission can address is the raw cost of materials. In fact, it is the cost of raw materials. Artificially high steel prices have been hurting the auto and manufacturing industry for years. Lifting the damaging tariffs on corrosion-resistant steel will not only assist the American manufacturing base, but ensure our trade policies are based on sound economic policy rather than a protectionist agenda.

As you know, steel is vitally important in making cars. Corrosion-resistant steel is an irreplaceable raw material that the auto industry must have to make high-quality vehicles. A typical vehicle carries about 2,500 pounds of steel, including the costly sheetmetal for body panels such as fenders, hoods, roofs and doors.

The auto industry remains one of the leading purchasers of corrosion-resistant steel, directly buying one-third of the 22 million tons of corrosion-resistant steel sold annually at a cost of more than $5 billion.

In a monumental event, the six largest auto companies in American -- Ford, General Motors, DaimlerChrysler, Honda, Nissan and Toyota -- have all come together to oppose the renewal of the tariffs on corrosion-resistant steel. These companies have united because the tariffs have artificially inflated the price of corrosion-resistant steel by up to 30 percent.

In fact, steel prices continue to rise and hover at historically elevated levels according to the Congressional Research Service. Some companies have found that the U.S. mills impose limits on the quantity of steel that they are willing to provide, a significant burden in light of the sharp swings in the market for motor vehicles.

Auto companies have been forced to seek steel in the spot market for themselves and also for their suppliers, an expensive and unpredictable step that greatly reduced production efficiencies.

Furthermore, the auto supplier industry opposes these tariffs because access to affordable corrosion-resistant steel is limited. Since 2004, seven supplier companies with more than $100 million assets have begun bankruptcy proceedings.

Each company has specifically cited the high cost of steel as a primary pressure and element in their bankruptcies. As a result, they are forced into unfair pricing policies and must frequently turn to their customers, the automobile companies, to help them obtain steel.

As you know, the tariffs on corrosion-resistant steel were first implemented in 1993 for a problem that no longer exists. Should the Commission renew the orders, the tariffs will be in place for an additional five years, meaning they will be in existence for at least 19 years.

I do not oppose antidumping and countervailing duty orders, not in general. I believe many of them serve an important purpose. However, the tariffs before us do not fit that description any more.

Since the tariffs were first put in place, the consolidation of the U.S. steel industry has produced successful and profitable companies. The assets of 14 U.S. companies that produced corrosion-resistant steel in 2000 are now owned by only eight companies, and the market is dominated by just three.

Three steel companies control approximately

70 percent of U.S. flat-rolled steel production, giving the industry considerable market power. The steel industry is enjoying exceptional prosperity with operating profits averaging 12 percent, far higher -- far higher -- than the average of all U.S. durable manufacturers. Even income on corrosion-resistant operations has ranged from five to 10 percent.

Further, consolidation and global demand have boosted average prices for corrosion-resistant steel by 68 percent since the consolidation. Additional relief by the U.S. Government such as absorbing the steel industry's health care and pension costs have improved the steel industry's financial situation.

The U.S. Government has assumed $9 billion in steel pension costs, representing over two-thirds of the total steel pension liabilities and transforming the steel industry's financial stability. Also, other costs have been extinguished in bankruptcy proceedings and by rationalizing facilities.

Unfortunately, the steel industry continually advocates for a protectionist trade policy that benefits only them while harming the American economy as a whole. The steel industry employs between 150,000 and 200,000 employees in the U.S. In contrast, the auto industry alone employs 2.4 million workers, and the manufacturing industry nationally employs more than 60 employees to every one steelworker.

Since 1999, the U.S. auto and auto parts industry has lost 200,000 jobs. This is more than the entire steel industry currently employs. Picking winners and losers between American workers is bad policy, but it's even worse policy when the final decision benefits a small sector at the expense of the American economy as a whole.

I hope the Commission will consider all viewpoints as it makes its decision. Earlier this month I sent a letter to all of you with 50 other House members signing on requesting a repeal of the tariffs. I understand that you all have or will review this appeal, and it will be included in the record.

It is my sincere hope that you will consider our point of view, as well as that of the auto industry, who will be testifying later today under foreign producers' time since they are not allowed any standing at these review hearings.

Domestic steel consumers and its supporters should be considered, and I hope our position will be reflected in your final decision.

I want to thank you again for your time. I urge the Commission to repeal the tariffs on corrosion-resistant steel and to base your decision on sound economic trade policy.

I thank you very much for allowing me the time.

CHAIRMAN PEARSON: Thank you, Congressman.

Are there any questions for Representative Knollenberg?

(No response.)

CHAIRMAN PEARSON: Okay. Seeing none, thank you very much. We appreciate your time.

MR. KNOLLENBERG: Thank you very kindly.

CHAIRMAN PEARSON: Good morning.

MS. ABBOTT: The Honorable G.K. Butterfield, United States Representative, 1st District, State of North Carolina.

CHAIRMAN PEARSON: Welcome, Congressman Butterfield.

MR. BUTTERFIELD: Thank you very much, Mr. Chairman and to the members of the Commission. It is once again an honor for me to be with you today on behalf of the people of the 1st Congressional District of North Carolina.

You may recall that I testified last year on the subject of antidumping and countervailing duties on the plate steel sector from a different set of countries, and today on behalf of my constituents I would like to thank each one of you for your decision last year on plate steel.

I'm back here today with you to convey again in human terms as best I can how important steel is to my district. What a good corporate citizen Nucor has been to my community. I would like to illustrate in some way what would happen -- what would happen -- if a flood of unfairly traded imports were to reappear.

Having served in Congress now for some time, I've watched the effect of business on my constituents. You gain some perspective when you do that. The locating of this facility in my congressional district has had the incredible effect not just on our economy in North Carolina, but upon the lives of thousands of American citizens.

I come before you today to support Nucor Hertford. That is the facility that's in my district. I come today to represent its 400 employees and the thousands of other North Carolinians who depend upon the mill for their livelihood.

Mr. Chairman and members of the Commission, I urge you to maintain the antidumping and countervailing duty orders on imports of cut-to-length steel plate from countries such as Belgium and Brazil, Finland, Germany, Mexico, Poland, Romania, Spain, Sweden, Taiwan and the United Kingdom.

I strongly believe that it is due to collaboration between companies such as Nucor that we have been able to survive. These orders that we are talking about today have played an essential role in restoring the health of the U.S. steel plate industry. Moreover, if they were revoked then there is no doubt in my mind that unfairly traded imports will flood our market at an enormous cost to the livelihood and future of many of my constituents.

I would like to tell you just a bit about the 1st Congressional District so that you will understand why steel and this great facility are so important to us.

The 1st District encompasses most of northeastern North Carolina. Out of the 435 congressional districts in our nation, my district is the fifteenth poorest district in the nation. Our average income is only about two-thirds of the national average, while our rate of poverty is about 70 percent higher. More than one out of five residents in my district live in poverty.

This part of North Carolina remains heavily agricultural with tobacco being our biggest crop. Obviously in the post-tobacco buyout era, tobacco no longer offers a hope of future economic prosperity for my district.

In the mid 1990s, Nucor decided to build a new steel plate mill in Hertford County, North Carolina. Nucor is one of the most efficient, low-cost steel producers in the world. At a cost of $500 million, the plant represented a huge bet by Nucor on the future of the plate market.

Nucor also demonstrated a huge show of confidence in the ability of the people of my district to meet the demands of one of the world's most productive steelmakers. The mill opened several years ago in late 2000. It began producing high quality steel plate for use in heavy equipment and rail cars and ships and barges and refineries and other products that our modern industrial economy absolutely needs.

As it turned out, Mr. Chairman, this was a difficult time to open a new mill. Starting in 1998, the U.S. plate market was devastated -- devastated it was -- by a surge of dumped and subsidized imports. The antidumping and countervailing duties that you helped put in place took a while to produce some results.

This mill did not make a profit until 2004, but there is no doubt that your orders are what made the difference. You know that steel mills are expensive investments. They are very expensive. Two years of profits do not guarantee future success.

The workers at Hertford are concerned -- they are very concerned -- that while the market has definitely improved with these duties in place, the U.S. industry remains vulnerable to injury from unfairly traded imports. If these duties are eliminated, these workers are convinced that illegally traded imports will surge back into our market, and they do not understand it.

Nucor-Hertford has brought good jobs. It has brought good benefits to an impoverished area of my state. The mill directly employs 400 people with an average income of more than $60,000 per year. Mr. Chairman, this is a very decent income for workers anywhere in America, but I assure you that it is absolutely a wonderful income for workers in the 1st Congressional District.

The reason Nucor workers are so well paid is that they are productive. The more steel they make at that plant, the more money they earn. Competition from dumped and subsidized imports is more than theoretical to them. Unfairly traded imports literally -- literally -- take money out of their pocket.

Mr. Chairman, the hardworking people at this mill would all testify before you today if they could. They would tell you that they can compete with anyone -- anyone in this world -- but only if everyone plays by the same set of rules.

Neither Nucor nor anyone else can compete against unfairly dumped imports. By voting to keep these orders in place, you will give them the opportunity to keep working, the opportunity to keep their families healthy and prospering, to educate their children and to build the future that we all want.

I want to thank each one of you for your attention and thank you very much for the work that you do on behalf of the American people. Thank you.

CHAIRMAN PEARSON: Thank you, Congressman.

Any questions for Representative Butterfield?

(No response.)

CHAIRMAN PEARSON: Okay. Seeing none, we

appreciate your time.

MS. ABBOTT: Our next appearance is the Honorable Bill H. Stovall III, Speaker of the House, State of Arkansas, House of Representatives.

CHAIRMAN PEARSON: Welcome, Representative Stovall.

MR. STOVALL: Where's my coke plant to stand on? Can you all see me?

CHAIRMAN PEARSON: Yes, we can see you fine. Please proceed.

MR. STOVALL: Good to see you, Mr. Chairman. Good morning, Mr. Chairman, members of the Commission and distinguished guests. On behalf of the State of Arkansas and our workers whose jobs depend on free and fair trade, I thank you for the opportunity to be here today and to speak regarding steel imports.

Five years out from the 2001 recession, we welcome many signs of strength in the United States economy. Unemployment is down in many areas, and such familiar economic barriers as the Dow Jones industrial average has returned to its pre-recession levels.

The crucial manufacturing sector of our economy has not regained the solid footing on which it stood through much of the 1990s, a decade marked by strong manufacturing employment growth in virtually every state of the union.

In its 2006 profile of the Arkansas economy, the FDIC reported that our state's manufacturing sector continues to weaken. Furthermore, the report stated that the near term outlook for the manufacturing sector remains bleak. Needless to say, a weak and bleak manufacturing sector will continue to exert a drag on our state's overall economy and significantly reduce the prospects of our citizens to find good paying jobs.

In August 2005, our state's unemployment rate matched the national rate of 4.9 percent. By August of this year, the national rate had improved to 4.7 percent, while the Arkansas rate had climbed to 5.3. For that same month, nearly one-fourth of our state's counties had unemployment rates of seven percent or higher.

Within the manufacturing sector, the Arkansas national trends have also diverged. Whereas the rate of manufacturing job losses has decreased nationwide in recent months, we have seen the rate of manufacturing job loss increase somewhat.

During the year that ended with the first quarter of 2006, the Arkansas economy added 15,300 jobs. All our major industries registered increased employment with one notable exception. That exception of course was our manufacturing sector.

The Arkansas Policy Foundation issued a report that described current manufacturing job losses as the longest post-war Arkansas manufacturing decline on record. Among the manufacturing sectors hardest hit have been the durable goods industry of primary metals, electronic equipment, and furniture and fixtures. Nondurable categories hardest hit include textiles and chemicals.

The Arkansas Policy Foundation cites diverse factors for the loss of manufacturing employment, but it is important to note that the United States trade policies are included among the primary causes.

With regard to the enforcement of our trade laws and policies, please accept my thanks on behalf of all of Arkansas and its workers for your diligence and your care in resolving international trade issues. Given our long-term employment trends in manufacturing and our nation's rapidly growing trade deficit, increasing numbers of us in state government have a growing appreciation for the International Trade Commission's work and mission.

In the late 1990s when steelmakers struggled against a flood of dumped and subsidized steel imports, Arkansas steel workers experienced sharply reduced earnings and layoffs as a result. In today's hyper-competitive markets there is no substitute for thoroughness and vigilance in monitoring the illegal trade practices of our trading partners.

During the 1990s, the steel industry began to grow in Arkansas, particularly in the Blyville area -- that's my birth home, by the way -- where Nucor Corporation's leading investments have helped make our state the seventh largest steel producer in the nation.

With that in mind, I respectfully encourage the ITC to encourage the antidumping and countervailing duty orders imposed on corrosion-resistant steel products from Australia, Belgium, Brazil, Canada, Finland, France, Germany, Japan, Korea, Mexico, Poland, Romania, Spain, Sweden, Taiwan and the United Kingdom.

I appreciate the opportunity to be here today. Thank you on behalf of the Arkansas steelworkers and all of our citizens whose livelihoods depend on you and free and fair trade. Thank you for being here. Appreciate it.

CHAIRMAN PEARSON: Thank you, Speaker Stovall.

Does anyone have a question for the Speaker?

(No response.)

CHAIRMAN PEARSON: Okay. Thank you very much.

MR. STOVALL: Thank you.

MS. ABBOTT: The Honorable Walter H. Dalton, State Senator, 46th District, State of North Carolina.

MR. DALTON: Good morning, Mr. Chairman and members of the Commission. I am Walter Dalton. I'm a State Senator from North Carolina, and I want to thank you for the opportunity to speak to you today. I also want to thank you for the critical work you do regarding international trade.

I am here today to relate to you the unfortunate experience of our textile workers and to advocate that the same plight should not be visited upon the steelworkers we have in our state.

In order for me to fully relate my story, I must tell you a little bit about my district. It was heavily invested in textiles, and textiles had driven our economy for over 100 years. A typical textile worker was often a husband and wife who had worked in the same mill as their parents did for many years.

They were good people making a decent wage, and they believed in the freedoms this country affords. They thought they had a good health plan and a good retirement plan. Today, they are without a job. They have no health plan, and for many their retirement plans are now worthless.

I say these things to emphasize that we are not just talking about trade policy. We're talking about people and people's lives. At one time the unemployment in my district was 14 percent, and in North Carolina we were hurting.

North Carolina lost more manufacturing jobs than any other state than California between 1998 and 2006, a total of 243,000 to be exact. Outside of manufacturing, our leading industries have recorded double digit growth in employment since August of 2002. However, manufacturing has continued to decline.

The impact of these losses reverberates not only through the homes, but through the cities and towns, which have seen water, sewer, utility revenues decline. In the legislature we have developed incentive packages and continued to invest in workforce development, and we've appropriated money for infrastructure and technology to prepare us to compete in the global economy.

I understand it is a global economy, and I understand free trade and understand the need to make a profit. I also understand that free trade should be fair trade. As an American, I've always been proud that we have been a leader in the world's economy. I do not believe leadership entails enhancing the bottom line on the backs of workers from other countries while impoverishing our own people.

Having said that, I now wish to address the opportunities you have to provide a brighter future for the steelworkers in my state and in other states. Countervailing duties on certain steel imports and the dumping of manufactured goods threatened to undermine the United States steel industry in much the same way that textile imports have crushed that industry in this country.

Our trade deficit, which hit a new record in August of this year, is growing like an economic cancer and threatens in time to spread to other segments of our economy and undermine our economic strength.

That is the reason the work of this Commission is so important and a central part of this process. I implore you to continue your antidumping and countervailing duty orders imposed on corrosion-resistant steel and steel plate products from

Australia, Belgium, Brazil, Canada, Finland, France, Germany, Japan, Korea, Mexico, Poland, Romania, Spain, Sweden, Taiwan and the United Kingdom.

You see, people from each of those nations have come to this country at some time and pledged citizenship because we have stood for the hope of freedom and a better life; a country where hard work and perseverance pays great dividends, a country where we value human life and espouse to improve the plight of each generation.

We do not need to reverse that course or blur that vision, and the only way that can be accomplished is for this Commission to stay the course and continue the duty orders I referenced above.

I'm proud of North Carolina and its people. We are a resilient bunch. We will survive. We are proud to be home to some of the world's most efficient and competitive steel recycling and manufacturing plants. We are proud to be home to the headquarters of our nation's leading recycler and steel producer, Nucor Corporation. We believe the world should follow our lead and not the reverse.

The American steel industry and all of our manufacturing industry is worthy of our diligent enforcement of the law, and every dollar our diminishing manufacturing industry generates by way of exports is essential in trying to give some balance to the deficit was face.

I appreciate the complexities and difficulties of your job, and I thank you for the opportunity to speak to you today and for your work and for your staff's work on behalf of free and fair trade.

More importantly, I thank you for the opportunity to speak on behalf of the hardworking manufacturing worker who only wants the opportunity to provide for family and to believe in a country of hope and prosperity. Thank you.

CHAIRMAN PEARSON: Thank you, Senator.

Does anyone have a question for Senator Dalton?

(No response.)

CHAIRMAN PEARSON: Thank you very much.

MS. ABBOTT: The Honorable Ed Clemente, State Representative, 14th District, State of Michigan, House of Representatives.

CHAIRMAN PEARSON: Welcome, Representative Clemente. Please proceed.

MR. CLEMENTE: Thank you very much. Mr. Chairman and members of the Commission, I appreciate the opportunity to testify before you on the need to renew antidumping and countervailing duty orders to corrosion-resistant steel imported from Australia and Canada, France, Germany, Japan and Korea.

Although I am not an expert on trade laws, as a member of the Michigan House of Representatives I do represent people in an area of the country that has much at stake with these laws and how they're administered.

I'll make a side note here that my district has U.S. Steel in it, which is my largest employer which employs 2,300 people, who also happen to be the two poorest cities in my district too, so it's a big issue for me and my district.

My story is probably more of a micro story than the macro story, but I come to you with mixed emotions because obviously I support the auto industry very heavily as well, and everything that we do in Michigan obviously tries to support that. I'm just trying to make sure I also support my district too here today.

I'd like to share with you my perspective on the potential consequences and decisions that you will make on this important matter. While the steel industry remains a critical part of our economic engine, it has been substantially reduced over the past two decades.

As you know, a major reason for that has been the influx of unfairly traded imported steel. The orders under consideration here today were issued in response to your findings that the domestic steel industry was injured by a precipitous surge of dumped steel and subsidized imports.

I recall these facts for you because they are connected to the realities of life in my district. The impact of that import surge was devastating for many communities. People lost their jobs, their homes and families fell apart under the stress. I myself had three family members lose their jobs that were working in the industry in the original quite a few years ago, but they lost their jobs when the initial dumping took place.

We were hit again with an import surge earlier this decade, losing still more jobs and the rending of the fabric of our communities and families yet again. This may seem like the past too, maybe even ancient history, but I can assure you that we live with the effects of these ordeals every day; not just the shuttered steel plants, but the loss of thousands of small businesses -- dry cleaners, sandwich shops, gas stations, drug stores.

My family owns a small bowling alley. We had a bowling league that had U.S. Steel union workers. That league dissolved, so it does affect everybody very differently.

From this, I should mention too that this ripple effect causes long-term challenges in the private and public and nonprofit sectors of the region of which I have personal experiences, either in the areas of economic development or the quality of life.

So when you hear that the current orders, along with the emergency relief imposed by President Bush under Section 201 of the Trade Act of 1974, have had a positive effect and that the steel industry has been able to reorganize and regain a measure of its health, don't assume that the families and communities in my district have been fully restored. It just means that for now it's under control, and it wouldn't take much more to put us back into a critical state.

As you know, the Commerce Department has predicted that if these orders are lifted the margins of unfairly traded steel will range again from the area of 10 percent to 36 percent. That would be more than enough to start the spiral again.

Once again obviously, I mentioned earlier that I do have mixed emotions obviously because being from Michigan and the preceding speakers from Michigan, I have been a strong supporter of the automotive industry as well, but obviously Michigan and my state are heavily dependent on the auto industry and auto parts, but Michigan and the country also needs to maintain a state-of-the-art steel industry to diversify and to serve our manufacturing base.

To a degree, I also believe it's a national security issue. We had this discussion before, but, as you know, there's a tank plant also in Michigan too, and there's several industries that are dependent upon this.

As you consider this case, it makes little sense for you to be in the position of rewarding one industry with a low-priced dumped import at the expense of another. Even if the steel consuming companies could be helped by allowing the import of unfairly traded products, by what calculation can it be argued that a worker in one industry should be put out of a job of activities violating our trade laws in the hope of saving a job of their neighbor down the street who works in another industry?

That is definitely the case in my district.

I have automotive people living right next to steelworkers, so it is a challenge for me. I understand the decision before you is one that must be based on a fair and judicious application of the nation's trade laws, but you must also understand the decision will have consequences far beyond the confines of your chambers and this hearing room.

On behalf of my district, the communities and families who have already borne the brunt of unfair trading practices by foreign steelmakers, I call on the Commission to maintain the existing orders and allow the domestic steel industry the opportunity to engage in free and fair competition within our borders.

Thank you for your attention and the opportunity to express my views. If you have any questions, I'll be happy to respond.

VICE CHAIRMAN ARANOFF: Thank you, Representative Clemente.

I'll see if any of my colleagues have questions.

(No response.)

MR. CLEMENTE: Thank you very much.

VICE CHAIRMAN ARANOFF: Thank you very much.

MR. BISHOP: Our next speaker is the

Honorable Chuck Blasdel, Speaker Pro Tempore, the Ohio House of Representatives.

VICE CHAIRMAN ARANOFF: Welcome, Representative Blasdel. Please proceed.

MR. BLASDEL: Thank you. Madam Chairman and members of the Commission, my name is Chuck Blasdel, and I represent the 1st House District in the Ohio legislature. I also serve as the Speaker Pro Tempore and chair of Ohio's Manufacturing Caucus.

I appreciate the opportunity that you have presented me to testify on behalf of my constituents who work and rely on the domestic steel industry. While I recognize it's unusual for a state legislator to travel to Washington to testify before you in a trade law hearing, I also recognize that the issues before you involve a very technical legal and economic analyses that you will hear from a number of lawyers and economists today who will help you sort through these complicated issues.

I have taken the unusual step of coming here to Washington to testify not to provide you with more of that legal and economic technical analysis, but to try to provide you a glimpse of what has happened in Ohio and the states surrounding us, which include West Virginia, Pennsylvania and Indiana, as a result of unfairly traded steel imports being dumped into the United States.

It is essential that you understand what has happened to our workers, families, communities and region to appreciate further the risk that we face if you decide to lift these critical trade law orders.

It is my understanding that the question you have before you is whether the domestic steel industry is likely to be injured if the duties imposed on dumped corrosion-resistant steel from six countries -- Australia, Canada, France, Germany, Japan and Korea -- is terminated.

It is my further understanding that the Department of Commerce has already determined that these steel producers in these countries will continue to dump their excess steel production into the United States at rates as high as 36 percent if there is no trade relief.

As I reflect on the question of whether the domestic steel industry is likely to be injured by these dumped imports, I was reminded of the phrase which is displayed at the National Archives building only a few blocks from here. What is past is prologue.

This could not be more true when applied to the cycle of dumped steel imports injuring the domestic steel industry and its workers. For decades, the United States has been fighting against the withering onslaught of dumped and subsidized steel imports. The only effective relief has been trade law orders your Commission and the Department of Commerce has imposed.

Whenever relief is terminated amidst all sorts of assurances that the problem is now resolved, the foreign producers load up ships and overwhelm our market once again. Each time they do this we lose another segment of our industry permanently.

For many outside of Washington it's hard to understand how and why foreign producers can continue to abuse the United States open market with such massive import surges. I think the answer can be found in the work of President Bush and President Clinton's Administrations.

Near the end of the Clinton Administration the Department of Commerce issued an exhaustive comprehensive study of subsidies in the home market production provided by foreign governments to their domestic steel industries. These market distorting practices result in massive steel production overcapacity.

President Bush understood that, and the Administration has worked hard towards reducing foreign steel subsidies, eliminating excess capacity. Despite these efforts, however, the problem continues largely on unabated. The result is that these subsidies and protected foreign producers must find some outlet for their excess production.

It does not matter whether the selling price is below the market or even below the actual cost of production, and it is painfully clear throughout our region of the country. It doesn't matter to these foreign producers what consequences it has to our industry. In fact, to the extent our industry shrinks as a result of these WTO illegal trade activities, they are the ultimate beneficiaries.

We must also keep in mind what lies ahead. China is building massive steel capacity, and it will not be long before they flood world markets, thereby increasing the pressure on foreign producers subject to today's hearing to dump their additional excess steel capacity in the United States market. We cannot leave our domestic steel producers, their workers, families and communities so exposed.

Mr. Chairman and members of the Commission, the people of Ohio and those living in the states surrounding us have been the bedrock of our nation's manufacturing sector for as long as we have had such a sector. They have been the repeated victims of foreign unfair trade policies, yet they continue to be among the world's most efficient steel producers.

They have always asked for one thing and one thing only, a fair chance to compete. That is what I am asking of you today. Please extend these law trade orders to allow all of us a fair chance to compete.

I think it's also important to note that while our region that I come from relies heavily on the steel industry, one of the largest, if not the largest, employers in my current House district is General Motors.

Thank you for your time and consideration.

CHAIRMAN PEARSON: Thank you, Representative Blasdel.

Does anyone have a question for the Representative?

(No response.)

CHAIRMAN PEARSON: No? Seeing none, have a good trip home. Thanks for coming.

MR. BISHOP: Our next speaker is the Honorable Sandy Layman, Commissioner, Iron Range Resources, State of Minnesota.

CHAIRMAN PEARSON: Welcome, Commissioner Layman.

MS. LAYMAN: Thank you.

CHAIRMAN PEARSON: It's a pleasure to welcome a fellow Minnesotan to the ITC. Please proceed.

MS. LAYMAN: Thank you. Mr. Chairman and members of the Commission, I appreciate the opportunity to testify before you today in support of maintaining the trade relief on corrosion-resistant steel from Australia, Canada, France, Germany, Japan and Korea.

It may seem unusual to you that I would travel all the way from Minnesota to Washington to testify before a federal commission on a matter related to the enforcement of federal laws. Frankly, it's unusual for me as well. I have much more experience dealing with Minnesota state agencies, but I suspect that the type of legal analysis and the weighting of competing factors is much the same at the federal level as it is on the state level.

As Commissioner of the Minnesota Iron Range Resources agency, an organization concerned with the economic well-being of the northeast region of the state, I appreciate the challenges you have before you.

I've come here today to help you understand the tremendous implications your decision in this case will have on the people and communities in my home state. It cannot be overstated. Your decision in this case will have an enormous impact on the citizens of Minnesota.

In many respects, as goes the domestic steel industry, so goes the Minnesota Iron Range mining industry. A healthy, viable steel industry generally translates into a healthy, viable Iron Range industry, spurring critical economic activity throughout the communities of our region.

Unfortunately, the Iron Range has also suffered when the domestic steel industry has been victimized by surges of unfairly traded imports, as has been the case too often.

The domestic steel industry and its steelworkers have gone through a massive restructuring in recent years, streamlining operations, enhancing efficiency and becoming more technologically advanced. These improvements were made with the foresight and creativity by the leaders in the industry and in the unions, but they were not made without sacrifice.

Steelworkers, their families and their

communities all felt the pain of this restructuring. The end result though is a more competitive industry, an industry that can compete against any in the world if given a fair chance.

The question you now have before you in significant substance is the following: Will we allow foreign steel producers to dump their excess corrosion-resistant steel products into our market and thereby impose further injury on our domestic industry?

It is well documented that foreign steel producers who have benefitted from government subsidies and other governmental preferences have built and maintained enormous excess capacity. Foreign governments, which implement proactive industrial policies designed to protect and sustain certain selected industries, have made a decision to develop steel production far in excess of their own domestic consumption demands or even what is remotely needed in global markets.

These policies may allow for effective guaranteed employment levels in their domestic steel industry and ensure a steel industrial basis for their development of a broader domestic manufacturing sector, but at the same time they disrupt the global steel market such that those who abide by the global trade rules are put at a severe disadvantage.

The fact is our domestic producers and workers continue to pay the price for the unfair trading activities of their foreign competitors. Just as our domestic industry has gotten back on its feet, foreign producers want to remove the legitimate and proper trade relief on corrosion-resistant steel imports so that they can bring another surge of dumped imports and put our domestic industry right back on its back.

Each time they do this the domestic industry is permanently reduced, and we as a nation become more dependent on foreign steel producers. This is a cycle that we simply cannot allow to continue.

The foreign producers have a new partner in their campaign to remove trade relief, certain domestic steel consumers. These consumers argue that they need to be able to buy steel at below market prices to survive.

They pick their words carefully, of course, but what in fact they are saying is that they want to buy dumped and subsidized steel to artificially increase their profit margins. They want to benefit from unfair trade no matter what the consequences for other domestic industries.

I am sure that we would all like to receive deeply discounted, below-market prices, but at what cost? Are we willing to risk losing a key component of an important domestic manufacturing industry simply to provide another industry short-term discounted inputs?

Should we be willing to ignore our laws and the global trading rules which require that you look at the risk of the injury to the domestic producers due to dumped imports by competing foreign producers? They do not provide as a factor to be considered whether a consuming industry might prefer to get their inputs at temporarily discounted prices.

If these same steel consumers were to bring a trade law against dumped imports, would they expect the Commission to reject their case just to placate their consumers who want to buy dumped or subsidized foreign goods?

The law requires that you look at the potentially injured industry for a reason. It makes no sense for our government to allow one industry to be injured simply to satisfy the whims of another.

I do appreciate the burden of the decision facing you. I urge you though to follow the law and not support those who want to temporarily benefit from artificially low-priced imports.

I believe that if you do, you will vote to maintain these trade law orders. Thank you.

CHAIRMAN PEARSON: Thank you, Commissioner.

Are there any questions for Commissioner Layman?

(No response.)

CHAIRMAN PEARSON: I would just observe that it's gratifying to see the strength of demand that we have had recently for taconite coming out of Minnesota. Clearly it's been very good for the Iron Range. I was through Everleth just last month.

MS. LAYMAN: You were?

CHAIRMAN PEARSON: Although at that time it was not in search of iron ore, but rather in search of fish. I didn't find many of either, but thank you very much. Have a good trip home.

MS. LAYMAN: Thank you very much.

MS. ABBOTT: Mr. Chairman, we are now ready for opening remarks. Opening remarks in support of continuation of orders will be by Terence P. Stewart, Stewart and Stewart.

CHAIRMAN PEARSON: Welcome, Mr. Stewart. Do you have anything to add, or have your points already been made?

MR. STEWART: I would say with the exception of two of the speakers, Mr. Chairman, that my comments have probably been made.

Good morning, Commissioners, staff. It's a great pleasure to be here. In today's sunset review the Commission has before it a factual record that is summarized in the comprehensive staff report and supplemented by information in the prehearing briefs that strongly supports maintaining the orders on corrosion-resistant steel from all six countries that are before you.

First, you have a domestic industry that while improving from its conditions when the orders were imposed remains vulnerable. Second, you have slowing global and domestic demand growth.

Third, you have rapidly increasing capacity not only in the subject countries, but in other major markets, making growing global excess capacity highly likely over the next two years. Fourth, you have export oriented foreign producers.

Fifth, you have market prices in the U.S. that because of the orders are less suppressed than in markets where dumping and subsidization are not neutralized and which will draw imports into the

United States if the orders are revoked.

The corrosion-resistant industry is a classic example of an industry that is susceptible to recurrent injury from dumped and subsidized imports. The industry is highly cyclical, is capital intensive and has large fixed costs.

As the Commission recognized in its original investigation and first review, these factors create an incentive for producers to maximize capacity utilization, making dumping an attractive strategy for foreign producers with unused capacity.

In the present reviews, the subject producers are world class players in the global corrosion-resistant industry and are highly export oriented. The foreign producers have maintained their presence in the U.S. even with the orders in place and have proven their ability and their willingness to target the U.S. market with unfairly traded exports when not subject to orders.

Producers in the countries covered by orders are currently investing in more than eight million tons of additional corrosion-resistant capacity, all of it slated to come on line by 2008. In addition, key third country export markets for these producers are reducing their import dependency as they ramp up their own domestic production of corrosion-resistant steel.

China, for example, is adding five million metric tons of corrosion-resistant capacity this year alone with millions of tons of additional capacity expansion planned for the next two years. Subject producers have proven their ability to quickly shift large volumes of exports in response to changing markets, and the prime target for these diverted exports in the future will be the U.S. if the orders are revoked.

The U.S. will be a highly attractive market for subject producers seeking alternative export opportunities because, as the staff report notes, U.S. prices for galvanized steel are generally higher than prices in other countries.

Finally, the Commission found that the domestic industry was vulnerable to injury five years ago in the first review. The industry is still vulnerable today. Even with the restoration of improved profitability in recent years, the domestic industry is still making returns that are far below its cost of capital.

Producers have been unable to pass on the full increase in their raw material cost to purchasers. In addition, the industry's capacity utilization has fallen during the period of review, as has its market share.

The environment is only going to worsen over the next couple of years as demand in key sectors slows, large inventories are drawn down, raw material costs persist at historically high levels and nonsubject imports continue to grow.

The domestic industry has just begun to regain its footing, but it still has a long way to go. If these orders are revoked, foreign producers in the six countries will target the highly attractive U.S. market with their growing capacity and with exports diverted from third countries. They will undercut U.S. prices as they have done in the past.

Rising imports that depress prices will further erode the market share of domestic producers, resulting in declining sales, production and employment, falling capacity utilization and dwindling profits. The result will be the postponement or cancellation of much needed capital investments in the United States.

On behalf of the companies in the domestic industry, our workers and our shareholders, I ask you to maintain all of the orders on CORE. Thank you very much.

CHAIRMAN PEARSON: Thank you, Mr. Stewart.

MS. ABBOTT: Opening remarks in opposition to continuation of orders will be by William Silverman, Hunton & Williams.

CHAIRMAN PEARSON: Welcome, Mr. Silverman.

MR. SILVERMAN: Thank you.

CHAIRMAN PEARSON: Please proceed.

MR. SILVERMAN: I can't proceed until I move this down. Short guys have special rules here.

CHAIRMAN PEARSON: Fair enough. Fair enough.

MR. SILVERMAN: Once again, Mr. Chairman, the same domestic steel companies are here wielding their steel rubber stamp with the same tired arguments, the same congressional background music and the same hysterical fear of imports from China. I've been appearing before the Commission on steel matters for a long time going back in the case of carbon to the big cases in 1984.

The same arguments time and time again. More time. We need more time, we need more time. By contrast however we will ask the Commission to consider the following five points which are in the record of this case.

(1) Three years ago the domestic industry experienced a rebirth. To use the specific term that the CEO of U.S. Steel has used, rebirth. This is not the domestic industry of 1992 or 2000 and the data in the staff report show extraordinary strength since that rebirth.

For example the U.S. government has erased billions of dollars in pension obligations. Most domestic mills put in new favorable labor agreements. Of course the exception to that is AK with their eight month lock out of their workers. Labor productivity is up, domestic AUVs are up and operating losses in 2002 and 2001 have turned into operating profits of $2.8 billion in the last two and a half years, and as our confidential brief indicates that's an understated number.

U.S. Steel itself suggests that domestic mills are now the low cost producers in the developed world and most important, Mr. Chairman, since 2005 the domestic mills have invested or are investing in hundreds of millions of dollars to add 2.3 million tons of additional galvanizing capacity.

This is important, Mr. Chairman, because on the one hand the domestic companies tell their shareholders and other investors that the future of their industry is so strong that hundreds of millions of dollars are approved for capacity expansion and on the other hand they come here and tell the opposite story.

You've heard it before. The situation is, "very precarious", that's from their brief, and vulnerable. Count the number of times today you hear the word vulnerable. I ask you would the domestic companies mislead investors and shareholders about their economic health and their bright prospects for the future when they're raising money? I think not.

I think they told the investors the truth. In fact look how the market has reacted to the strength of this industry when the market cap for the four largest producers has gone from $7 billion to $48 billion during the period of review. That's not a market vulnerability, that's a market strength.

(2) The proof that the domestic mills have positive analysis of the future is really contained in their own documents in their hands. No company makes multi-million dollar investments about details without detailed financial analysis that would include projections of positive rates of return.

The Commission in fact, Mr. Chairman, has asked for this information, which is in the hands of the domestic industry, in the domestic producer questionnaires, but the Commission has been stiffed on this very important matter. See our letter to the Commission dated September 7 for the details of how you've been stiffed.

Mr. Chairman, when the petitioning industry refuses to provide critical information that are requested by the Commission in its questionnaires the integrity of the Commission's investigation process is undermined. Therefore as we stated in our September 7 letter the Commission should draw adverse inferences against noncooperating domestic mills.

(3) Data in the staff report show that changes in import volumes do not correlate with changes in domestic industry prices or profits and as the Commission has seen in many other investigations the point is no correlation means no causal link now or in the future.

(4) Should you rely on the 80 percent capacity utilization figure that has been advanced by the domestic industry or should you rely instead on the fact that numerous purchasers have told the Commission that there are allocations, and shortages and caps on what they can buy? How can the domestic industry add 2.3 million tons of new capacity when it

is supposedly operating at only 80 percent?

In short that number and their capacity information is wrong. It's a bogus figure.

(5) Please listen to the testimony today on behalf of the six auto companies. They will point out the allocations and shortages by domestic mills and the price increases for the next model year. Please all listen.

Please also listen to the auto companies when they explain why the U.S./Canada steel trade is unique because the trade follows the movement of manufacturing of models in the auto industry from Canada to the United States. Thanks for the extra time.

MS. ABBOTT: Will the first panel in support of the continuation of countervailing duty and antidumping duty orders please come forward and be seated?

Mr. Chairman, all witnesses have been sworn.

CHAIRMAN PEARSON: Good morning, and it is still morning. Who's in charge of time?

Mr. Lighthizer, are you running this show?

MR. LIGHTHIZER: I wouldn't claim that, Mr. Chairman. However, we all have our time allocated and hopefully it will run smoothly like a steel mill.

CHAIRMAN PEARSON: Okay. Well, if you are inclined to use less than the 75 minutes that have been provided for this presentation feel free. Extra points --

MR. LIGHTHIZER: Thank you very much. We don't need to ask permission, we'll just go ahead and assume we have it. Thank you, Mr. Chairman. Good morning. For the record I am Bob Lighthizer, counsel to United States Steel Corporation and AK Steel Corporation. Before you hear from our witnesses I want to address some of the critical facts in this review.

Let's start with five key points. First, corrosion resistant steel is the future of flat rolled steel production in this country. In a globalized market American producers must distinguish themselves by making the highest value added products. If they can't do well with this product their long-term future is in serious jeopardy.

Second, subject producers have an enormous amount of excess capacity and will certainly ship large volumes to this market if the orders are revoked. Third, while the other side talks at length about how much this industry has improved since 2000, and we have improved, the bottom line is that the domestic producers did not make enough money to cover their cost of capital.

Fourth, domestic producers face soaring raw material costs and surging imports from countries like China and India. Finally, the purchasers plainly expect significant volume and price effects in the order if the orders are revoked. Now, let us talk about why if the orders are revoked the likely volume of subject imports will be significant.

Here you see that they held 14 percent of this market before relief was imposed. You can also see that while the orders have been very affective subject imports have already started to increase. Respondents will tell you they are operating at high levels of capacity utilization, but the amount of unused capacity in inventories in Japan and Korea alone far exceed the volume of subject imports that injured the domestic producers in 1992.

That bar on the left would be even larger if we could use APO data from the other subject countries. Respondents claim that they are not interested in this market because they would rather sell to places like China, so let's look at China. Not so long ago it was a major importer of corrosion resistant steel, but because of new Chinese capacity

China's net imports have fallen by over five million tons in three years and the situation is only going to get worse.

Here you can see that with respect to hot dipped galvanized steel China is already a net exporter.  Growing Chinese exports will encourage subject producers to seek new markets, particularly this one.  Here is a true smoking gun.  An internal POSCO document which they did not produce for this Commission plainly shows that new capacity in Asia will far exceed demand.

Between 2004 and 2010 capacity in Japan, China and southeast Asia will increase by almost 26 million metric tons.  Meanwhile demand in these markets will rise by only 14.1 million metric tons. Respondents say they can always ship corrosion resistant steel to China because the Chinese can't make automotive quality steel, but GM is already using Chinese steel in its Chinese vehicles and they expect to start using it everywhere within the next few years.

China is not the only country adding capacity.  Between 2005 and 2008 the rest of the world will add enough new capacity to supply the entire U.S. market.  This new capacity will also encourage

Respondents to ship here. Where else would they go? As you can see prices are much higher here than alternative export markets such as China.

Don't forget that Respondents already have relationships with major U.S. customers. Here are a few examples. Many of these same customers are here today seeking access to unfairly traded steel from these very same producers. Now, let's talk about the likely price affect. Your staff report leaves no doubt that U.S. purchasers buy on price.

Subject imports and the domestic like product are basically interchangeable. Price is key. Prices will fall if the orders are revoked. Because prices here are relatively high Respondents can actually get higher prices for their exports while still underselling us. Furthermore if you read the auto companies' brief you will have no doubt they are motivated by a desire for lower prices.

Finally, the subject imports had significant price affects during the original period of investigation. In light of these facts it is obvious that a new surge of dumped steel will lead to lower prices. Now, let's discuss the likely impact of subject imports. There can be no doubt that domestic producers are vulnerable to material injury.

Here you see that for all their improvement the operating margin of domestic producers was inadequate throughout the period of review. I hope you will really think about this slide for a moment. If you took your money and put it in a totally risk-free investment like a T-bill you could get a better return than these companies received over the last six and a half years.

This is a shocking fact, particularly for a high-tech industry. This constitutes overwhelming and irrefutable evidence of vulnerability. Furthermore the industry's raw material costs are surging. You remember all of that new capacity being built around the world? Here's what happens when more and more plants bid up the price of zinc and other inputs.

Domestic producers also face the surge of imports from countries like China, Brazil, India and Taiwan. This is a very recent development, but one that is already having a major impact on this market. In light of all of these facts you must conclude that this industry will be injured if we have another flood of imports from subject countries.

Having covered each of these statutory factors I now want to address the claims made by the auto companies. Let me be clear. We do not believe that the affect of these orders on consumers is legally relevant to your consideration, but we also know their claims are factually absurd and that you should hear the truth.

The auto companies claim that we have market power, but look at the facts. The average U.S. vehicle contains approximately a half a ton of corrosion resistant steel. The average unit value of sales by U.S. producers in the first half of 2006 was $728 and the operating margin for U.S. producers during the same period of time was 5.2 percent.

If you multiply these figures you see that we are only making $19 per vehicle. Does that sound like market power to you? Let's assume that the auto companies could get steel at cost, no profit. What difference would $19 make to consumers? It's not enough to buy a pack of air fresheners and it's not enough for a radio adaptor, but you could get a new steering wheel cover.

These examples are trivial, but the point is serious. It is ludicrous for the auto companies to suggest that our profits are hurting their sales. In fact the whole notion that steel prices are affecting the auto industry is completely baseless. Please think about this slide when the auto companies are in front of you. Slide 20. This is all you need to know about their claims.

Six different companies all buying domestic steel experiencing very different results. This afternoon when they tell you that steel prices are the problem please, please remember Slide 20. Nissan certainly isn't discouraged by American steel prices. As you can see from this chart their U.S. production has soared over the period of review.

In fact if you take Nissan's profits per vehicle in 2005 and multiply them by Nissan's production you can see that they made over twice as much money in this market as the entire U.S. corrosion resistant industry and yet they are coming in here complaining about us. You can do the same analysis for Toyota using their North American production because they don't break out their U.S. production separately.

Here you see they are making more and more vehicles in this market. Once again when you multiply their 2005 production by their profits you see that Toyota also made twice as much as the entire domestic industry before you. Here's another remarkable fact. If you calculate the profits of Toyota and Nissan from their North American operations in 2005 you will see that those two companies alone made more money in one year than this whole industry made in six and a half years.

Who do you think has market power? It is widely recognized that transplants are doing very well in this market at the cost of General Motors and Ford. Here are a series of headlines that make that point. Last December the CEO of General Motors wrote an op ed for the Wall Street Journal. He stressed three major problems facing domestic auto makers.

Healthcare costs, lawsuits and unfair trading practices by which he meant Japanese currency manipulation. Clearly the problems of the domestic auto industry have nothing to do with steel prices. I would like to conclude with another quote from GM's chairman. As you can see here the auto companies like the steel producers before you like all U.S. manufacturers understand that true market competition requires a fair set of rules.

That's all we're seeking today. Thank you very much.

MR. SCHORSCH: Good morning, Commissioners and staff. My name is Lou Schorsch and I am the Chief Executive Officer of Flat Products Americas for Arcelor Mittal which was formed from the very recent merger between Mittal Steel and the Arcelor Group. Until August of this year I was the President and Chief Executive Officer of Mittal Steel USA and prior to that had the same positions at Ispat Inland.

Before that I was for 15 years a principal with McKinzie and Company where as a co-leader of the firm's metals practice I worked directly with senior steel executives of companies around the world and corporations in the Americas. While this is the first time that I have testified before the Commission I am very familiar with and have a very high regard for the Commission's work.

In fact in early 1981 having just finished my coursework for a doctorate in economics I applied for a job with the Commission as an economist. But for the fact that the newly installed Reagan administration had imposed a government-wide hiring freeze at the time I may well have spent a number of years as a Commission staff myself.

So I thank the Commission for the opportunity to appear today to review the need to maintain these orders on corrosion resistant steel. In short Mittal Steel USA strongly believes that if the orders are revoked low priced or dumped imports from the covered countries will increase substantially and injure the domestic industry.

Mittal Steel USA is the largest producer of flat-rolled products in the United States with over 20,000 employees and production sites in 11 states. We are also the major producer of corrosion resistant steel in the United States. Since corrosion resistant steel is a high-value added product it is a critical contributor to our overall financial performance.

Indeed corrosion resistant steel accounted for 23 percent of our total shipments in 2005. Mittal Steel USA achieved this substantial position by being a principal driver of the restructuring and consolidation in the U.S. steel industry over the last several years. We were established through the merger of Ispat Inland and the International Steel Group, itself a company formed from consolidating the purchase assets of several bankrupt companies.

Consolidation resulted in part from the unprecedented number of bankruptcies and closures that the industry and its workers suffered in the last decade after repeated and massive assaults by unfairly traded imports. So while the industry has restructured it has done so only at a great cost in terms of jobs lost, pensions cost, healthcare benefits eliminated and shareholdings wiped out.

Of course the restructured industry of today could not have happened without the cooperation of the steel workers and their union leaders. The United Steel Workers and ISG pioneered radically new labor contracts that not only changed the way we operate our plants, but also sought to provide some relief to the retirees and former employees devastated by the bankruptcies of so many firms.

One important part of the new labor contract was the establishment of voluntary employee beneficiary association trusts, so-called VEBAs, to pay for some of the healthcare and drug coverage that steel industry retirees lost due to bankruptcy. Mittal Steel USA alone contributed almost $200 million to its VEBA in 2005, more than one-third of our company's after tax income.

I want to underscore that the future viability of the VEBAs and the healthcare benefits they provide are directly tied to and totally dependent on the future profitability of our company and ultimately the rest of the industry. We are now just beginning to see the benefits of restructuring, a process that should help the steel industry operate in a forward looking way based on genuine market signals rather than being forced to react to market distorting factors such as dumping and subsidization.

In order to reap the benefits of this painful process these orders must be maintained. They are critical to the ability of Mittal Steel USA to continue operating profitably and making long deferred investments in corrosion resistant assets. The production of corrosion resistant steel requires costly investments and complex and technologically sophisticated equipment.

For instance in March of this year we commissioned a galvanizing line in our Cleveland works that will ultimately be able to produce 700,000 tons of the highest quality hot dipped and galvanial product. This important investment will be at risk if the orders are revoked.

Given the recent prices in our industry I can assure you that many more improvements to our production capabilities are long overdue, but these capital expenditures can only be justified if the company achieves adequate profitability. The orders have affectively restrained imports from the covered countries allowing the industry to regain some lost market share, to increase capacity utilization in shipments and to improve profitability.

Despite these apparent benefits the industry remains vulnerable today and will likely suffer recurrent injury if the orders are revoked. Although demand has risen gradually over the last five years the cost of essential raw materials have exploded, especially iron ore, zinc and the energy needed to run our plants.

The industry has not been able to fully pass along these sharply rising raw material costs in sale prices to our customers, particularly to the large contract customers for corrosion resistant steels. These costs we expect to persist at high levels for the foreseeable future. Most fundamentally Mittal Steel USA like the industry as a whole has not been able to generate returns over the last few years that are even close to our cost of capital.

For the review period from 2000 to 2005 the industry's average rate of return on investment was just under three percent, well below our cost of capital. I fully agree with the cost of capital analysis provided by Professor Korajczyk in the paper attached to U.S. Steel's prehearing brief.

From my perspective as an economist, from my long experience as a management consultant with many companies and from my experience as CEO of both Ispat Inland and Mittal Steel USA I can assure you that the industry's failure to meet, much less exceed, it's cost of capital shows that we have not yet fully recovered financially to a point where we can sustainably attract long-term investors.

This inability to achieve adequate returns makes it difficult to justify the amount of capital expenditures needed to maintain the still fragile recovery momentum essential to the competitiveness of an industry that is a pillar of the entire American manufacturing sector.

For the near future it is also likely that the industry will see weakening demand growth in key sectors such as automotive and construction. In fact in both 2005 and now in the fourth quarter of 2006 we've experienced significant market weakness due to excessive customer inventories and import surges which are likely to reach record levels in 2006.

For example from the last quarter of 2004 to the third quarter of 2005 prices for hot dipped galvanized coil plummeted by more than $200 per ton in spot markets. In July of last year our company operated at only 55 percent of capacity and we ultimately had to make the very difficult decision to idle permanently the steel making operations at our Weirton, West Virginia, facility.

Currently inventories are mounting again in part because of high imports and prices are falling. Once again our company has been forced to reduce output idling two of our 10 remaining blast furnaces. Finally increasing imports from countries not covered by the orders such as China, India and Taiwan are indicative of a broader trend of rising production in these countries.

In fact China is now a net exporter of subsidized steel and their trade deficit in corrosion resistant steel is shrinking rapidly. Several of the countries covered by the orders have been major exporters to China and will increasingly seek alternative markets such as the United States for that capacity as their opportunities in the Chinese market disappear.

Without these orders in place the closure of these important third-country markets will result in significant diversion of exports to the United States. In closing let me reiterate that while the orders have been affective and while consolidation in our industry born out of bankruptcy is helping us better manage our business cycles our recovery is far from complete for certain.

The American steel industry is not yet

achieving returns equalling the cost of capital and revocation of the orders at this point would put at risk all of the advances and improvements made by the industry so far. This Commission has frequently recognized that foreign steel competitors will export to the United States at depressed prices in order to maintain their own production regardless of rational market signals.

This is precisely why strong trade law enforcement is so important to our industry and why trade law enforcement is an essential component underpinning the market based trading systems that we all support. We ask the Commission to find in the affirmative and maintain each of these important orders on corrosion resistant steel. Thank you.

MR. GOODISH: Good morning, Commissioners. I'm John Goodish, Executive Vice President and Chief Operating Officer of the United States Steel Corporation. This is an extraordinarily important case for our company and for the U.S. steel industry as a whole.

As the Commission is aware corrosion resistant steel is a product of which we and other U.S. producers have spent a high percentage of our investment dollars. Indeed the corrosion resistant steel industry has invested heavily in this product on a consistent basis even during times when the U.S. steel industry as a whole has been starved of capital.

There is a reason for this. Simply put we could not have afforded to do otherwise and we would not have been able to do this without the orders. Corrosion resistant steel is the leading edge of the U.S. steel industry from a technological standpoint. It is the product that we believe has the greatest growth potential over time.

Falling behind in this business is simply not an option if you plan to have a significant presence in the flat-rolled steel industry over the long run. In short this is the most important product to the flat-rolled steel industry and its future. Our views on the importance of this product are shared around the world in Europe, in Canada, in Japan, in Korea and now China.

This is regarded as the crown jewel of the flat-rolled steel products. The orders at issue in this case have been absolutely essential in keeping us in the game in this global competition. These orders were an important reason why the industry became profitable in the mid-1990s. These orders played a critical role in enabling the industry to weather the steel crisis of the late 1990s.

When imports of other steel products surged at that time imports of this product didn't. As a result this industry was largely spared the financial devastation suffered by producers of other steel products. In truth this industry wouldn't exist in anything like its current form were it not for the orders.

Investments on the scale that this industry has undertaken simply could not and would not have been made in the absence of the orders. The question before you then is whether there is reason to believe that the orders are no longer needed to keep the industry competitive. United States Steel is here to tell you that they are and if anything more important than ever.

As I said the industry has invested a lot of money in this business in the hope that it would pay off over the long run, but that day is not here and revocation of the orders at this time would ensure that these investments will never pay off. To be sure we are moving in the right direction we have cut our costs to the bone for a restructuring that has been painful for all of us.

The CEO of our company, John Surma, has said that the domestic steel industry has been reborn and he is right. The corrosion resistant steel industry has taken part in that recovery as you can see from its recent financial performance which has been markedly better than it was a few years ago, but this industry is nowhere near where it needs to be.

The numbers speak for themselves. We are earning profits that are marginal at best. Viewing these data in the proper context we really aren't making money at all. The cost of capital is a real economic cost and this industry did not come close to earning its cost of capital over the past six years.

Why is this, you may ask? First, although we have substantially reduced the costs that are within our control we have seen an explosive increase in certain costs that we can't control, namely raw materials and energy. As I understand it your data show that from 2003 to 2005 the industry's per unit raw material cost increased by 50 percent. That's a big number.

Second, there has been a noticeable increase in imports from countries that are not subject to antidumping or countervailing duty orders. They've taken an increasing share of the U.S. market and they have also had a dampening affect on prices. Third, this is the market in which there is enormous resistance to price increases.

A large portion of this business involves sales to companies, most notably the automotive industry, that believes as a matter of principal that their suppliers ought to be constantly reducing prices, not raising them. This is something that we have not been able to ignore. We value all of our customers, but these are our most important customers and they know it.

The upshot is that they have had and continue to have sufficient economic clout to force us to live with prices that have not enabled us to realize an acceptable return. In short as things now stand this industry has its head above water, but not by much. If the orders are revoked when the industry is in this fragile condition it would absolutely pull the rug out from under us.

The subject foreign producers have a proven track record of injurious dumping in this market and we are building large volumes of new capacity. We estimate that between 2005 and 2008 the subject countries will add almost 6.2 million tons of new capacity, a volume more than three times greater than what they shipped here in 1992.

These are highly significant increases at a time when the subject producers are already facing increased competition from China in their export markets. If subject producers are given a free hand to offer lower prices in an attempt to regain the share of this market that they previously held we respectfully submit that they would be pushing through an open door.

As I said earlier consumers in this market are extremely price conscious. Imports from the subject countries would be instantly acceptable for even the most demanding applications. These consumers would therefore have every reason to take advantage of lower priced steel from these countries. They might do this by buying a lot of cheap steel from these countries or by using these prices as leverage to secure price concessions from us.

Either way the damage to us would be considerable. There is no question these foreign producers would return in force. We know for a fact that many of them are sending significant volumes to other markets where prices are lower than they are here and these producers would have a powerful incentive to shift such business to the United States.

In so doing they would be able to undercut the U.S. market price to the extent necessary to regain lost market share and would still be significantly more profitable than they would be otherwise. Finally, I would like to talk briefly about the claim that there are shortages in the market. Speaking for United States Steel I can tell you that these claims are baseless.

During the period of your review as you know there were temporary supply issues in 2004 for almost all steel products here and around the world when there were major disruptions in the supply of raw materials, but market conditions are very different now. I am not aware of any shortages in the market now.

One thing we are seeing from time to time is certain auto producers switching the grades of steel they have already ordered on very short notice because of changes in their production schedules. While that can make it difficult or impossible to meet an order at a specified time it is a scheduling and management problem on the customer end, one we are working on with them to resolve.

This has not been a problem for all of our automotive customers and is certainly not evidence of any shortage. To close these orders have been truly invaluable to this industry. They have given us the opportunity to invest in a product that we believe is the future of the flat-rolled industry both here and around the world.

We are grateful for that opportunity and we have not squandered it. We have invested heavily in this business. This is a textbook case of how the trade laws are supposed to work. We have made great progress, but all of that progress is likely to be undone if you revoke the orders now. Please give us a chance to finish the job. Thank you.

MR. DIMICCO: Thank you, Chairman Pearson, members of the Commission. I am Dan DiMicco, Chairman, President and CEO of Nucor Corporation. I appreciate the opportunity to discuss with you today the impact of revoking these antidumping and countervailing duty orders.

Revocation of the orders against corrosion resistant steel from the countries in question, Australia, Canada, France, Germany, Japan and Korea, will certainly result in a recurrence of material injury within a reasonably foreseeable time. First, global overcapacity is as much a problem with respect to corrosion resistant steel as it is for any other flat-rolled product.

While global demand is growing far too much foreign capacity is being built.  This is compounded by countries like China where the steel industry is heavily subsidized and as a result new capacity will continue to be built without regard to the market demand for that capacity.  Contrary to Chinese claims old efficient Chinese capacity is not being removed from the market.

According to the U.S. trade representative Schwab, China will produce 117 million metric tons of excess steel in 2006, 117 million metric tons, more than the entire annual production of Japan on its own or the United States on its own.  Just three years ago China was a net importer of steel.  In 2004 it was a net importer of hot dipped galvanized steel.  Today China is a net exporter of steel including hot dipped galvanized steel.

In May of 2005 China imported 5,000 tons that month of hot dipped galvanized.  In August and September of 2006 each of those months saw 75,000 to 80,000 tons of hot dipped galvanized come in in each of those months.  The POSCO Research Institute projects that by 2010 Chinese producers will have approximately 10 million tons of excess capacity to produce hot dipped galvanized steel.

We think that this estimate is superior to projections by the CRU and other published sources. In fact even POSCO's estimates are likely conservative since general announcements of new flat-rolled capacity do not always fully describe the amount of coating capacity that is being added.

The market distorting affects of this explosion in capacity may not show themselves immediately. As the Commission is well aware there's always a lag before new production can ramp up and start flooding the world market. I can tell you right now that the massive increase in Chinese capacity to produce corrosion resistant steel in 2004, 2005 and 2006 are now having a tremendous negative impact on both the U.S. and global steel markets.

As China grows, it displaces imports and increases exports. In 2006, China has emerged from nowhere to become the second largest import source of corrosion resistant steel into the United States. Massive imports of low priced corrosion resistant steel from China have flooded into service center inventories and are now contributing significantly to the challenging market conditions that the domestic industry is currently facing.

China is distorting the world market faster than anyone could have anticipated. We have seen this happen in Australia for example where an invasion of low priced Chinese imports has forced Blue Scope Steel to rapidly shift tonnage from its home market to export markets in response. At Dofasco's and Sorevco's urging, the CITT in Canada also decided not to sunset numerous hot rolled cases because of the huge problems with Chinese capacity.

Just last week Steel Week reported that Eurofer is contemplating trade cases because of a massive and destabilizing influx of Chinese flat products including galvanized into the European Union, and it's not just China. New corrosion resistant steel production capacity is being built to plan in the rest of Asia, and India, and Brazil, and Mexico, in the EU, in Russia, Turkey, in eastern Europe and, yes, here at home.

By any measure the sum total of this new capacity will far exceed growth in world demand. The affects of global over capacity are being felt in every country that is subject to these orders. These subject countries have massive capacity to produce corrosion resistant steel on their own.

That capacity has grown significantly in the last five years and in many of these countries will continue to grow.  These countries are also big exporters of corrosion resistant steel, they produce far more than they need domestically and are dependent on export markets to unload millions of tons each year.

With all of this new production of corrosion resistant steel in China and elsewhere flooding these countries' export markets and invading their home markets these tons will need to find a new home. Historically like it or not the United States has been the dumping ground for these exports and this will, again, be the case if the orders are revoked.

This is a train wreck in the making, as I have repeatedly pointed out.  Respondents are happy to quote you things that I have said about the demand side of the equation, but they have simply ignored my repeated public condemnation of the dangers of overcapacity, particularly government owned overcapacity, many times in the same speech that they quote me on on the demand side.

Turning to the demand side the public record in this review shows that contrary to Nucor's own expectations demand has been flat or down over the last five years.  There has of course been a shift in automotive and other manufacturing to the southern

United States and Nucor has been well-positioned to take advantage of this.

We have also seen a shift from electrogalvanized steel to hot dipped galvanized steel in part because rising costs have made it difficult for domestic producers to sell at a price that purchasers are willing to pay when they can use less costly hot dipped galvanized for many of the same applications.

Overall there has been no real demand growth over the period of review. In recent months we have seen a significant softening of demand. Ford, General Motors and Chrysler have all announced deep production cuts in the last quarter of this year. While domestic auto production is likely to recover by 2009 as transplants from Japan, Korea and Germany add U.S. capacity demand for this 40 percent of the market will be off until these companies can scale up U.S. production to offset the cuts by the big three.

Even once scaled up the mix of smaller more fuel efficient autos sold by the transplants and big three will require less steel. Demand for corrosion resistant steel is also declining due to the slowing residential construction the effects of which are starting to be felt by appliance and HVAC manufacturers.

Service center purchases have ground to a halt with inventories at extremely high levels including large quantities of Chinese imports in the inventory mix. In this environment, substantial quantities of imports of corrosion resistant steel from China, India, Brazil and Taiwan have combined with the softening of demand to create an intense downward price pressure, even as our costs remain high.

This effect will be far worse if the orders were not in place. Contrary to what Respondents claim we do not have the ability to indefinitely ignore import volumes to control pricing in this market which remains highly competitive.

While consolidation helps we have a very limited ability to modestly reduce production for a short period of time in an attempt to stave off price decreases, but ultimately we do have to move volume to keep our output and costs at a reasonable level given our high fixed costs. At Nucor our workers' compensation is based in part on their productivity.

Any reduction in volume means they get paid less. This, too, is a form of material injury that our trade laws are designed to remedy and it is something that the Respondents have ignored entirely. The supply and demand conditions we are currently facing are already putting a lot of pressure on pricing and adding dumped and subsidized imports from these six countries to the mix will only make things worse.

If these orders are revoked essential volume will be lost, prices will go down significantly, our workers will work less and earn less and our domestic injury will be harmed. Another distortion that Respondents and the auto makers have spread is the idea that there's a shortage of corrosion resistant steel in the United States and elsewhere.

This is simply not true, and we'll be happy to take their orders. There have been isolated bottlenecks and short periods of tightness, particularly when unanticipated capacity outages occur, but these are temporary occurrences and the impression given by Respondents that this is somehow a chronic problem is downright false.

We are willing to invest and have invested in a new galvanizing line in Decatur, Alabama, to be sure that our customers have the product and quality they need, but this investment which is designed in part to serve Japanese, German and Korean transplant auto producers will be in severe jeopardy if we allow these countries that have been found to have infected our marketplace with unfairly traded goods to be put into a position to do it again, and again and again.

They don't deserve that consideration, particularly in these times of global overcapacities being created by massive government subsidies and outright direct ownership in the world's largest steel producing country, China. Unfortunately the other side's arguments in this case seem to be full of distortions and contradictions.

On the one hand you have the auto makers saying to the ITC that they want orders revoked because they need extra supply and to the Hill they say they want cheaper steel. On the other hand you have the foreign steel producers saying that they couldn't possibly ship here if the orders were revoked because they need to dedicate the capacity to supplying those same auto makers in other markets.

Clearly none of this adds up. The only reasonable conclusion that the Commission can draw from this set of facts is that the revocation of the orders will lead to significant volumes of imports from these six countries to permit U.S. customers to leverage down prices. Given the already challenging supply/demand conditions facing the domestic industry at the present time any negative price or volume affects will be material.

I'd like to leave you with one thought. Over the next two months Nucor will be negotiating contracts that will set the prices for much of what we sell for the next six to 12 months. We are already operating in a very challenging environment as we move forward with these negotiations and the revocation of these orders would have a very real and very immediate negative affect upon our industry. Thank you very much.

MR. GANT: Good morning. I'm Douglas Gant, Vice President of Sales and Customer Service at AK Steel. Thank you for the opportunity to testify this morning. These reviews are extremely important to the long-term future of AK Steel. We believe that our competitive advantage lies in supplying high-tech value added products such as corrosion resistant steel.

Last year coated steel accounted for over 49 percent of all the tonnage we shipped, so this is a life or death product for us. Given the importance of the corrosion resistant steel to our company we are very concerned about these orders. The foreign producers covered by these orders include some of the most aggressive and sophisticated companies in the world. They are perfectly positioned to compete for the type of high end business that we need to survive.

Unfortunately they also have a proven track record of unfair trade in this market. We don't mind stiff competition, we face it every day, but unfair competition, competition with dumped imports at prices that can only lead to heavy losses for us, is very different. No company like ours which must compete for its investors in the open market can succeed over the long run under such circumstances.

I understand that the foreign producers are telling you that they have no intention of increasing their shipments to the United States, but no one you will hear from today, at least no one who knows the steel industry, truly believes that. Production of corrosion resistant steel involves high fixed costs, so any corrosion resistant steel producer anywhere in the world is always looking to keep its mills running at full capacity.

Furthermore, this is the most attractive market in the world. It is certainly much better than other potential export markets such as China. Last year U.S. consumption of corrosion resistant steel was approximately 22.1 million net tons. By contrast consumption in China was estimated at about 13.9 million net tons. Hot dipped galvanized prices in China are currently $200 per ton below U.S. prices.

No salesman is going to ignore a bigger market with higher prices for the sake of a smaller market with lower prices. A new surge of imports would undermine all the good work that we have done at AK Steel. Since 2003 we have lowered the costs we can control by more than $500 million per year or about 10 percent of our total costs.

We have negotiated eight competitive new era labor agreements with the United Steel Workers and United Auto Workers that will make us more competitive. In Rockport, Indiana, we invested $1.2 billion to build a state of the art steel finishing facility which began production in 1998.

Rockport's continuous galvanizing and galvanialing line has produced more than one million tons of the highest quality corrosion resistant steel for the automotive and appliance markets in each of the last five years, more than any other coating line in the world.

Rockport Works employees have earned the OSHA star designation under the voluntary protection program and have not suffered a lost time injury in nearly four years. Rockport Works is certified under the stringent quality and environmental management standards of the International Standards Organization.

The plant has won the North American maintenance excellence award and just last month it was presented with both the prestigious U.S. Senate productivity award and Industry Week magazine's 10 best plants in North America award. In fact we have received honors from virtually every manufacturer of cars and light trucks in the United States including an unprecedented 12 consecutive dual quality and delivery awards from Toyota.

Furthermore despite all the difficulties that domestic steel producers have faced we have never declared bankruptcy. We have not thrown our pension obligation onto the federal government. In fact we have never missed a pension contribution or a pension payment to our 33,000 retirees. In the last two years we have made voluntary or early pension contributions of nearly $300 million.

We have not abandoned healthcare benefits for our retirees and their surviving spouses. Do our legacy liabilities represent a significant cost that most other steel producers don't have to bear? They most certainly do, but we've made commitments to our workers and retirees, the type of commitments that many U.S. companies used to make, and we take that responsibility very seriously.

Quite frankly we think there should be a place in this country for a world-class manufacturer that stands behind those commitments and we think we can, but not if we have to fight a surge of illegal trade.  We are particularly concerned about such a surge now because we face some major challenges.

Since 2000 our energy costs have risen by 95 percent and our raw material costs have increased by 116 percent.  Incredibly our costs just for raw materials and energy, things like iron ore, coal, zinc and natural gas, are $1.2 billion higher than just three years ago.  Meanwhile in the first seven months of this year imports from countries not covered by relief are up 65 percent compared to the same period as last year.

The last thing this market needs is another surge of dumped and subsidized imports.  The auto companies however see things differently, so let me address their claims.  Let me assure you that few if any companies have a greater interest in the long-term health of the U.S. auto industry than AK Steel.  We have served this market with quality steel for the last 96 years.

Last year 45 percent of our overall sales were made to automotive customers. We want the auto makers to succeed, but our relationships with the auto companies cannot be sustained if we have to meet unfair prices. I understand that the auto companies contend that we now have significant market power. This is simply not correct.

Look at the operating margins that we have reported or the margins for the industry as a whole and ask yourselves, if we have so much power why aren't we making more money? We haven't come close to making the cost of our Rockport Works, the most productive zinc coating line in the world. Are we at AK Steel fighting hard to get the best deals we can? Of course, but so are the auto companies.

That's why they want to have these orders revoked. They know that if they can threaten us with low ball quotes from companies like Nippon Steel and ThyssenKrupp we will have no choice but to reduce our own prices or lose badly needed volume and that is what they intend to do. I also understand that the auto companies claim that they have difficulty getting the steel they want, but there are no shortages here.

Our lines are not fully booked. In fact AK Steel and Mittal Steel recently agreed to indefinitely idle a jointly owned electrogalvanized facility in Cleveland. So the steel is there even if the auto companies may not always get the price they want. As our margins show they are already getting a very favorable price.

Given recent increases in our costs falling prices will certainly cause severe harm to domestic producers like AK Steel. I urge you to prevent this harm, keep these orders in place and give us a chance to compete on a level playing field.

MR. GERARD: Mr. Chairman, members of the Commission, my name is Leo Gerard and I'm the international President of the Steel Workers Union representing steel workers in both U.S. and Canada.

I kind of think part of my job at these hearings is to help put a human face on the issues that are before you, and I'd like to ask a number of our members and retirees who traveled to be at this hearing to stand so that you could recognize them and also let you know that we've got a room full in the public holding area, but that's where the food is, so I assume there would be a lot of steel workers in there.

So if you guys would stand?

This hearing is about them to be very blunt. I'm not here to represent the industry, and they have the numbers and they can make the case. I'm here to tell you that you may not understand this is real life and death to some of these people. Real life and death. We went through a series of 50 bankruptcies almost in North America which 40 something were in the U.S. through the most recent steel crisis.

That crisis didn't happen because the other countries were making better steel, making it more productively, making it cheaper, making better quality. That crisis happened because we had a sustained flood, a tsunami, a tsunami, of unfairly traded illegally dumped and subsidized steel into this country, corrosion resistant steel being one of them that has been under constant attack for now almost 15 to 20 years.

So I'm here to say to you that this is about real people, it's about an industry that is important, it's about our retirees and our active members that made huge sacrifices, changed the whole way of life in their workplace. I want to tell you I was offended to hear the ***** lawyer from the auto industry, I didn't catch his name standing up there, make it like the industry dumped their obligations.

They went bankrupt, they went out of business and we found buyers like Wilbert Ross, who helped create ISG, like U.S. Steel, who took National, and we revitalized those companies, and we went to the bargaining table, and we changed the way we do work and we negotiated with these companies that a huge part of their profit would go into a voluntary employee beneficiary trust.

That voluntary employee beneficiary trust is a lifeline to a quarter million steel worker retirees who had their life ripped out of them through those bankruptcies. Because of that VEBA we're able to provide drug benefits to some of those people and their families. The better the price, the higher the commitment to the VEBA.

At Mittal Steel we took 30 percent for their pretax profits. We've got to get a bit more out of U.S. Steel. I think it's only 20 something percent. They also in fairness didn't dump their retiree obligations or their pension obligations from their U.S. Steel employees. They took them on from National.

So what we have, if you revoke this order hearing the technical arguments from the corporations you need to understand that you're affecting the lives of those people and their families. You go into these mills where our people have changed the way we work. We're working with Mittal, and U.S. Steel and AK to make sure that there's modernizations.

We bargained modernizations into our collective agreements based on profitability. We bargained that they had to source their raw materials in North America. They're not able to take advantage of low priced raw material because we made a commitment that they had to get their raw materials in North America because it meant jobs for people.

I'm disgusted with people who want a chicken tax on their trucks coming here and telling us that somehow we need to have our people take less when in reality as Bob Lighthizer said it's $19 per car. I just had a blowout on one of my tires. It cost me more than that to replace the tire. Because of this we're going to put peoples' lives at risk.

If I seem a little bit more animated than usual it's because now we're going through the reality of what that transformation is doing. One of our members in the back when I went to the washroom he said, Leo, don't forget to tell them that we had to put $32 million in our mill to meet environmental standards that we hadn't been able to meet for five years.

So these returns as measly as they are at three, and three and a half and four percent are going to modernization, they're going to meet quality standards, they're going into reinvestment, but to me most importantly 30 percent, 20 percent, 28 percent is going to take care of those retirees in pretax profits.

You need to know that the lower the price the smaller the percentage goes to the VEBA. Let me give you a hypothetic, a symbolic explanation. If the average price is $100, three percent pretax goes to the VEBA, f the price is $200, 10 percent goes to the VEBA, if it's $20, 40 percent goes to the VEBA, so that the higher the price the bigger slice that we committed to give to the retirees.

I think at Mittal in two years we've put almost $300 million in. At U.S. Steel we put I think just a little bit less than that. At AK we're putting stuff in. We've done this everywhere. Without that, I want to make it clear, this is life and death. This is life and death. Some of these folks won't have their drug benefits.

None of us in the room except them, none of us in this room except them have ever had to decide, do I cut my pill in half, or do I buy the drugs or do I make the mortgage payment, or do I buy the drugs and not have enough money to send my oldest kid to college? This about a $19 benefit? I also resent when some [person] gets up and says that they lost more jobs in the auto industry last year than we employ in the steel industry.

Let me remind him that we had 650,000 people employed in this industry. Most of it is gone because for 30 years we fought unfair trade and report after report by government after government explaining what went on. Finally we did a 201. Inadequate as it was it gave us breathing room. Your corrosion resistant position has given us some breathing room and now when we're on the verge of turning things around so workers, and families and retirees can have some decency we're going to put up with this *****?

I mean, this is a simple issue to me. Simple issues. Either you get to buy all the steel you want from anywhere in the world that's made in legal market based conditions that we've all agreed are the international rules of competition or you throw the flood gates open to anybody that is trading illegally. I don't see any difference between that and me going to China and buying a Britney Spears CD for a buck and coming back and selling it here for $2.50.

If I did that ***** would be in jail in a heartbeat. This is no different. So on behalf of those people and the tens of thousands that can't be here I'm asking you not to rescind these orders and to make sure that they stay in place so they don't have to go cut their pills and they can count on their VEBA for the rest of their life. Thank you very much.

MR. NOLAN: Good morning, Chairman Pearson, and members of the Commission. For the record my name is John Nolan and I am Vice President of Sales and Marketing for Steel Dynamics, also known as SDI, and I have the very difficult assignment once again of following Mr. Gerard and I want to say bravo.

First, I'd like to give you SDI's perspective on some of the claims that are being made by the automotive industry. Now, SDI's not a direct supplier to the automotive industry, but we do supply substantial quantities of corrosion resistant steel and other flat-rolled products indirectly through steel service centers and processors.

We know from experience what these folks mean by globally competitive prices. Ever lower prices with no regard for market reality. Now, like most electric furnace producers of steel sheet we purchase considerable prime scrap from the auto companies at prevailing month to month market prices.

Now, during 2004, a year in which these companies enjoyed a windfall from a more than 200 percent increase in factory bundle prices, General Motors attempted to force SDI to sell them 50,000 tons of flat-rolled steel at prices very near the cost of scrap.

Now, we refused believing that we had no obligation to supply steel at such prices, a position legally affirmed by Oakland County Circuit Court Judge Gene Sneltz, during breach of contract litigation brought before him by General Motors, so I guess litigation wasn't on Mr. Wagoner's list of concerns in 2004.

Now, I sat in utter disbelief in early 2004 as GM representatives repeatedly told me before third-party witnesses that they expected me to pay them more for their scrap than they paid SDI for its finished steel. Unfortunately this seems to be a standard practice in the auto industry and you can see clear evidence of this in the sorry financial states of so many major auto part suppliers.

Now, I believe the Commission really needs to look only to its own staff report to put the auto makers' claims in perspective. One of their claims asserts the market power of consolidation. Of course their argument first disregards Department of Justice approval for these initiatives, then it disregards the summary financials presented on page 14 of your staff's report which describes a whopping 3.7 percent return on sales in the period January to June 2006.

Now, contrary to the arguments of Congressman Rogers and Knollenberg I would offer that the very last thing these results suggest is an industry loaded with market power. The auto industry is relentless in its drive to cut costs to the extent of totally ignoring fundamental market realities when it concerns products like steel.

Steel price increases have been driven by the soaring cost of raw materials and consumables such as zinc and energy, not by the consolidation of the U.S. steel industry.

Given their ambitions you can bet that if the existing orders are revoked the auto makers would use the additional availability of corrosion resistant steel from these countries, all of which have producers who are qualified to supply corrosion resistant steel for automotive applications, to leverage down U.S. producer prices and you can bet that these foreign producers many of whom have existing supply relationships with the big six auto makers would jump, jump, at the opportunity to get back in to the U.S. market.

This will resonate throughout the market for corrosion resistant steel and materially injure the U.S. steel industry. Lifting the orders and allowing dumped and subsidized goods from these countries to return to the U.S. market will have a particularly devastating impact during the challenging conditions we are now facing.

In just the last few weeks we have seen rapidly deteriorating market conditions for all flat-rolled products including corrosion resistant steel. Massive and unexpected fourth quarter cutbacks in auto production by Ford, General Motors and Chrysler, declining residential construction, high inventories and the wide availability of low cost imports are creating tremendous downward pressures on price.

We are seeing offers for corrosion resistant steel from Brazil and China undercut U.S. producers' spot prices by more than $200 per ton. U.S. mills have already reduced prices in response to this pressure even though we're facing the sustained high cost for raw materials clearly obviously and evident in this very Commission's own staff report.

If the orders on corrosion resistant steel were not in place the situation would be even worse. To give you a concrete example Canadian producers like Dofasco and Sorevco are currently flooding the U.S. market with hot rolled and cold rolled sheet and they are significantly undercutting U.S. market prices.

Why shouldn't we expect them to do the very same thing with respect to corrosion resistant steels without the dumping order? Also, the disruptive presence of Chinese imports in the U.S. market signals the affect that it's massive expansion of steel coating capacity has had and will have on global steel trade.

As China's capacity continues to grow it will displace millions of tons of steel from Japan, Korea and Australia that is currently being exported to China and to other Asian markets. Producers in these countries will want to find a home for these tons in new export markets. If these orders are revoked the United States will likely be that home and this will put further downward pressure on prices.

Now, in closing revocation of the orders will result in increased imports from Australia, Canada, France, Germany, Korea and Japan. It will cause price drops that the industry simply cannot sustain given the high cost of raw materials and consumables such as zinc and energy.

The consequence: material injury will likely recur in the wake of order revocation. Thank you, and I look forward to responding to your questions.

MR. SCHERRBAUM: Good morning. My name is Joe Scherrbaum. I'm the Vice President, Sales, of United States Steel Corporation. I'm responsible for the sales of all of our company's flat-rolled products throughout North America including corrosion resistant steel. Before assuming my current position I was responsible for the marketing and the steel produced by our European operations.

I will start by discussing what is going on in this industry from the demand side. The briefs filed by the other side say that the orders can be lifted because we will be seeing very strong demand. They say that the two major end uses for corrosion resistant steel are automotive and construction. That is true.

They also say that both of these markets will be very solid for us going forward. That is not true. Let's start with automotive which is the largest end use. I'm sure that you've heard that the big three auto makers have all made significant cuts in their production for the remainder of the year. You may be wondering whether those cuts will be offset by increases in production at the transplant auto makers.

They will not. Ford's auto forecast, a reliable source, estimates that total motor vehicle production in North America through the middle of 2007 will be down by as much as 10 percent. That's a big decrease, but this decrease shouldn't come as a surprise. It is what you would expect in this macro economic environment.

Gasoline prices remain very high, interest rates have increased significantly, the housing boom is over and the only question is whether the boom will turn into a bust. That's not an environment in which you are likely to see strong demand for big ticket items like automobiles.

The purchase of a car is something that most consumers can defer and that is exactly what many people are doing. Let's talk about construction. Residential construction is way off. Nonresidential construction is growing, but this increase is from a low base. After the internet bubble burst and after 9/11 nonresidential construction fell significantly.

Moreover as you know nonsubject imports have increased significantly and these imports have been disproportionately concentrated in the construction sector. They are having a significant affect on prices in that market. Because of this supply factor we are very concerned about this sector of the market as well.

Let me talk about another issue that has been raised by the other side. They say that the auto makers value relationships, quality and reliability. That is true. They say that this would make these companies reluctant to switch from buying steel made in the U.S. to steel made in the subject countries. That is not true.

All the countries involved in this case bring relationships, quality and reliability to the table. That is why they are the main threat to us in the automotive market. If a Japanese steel producer offers cheap steel to Toyota for its operations in the United States that steel producer is not a stranger to Toyota.

Toyota makes automobiles in Japan and all around the world and Japanese steel producers sell to them in Japan and all around the world. ThyssenKrupp is in a similar position with DaimlerChrysler in the United States. Dofasco is in the same position with a large number of U.S. and Japanese auto makers that make cars in Canada.

There are a number of other examples that I could give as well. Also, multi-national auto makers have stressed their intention to move more and more toward a global sourcing model. The explicit objective of such a model is to have a single supplier serve your need for a particular input on a worldwide basis.

Because the subject foreign producers sell steel overseas to foreign auto makers with production facilities in the United States a shift to imported steel from the subject countries by these auto makers would be perfectly logical for them. In short the welcome mat is out to the subject foreign producers in the U.S. auto industry and everyone familiar with this industry knows it.

I also see that some of the briefs on the other side say that the U.S. steel producers have market power vis-à-vis the auto makers. Now, I'm not an economist and I'm not an antitrust lawyer, but I know how this market really works. The reality is that sales to the automotive sector are the lifeblood of U.S. producers like us and we compete with each other for that business as if it were a life and death matter because it is.

The reality also is that the auto makers know that and our relationships with them reflect that. That's why they get the prices that are highly favorable. That's always been true and remains the case today. Finally, I see that some of the auto makers are saying that a decreased willingness of domestic producers to enter into multi-year contracts is evidence that the U.S. industry now has market power.

Actually, in some cases as the Trade Press has reported it is the auto makers themselves that wanted shorter term contracts, but the more important point is that our attitude toward multi-year contracts has been shaped by our recent experience with such contracts which has not been a happy one.

When our raw material costs sky-rocketed our automotive customers insisted that we adhere to the low prices specified by the contracts and that is exactly what we did. It should not be surprising however that this has made multi-year contracts much less appealing to us than they once were. Thank you.

MR. PLATZ: Good afternoon, Commissioners and staff. My name is Roy J. Platz, and I'm the Director of Marketing for the flat products division of Mittal Steel USA. I've worked for the company and its predecessors for more than 30 years. I began my career there as a chemist, worked at research, quality and operating before moving over to the sales and marketing side of the business.

The AD and CVD orders under review today should be continued. They have helped to restrain unfair imports from the covered countries and as a result the industry was able to make some necessary investments in capacity improvements and improve its profitability. The orders continue to be very important to Mittal Steel USA's ability to maintain profitable operations.

Yet if the orders are revoked in all likelihood we will see significant increased imports from the covered countries for several reasons. First, the subject foreign producers are currently investing in capacity expansions that will add more than eight million short tons of CORE capacity by 2008.

Second, the foreign producers are highly export dependent, yet because producers in many of their export markets, particularly China, are investing in large CORE capacity increases themselves it is likely that as recent import trends show these third-country markets will not be able to continue to absorb CORE exports from the covered countries in future years.

Third, the foreign producers have proven their ability to quickly ship large volumes of CORE exports and given their established channels of distribution they are likely to return to the U.S. market if third-country markets become less open to their products.

Fourth, in light of existing excess global capacity and falling prices in countries with no or few trade remedies in place the Commission staff report shows that prices in the U.S. are generally higher at the present time. Downward pricing pressures are already building in the market with the orders in place.

The industry is grappling with historically high raw material costs that are projected to persist in the future. At the same time we are rapidly approaching inventory destocking and the downward pricing pressure that such destocking has historically imposed on the industry.  If the orders are revoked we are likely to see an even more dramatic decline in U.S. CORE prices for a number of reasons.

First CORE is highly interchangeable product, so price is a key factor in purchasing decisions.  Certainly as a marketing director I know firsthand how important price is to our customers. Second, the foreign producers have demonstrated their ability and willingness to undersell U.S. product even with the orders in place.

Finally, we are seeing growing imports from countries outside of the orders like China, India and Taiwan.  These imports not only are generally increasing price competition in the U.S. market, but should the orders be revoked they will intensify the price depressing affects that increased imports from the covered countries will have.

In sum the likelihood of a significant increase in dumped imports if the orders are revoked, the inevitable consequence to Mittal and the rest of the U.S. industry will be material injury within a reasonably foreseeable time.

We will be forced to compete with rising volumes of unfairly traded imports without the discipline of the orders in place and the likely result of the situation will be falling shipments, falling prices, eroding market share, declining production, declining employment and declining profits.

To avoid this result these orders must be continued. Thank you for your attention, and I welcome your questions.

MR. BATES: Good morning, Commissioners. My name is John Bates, and I am the CEO and owner of Heidtman Steel Products. Heidtman is the largest, privately held, automotive, flat-rolled service center network in the United States, with 16 directly owned or affiliated facilities in Ohio, Michigan, Indiana, Illinois, and Maryland. We are also co-owners of National Galvanizing in Monroe, Michigan, a joint venture with the National Materials.

So I'm here today with the perspective of both a purchaser and a producer of corrosion-resistant steel, and I would be happy to answer any questions that you would have. Thank you.

MR. KORAJCZYK: Good afternoon, Mr. Chairman and Members of the Commission. I am Robert Korajczyk. I'm a professor of finance and a director of the Zell Center for Risk Research at the Kellogg School of Management at Northwestern University, where I've taught since 1982.

I've reported my findings in some detail in a report that has been provided in the domestic producers' prehearing brief. I will not go over all of the same ground here. I would welcome any questions that you have on that material.

MR. LIGHTHIZER: Let the record show that we have a substantial amount of time left.

CHAIRMAN PEARSON: My compliments to the representatives of the domestic industry for adhering strictly to the time allocation.

After considering the possibilities, the Commission has resolved to break now for lunch, and we will return at quarter-to-one -- excuse me -- let me get it right -- quarter-to-two, and we will then begin the first round of questioning.

We are mindful that Mr. Gerard has to leave at not later than two-thirty, and so we will attempt to get our questions to you in that timeframe.

MR. GERARD: Thank you very much, Mr. Chairman. I'll just let you know, it's not out of a lack of desire to be here for the whole event, but we, in fact, have an international union executive board going on yesterday, today, and tomorrow, and the one thing I've learned is that if you are the president, and your board is meeting, you should try to be there.

CHAIRMAN PEARSON: Yes, I understand.

Okay. Very well. We are in recess until one-forty-five.

(Whereupon, at 12:58 p.m., a luncheon recess was taken.)

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A F T E R N O O N   S E S S I O N

(1:47 p.m.)

CHAIRMAN PEARSON: This hearing will come back to order. Madam Secretary, what is our first order of business?

MS. ABBOTT: Mr. Chairman, the Honorable Henry E. Brown, Jr., is available for testimony. He is U.S. Representative, First District, State of South Carolina.

(Pause.)

CHAIRMAN PEARSON: Welcome, Congressman Brown. Good to have you here.

MR. BROWN: Thank you.

CHAIRMAN PEARSON: Please proceed.

MR. BROWN: Okay. Thank you, Chairman Pearson and Members of the Commission. Thank you for giving me the opportunity, once again, to appear before you to share my views in a sunset review.

You are currently considering whether revocation of the antidumping and countervailing duty order covering corrosion-resistant steel from various countries would cause a recurrence of injury to the domestic industry. I believe that, given conditions in the U.S. and world corrosion-resistant-steel market today, revocation would have exactly that result.

I'm here today because the corrosion-resistant steel industry is important to my district. It isn't just a matter of dry economic statistics. The industry has made the lives of my friends and neighbors better.

Nucor produces corrosion-resistant steel at its mill in Berkeley County, just north of Charleston. I've told you in the past that Berkeley is one of the most modern steel mills in the world and its workers, among the most productive. I'm not sure, though, that I've explained exactly what the Berkeley mill has meant for Berkeley County, for the First Congressional District or for the entire State of South Carolina.

According to a recent economic study, Nucor Steel is responsible, directly and indirectly, for the creation of 2,662 permanent jobs in Berkeley County alone. These include not just jobs at the mill itself but with the companies supplying the mills. These are good jobs with high wages and solid benefits. They are exactly the type of jobs that a rural county like Berkeley needs to become prosperous.

Nucor-Berkeley contributes approximately $450 million annually to the economy of Berkeley County, including $122 million in personal income. For the State of South Carolina as a whole, the figures were over $540 million annually in total economic contributions and 3,184 permanent jobs.

Berkeley is not a wealthy county. About 12 percent of the people in the county live below the poverty level. These aren't just numbers because of the Berkeley mill. People don't just have jobs; they have good jobs, the kinds of jobs that you can afford to own a home instead of renting, send a child to college, care for the aging parents, and put aside something for retirement.

The antidumping and countervailing duty laws do not exist to serve some theoretical principle of economics. Their purpose is to ensure that American workers are not put at a competitive disadvantage by foreign competitors who violate the rules of the trade that the international community has agreed upon.

The Commerce Department has determined that if these orders are revoked, the countries subject to this investigation are likely to resume exporting dumped and subsidized steel to the United States.

These are behaviors that the international community as a whole has condemned. These are behaviors that hurt the United States, U.S. companies, U.S. workers, and their communities, including Berkeley County.

Nucor Steel-Berkeley exemplifies what is best in the domestic corrosion-resistant steel industry in the American economy.  Nucor has spent hundreds of millions of dollars to build and run one of the most efficient steel mills in the world.  My friends who work at the Berkeley mill tell me that every day they try to figure out how to become more productive, how to make better steel using fewer resources.

It's not just management that does this. The production worker, down to the newest hire, had made it their mission not to be just the best in the world but to get better every day.  They cannot do this if they are exposed to dumped and subsidized imports.  The domestic industry has done its job of becoming more efficient and productive than ever.

Mittal Steel USA is another constituent company involved in these sunset reviews.  I would like to take a minute to mention Mittal's importance to our national economy, as well as to that of my own district.  Mittal Steel produces both corrosion-resistant steel and cut-to-length plates in eight states and directly employs over 17,000 people in the production of these imported products.

While Mittal Steel does not produce either product in South Carolina, it produces wire rods at the Georgetown facility and directly employs 326 people. I am proud that these hard-working men and women I am now honored to have Mittal Steel in my district. I hope the relationship I have with Mittal Steel and Nucor Steel is one that will last a long time. To that end, it is virtually important that we continue to maintain this country's trade laws to limit the harmful effects of unfair trade and to ensure a level playing field for our domestic manufacturers.

As a public servant, you and I owe it to them to do our job while making sure that the trade laws that protect their jobs and communities from unfair competition are fully enforced.

I thank you very much for this opportunity to testify before you today.

CHAIRMAN PEARSON: Thank you, Congressman.

Are there any questions for Representative Brown?

(No response.)

CHAIRMAN PEARSON: Thank you very much.

MR. BROWN: My pleasure. Thank you.

CHAIRMAN PEARSON: Before moving to the questioning, let me just mention that because we have such a large number of witnesses here today, please try to remember to identify yourself each time that you respond. That helps the court reporter. And because we do have some strong views on both sides of this issue, let's be mindful to treat with full respect the people, even with whom we might disagree, okay, so that we maintain an appropriate level of comity here today.

Commissioner Koplan, would you begin the questioning?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman. I want to thank the witnesses for their testimony thus far, and I look forward to your answers to our questions.

I'm going to begin with a question for four of you: Mr. Schorsch, Mr. Goodish, Mr. DiMicco, and Mr. Nolan. You argue that the domestic industry is only marginally profitable, not covering its cost of capital and not generating sufficient returns to justify investment in new capacity. Some of that was actually discussed by you all this morning. I remember Mr. Schorsch touched on it.

For example, the discussion that I looked at before the hearing was in U.S. Steel's brief at page 84 and Nucor/SDI's brief at page 55; my question is, how do you explain new lines started or added by Winner Steel in 2005, by Steelscape, Mittal and Nucor in 2006, and Sorevco, a new company, beginning construction of a new, $880 million mill in 2005, which is expected to start up in 2007, given the current conditions that you have described? Who would like to begin?

MR. SCHORSCH: I can maybe begin. This is Lou Schorsch from Mittal Steel.

COMMISSIONER KOPLAN: Thank you.

MR. SCHORSCH: Any time you're making an investment decision, obviously, you're thinking about, in an uncertain environment, what the future is likely to hold, and we go into these kinds of investments, and, in our case, the one that is an increase in corrosion-resistant capacity is at our Cleveland facility. That's one of our most productive facilities. We had the opportunity to convert an existing line at a cost of about $80 million versus a brand-new line would be about probably 180 to $200 million for that quality of line, so it was an attractive investment on that basis.

But you're still making projections, assumptions, about the prospects for the marketplace going forward. So, in that case, we felt they are adequate enough to justify that incremental, strategic investment, but I would also say our company has a depreciation base of about 330 to $350 million a year, and we basically are reinvesting at that level.

The investment I just mentioned, which, again, is over probably a three-year period, the total investment of $80 million, is, I'll say, frankly, the sole, or certainly by far, the major strategic investment we're making. Every other investment goes towards maintaining the facilities, frankly, upgrading, doing some repairs that weren't done during the crisis period for the industry.

So, basically, we're reinvesting at a kind of hold-steady level, with the exceptions of the investment like I just described, which, for a company to be saying the strategic portion of its investment portfolio is $80 million over three years when you're spending $330 million, more or less, in total just to cover depreciation; that's still not the sign of an industry that is strongly confident about its future prospects, in my view.

COMMISSIONER KOPLAN: Thank you. That's helpful. I appreciate it. Who is next? Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor. Good question, Commissioner, good question, because --

COMMISSIONER KOPLAN: Now you've got me worried.

MR. DIMICCO: -- it gets to the heart of the matter. We make our investment decisions based upon the long term. We make our investment decisions based upon there being a rule of law. We make our investment decisions based upon the fact that we believe that fair trade is here to stay and that we will get the support that we need, whether it be from Republican or Democrat administration, the ITC, to enforce the laws and rules that are on the books, WTO compliant.

We believe that that will happen. If we didn't believe that, we would divest ourselves of our entire steel assets. So when we make an investment like this, which, by the way, is one of the few greenfield investments we've made in the last six years -- most of our investments and growth have been internal or through acquisitions of companies that were in bankruptcy or in difficult times.

But we wouldn't even be in the business we're in today if we didn't believe that we could make a case to allow for fair trade to take place, and it's made in light of the fact that we believe that the ITC will uphold duties like this on countries that have abused their right to sell their product in our market. We have to believe that because if we didn't believe that, then we would not be in the steel business, period, whether it be a new $500,000-ton-a-year galvanizing line or the 24 million tons of steel production that we have today.

COMMISSIONER KOPLAN: Thank you. Mr. Goodish?

MR. GOODISH: Commissioner Koplan, I agree the comments that have been made both by Lou and Dan. Any investment we would make in galvanized or corrosion-resistant product, we would first do a market study, and that market study would be based on what we see happening in the economy, and it does assume that imports coming into the country would be fairly traded, and based on those facts, we would make an investment in additional corrosion-resistant facilities.

COMMISSIONER KOPLAN: Thank you. Mr. Nolan?

MR. NOLAN: Commissioner Koplan, good afternoon. This is John Nolan with Steel Dynamics.

We're still a two-and-a-half -- maybe pushing the envelope later this year or next year -- to 3 million-ton producer, so we're a little bit more conservative. We made our last Cap-ex decision on coated products -- I should say actually corrosion-resistant steels -- back in 1996. It's been about a decade.

In 2003, we had an opportunity to make a defensive purchase of a facility in Jeffersonville, Indiana. We did that. That has played very well for us, but we take the view that it's a better prospect at the moment for us to look even more forward into the value chain, so to speak, and we're adding certain capabilities to Jeffersonville that will expand our market presence, both on alternative-coating of pure zinc galv. aluminum and paint.

So I will tell you that we don't have an appetite at the moment for additional coating capacity, and I'm at a loss to explain the Cap-ex decisions by Winner and others, Commissioner.

COMMISSIONER KOPLAN: Thank you. I thank each of you for those answers. I'm going to stay with you with my next question, the group of you, and this one is on capacity utilization.

Capacity utilization for the domestic industry, and I'm referring to a public staff report, Table CORE 3-2 at page 3 of the CORE chapter, ranged, during the period of review, from a high of 84.7 percent in 2004 to a low of 79.5 percent in 2005.

This would indicate that the domestic industry has additional capacity to produce corrosion-resistant steel, but why did several domestic producers report having refused, declined, or been able to supply corrosion-resistant steel since 2000, and 23 of 31 responding purchasers reported supply problems, such as being placed on allocation or controlled order entry, from early 2004 to early-to-mid-2005, with some reporting shortages into 2006? I'm referring to page 5 of that same chapter. I would like to hear from each of you on this question as well.

Mr. Schorsch, should I start with you again?

MR. SCHORSCH: Our process, and this may be a little bit different from Dan's process, for example, or John Nolan's process, as an integrated plant, we've got, by the time I get to coated-steel products, it's probably a dozen different process steps that we have to go through, and there may be bottlenecks at different stages in that process.

So capacity; I don't want to say that it's an arbitrary number, by any means, but, again, you have to be careful as you look at that entire integrated root what stage in the process you're looking at. We would typically look, as the core, kind of bottleneck for our operations, if you will, at the steel-making or slab-making operations, and I think we've been operating at a higher percentage in that stage of the process than what you described.

I turn to the issue of availability of material and supply constraints. Obviously, I don't know what's happened with competitors and so on, but I'm almost baffled by the question. I think we certainly had issues in 2004 with supply constraints, difficulty of obtaining raw materials. On our part, we work with many customers to deal with that issue and provide them with materials. I don't recall any conversations inside our company where we had to say, we have two customers, and we have to choose between the two.

COMMISSIONER KOPLAN: Thank you. Mr. DiMicco? Excuse me.

Mr. Chairman, can I get the final responses to the question? Thanks.

Mr. DiMicco?

MR. DIMICCO: I don't recall us turning away business unless we couldn't come to an agreement on price with some of our customers. There were periods of time where there were outages at some of the plants that may have created short-term supply issues.

Sometimes those supply issues are not the steel producers' issues, the processors and the service centers and how they have ordered steel and didn't get supply from where they thought they might get it from.

As an example, some imports didn't come in on time, so they tried to move to somebody else. They have already got their schedule full; they can't do anything. There was a period of time when we were pretty well booked out on galvanized product, but, unfortunately, that is not the case today, going forward into 2007.

That's really all I have to say on that.

COMMISSIONER KOPLAN: Thank you. Mr. Goodish?

MR. GOODISH: Commissioner, if I remember correctly, in 2005, the service center industry had reached a height of about 10 million tons of flat-rolled inventory and essentially stopped buying. So some of the reactions that you're seeing, the 84 to 79 percent, is strictly a matter of adjusting to the marketplace. The orders don't come in on a mill. We don't run galvanizing lines or any steel-producing facility if we don't have an order.

That would show that, over time, you would see the 84 or 79 percent period of time.

In late 2005, we were building a new blast furnace for about $380 million In order to be able to service our customers. We did have some slight times when we had to juggle orders around to prioritize automotive material in our facilities, but at no time did we shut an automotive customer down.

We did have a case where we had a customer come to us in November and significantly increase the order for electro-galvanized product that they wanted delivered in January. We made those tons in January and February, and in March they told us that they didn't need them.

So we have had those kinds of problems, but other than maintenance outages that we may have that would be of short duration, we generally manage to move product around. We've had no shortages of product. But the utilization rate is being driven more by service center inventories than anything else.

COMMISSIONER KOPLAN: Thank you. Mr. Nolan?

MR. NOLAN: Commissioner Koplan, John Nolan, Steel Dynamics. To the best of my recollection, Commissioner, we ran at capacity in 2004. In fact, I'm reasonably sure we set production records for most of that year on all three coating lines. If we found ourselves in a situation where we turned someone away, it was a consequence of the order book basically being as full as we could manage at that time.

In '05, for the most part, I think we were running very close to capacity.

COMMISSIONER KOPLAN: Thank you.

My time has expired --

MR. DIMICCO: One quick point. Dan DiMicco. Hurricane Katrina did put a crimp in our hydrogen supply for our industry, which is necessary to do your cold rolling and annealing and to provide product to your galvanizing facilities, and there may have been some issues there among some of the producers because the largest hydrogen plant in the country was down in New Orleans, and it was shut down because of the hurricane. We all scrambled like crazy to get hydrogen supply, but that might be another instance of where there were some short-term situations.

COMMISSIONER KOPLAN: Thank you for that.

MR. NOLAN: Commissioner, this is John Nolan again.

COMMISSIONER KOPLAN: You're killing me up here right now with my colleagues. I heard that.

Mr. Chairman, thank you very much. I'll do better on my next round.

CHAIRMAN PEARSON: I'll take you at your

word.

Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman, and I join my colleagues in welcoming all of you here this morning and this afternoon. I appreciate your willingness to take the time to be with us, and if there are employees, steelworkers, in the audience, I welcome them as well and hope that they find the hearings useful, to hear how we do our deliberations.

I was interested in the response that producers gave to Commissioner Koplan with respect to the capacity expansions that are being contemplated or that have been put in place, and I did want to note, I understand that the producers have now submitted some business plans, which we had requested, and I very much appreciate the effort you've gone to do that. And I've had a chance to review some of them, not everything yet.

So, with respect to the expansion plans, Mr. Goodish, I heard you say in your response to Commissioner Koplan that before U.S. Steel would undertake any type of expansion, they would do a market study. So my request would be, if there is any other information that hasn't been submitted that relates to market studies that were done relating to these expansion plans, I would very much like to have them on the record.

MR. GOODISH: Commissioner, we'll be glad to supply that. Our expansion is in Kosice, Slovakia, and we do have a market study for that.

COMMISSIONER OKUN: Right. You made me think, though, that I assume everyone who does an expansion plan would do that. Why would you invest all of this money if you didn't do a plan?

So, to the extent that the plans I have reviewed so far that have been submitted, and, again, I haven't had a chance to go through everything because of when they were submitted, a lot relate to past events or are limited to 2006. So if there is anything else that can be supplied with respect to how you all are looking at your business going forward, I would very much appreciate it.

I have found, in these sunset reviews, as we've gone through time here, that we're being asked to look forward and determine what the impact would be of these subject imports, but you are much better situated to have looked at the same data that are being submitted to us and to do an analysis of it. So if there is anything that you can help us with any further, I would greatly appreciate it and will look forward to reviewing that.

Let me ask, just to put it in perspective here, with regard to capacity, I noted, when I was reading the Mittal brief, at page 27, they said that "the domestic industry had 5.3 million tons of excess core capacity in 2005." It went on, then, to talk about "the domestic industry is currently investing in additions to their core capacity," which we've just had a chance to hear about.

Reading the U.S. Steel brief, at page 2, describing the subject producers, there is a quote in there that says that the subject producers "now have excess capacity and inventories of nearly --" and the figure is BPI. So I can't state it in public, but I would like, for post-hearing -- well, what I can say here publicly, and I understand from staff, is that the amount that's in the brief about the excess capacity in subject countries does not differ in large amount from the figure of the domestic industry.

The U.S. industry has 5.3 million tons of excess capacity, as noted in the public version of the staff report, but plans to increase its capacity to meet demand. Why should I find that the total level of subject producer excess capacities in inventories will be significant? Do you understand the question?

There is capacity. I'll start with you, Mr. Schorsch, because it's your brief. You talked about there is excess capacity in the market, but there are expansion plans, either to meet increased demand, as I think we've talked about, future demand, or to replace obsolete capacity.

As I look around the world, and I'm being asked to say, all of this excess capacity that exists in all of these countries is all going to come here, and it's all excess, and it's all going to be coming, should I assume that when I look at the U.S. market, where you've had some trouble supplying, and you have a lot of excess capacity? More important to subject producers? I should be more focused on their number?

MR. SCHORSCH: I'm not sure I fully understand the question. Maybe it's a complicated one, but, again, I would say, I don't believe there really were these supply issues that people have talked about, and perhaps that will come up again.

In terms of the capacity expansion, we had an opportunity, at a relatively low cost, to upgrade a facility, or to convert a facility, at one of our operations -- it's a very efficient operation for us -- to a galvanized facility that can make the highest-standard, galvanized product for the automotive market, and, in particular, we're right now at the last stage in the investment, what's called a galvanneal furnace, which is the kind of material that the Toyotas and Hondas and Nissans of the world use which is not typically used by domestic suppliers.

So we're looking there and saying we see some opportunity at a low cost to establish capacity, new, very competitive capacity, for that segment of the marketplace that's growing. On the other hand, we had substantial excess capacity, for example, in electro-galvanized product, which is a somewhat different product that's used primarily by Ford and GM.

So I think a lot of the investment in our case is to look at some combination, as you suggest, of a market development but still taking bets about how that market is likely to evolve, but then also looking at a lot of that excess capacity may not be suited for making those products. They might be lines that were built in the 1950s, even, in some case. They might be suitable for kind of low-end construction applications but not suitable for broader market applications.

I think, if we didn't have these rulings, you wouldn't have this kind of investment, and I think this is the kind of investment that we should want to have and that the Commission should be seeking to encourage through the application of these sorts of orders.

COMMISSIONER OKUN: And maybe this would be a good time, then, to ask a question about -- one of the issues that Respondents have raised is the capacity utilization numbers reported by the industry as a whole are artificially low and impacted by the fact that some of these lines, the electrolytic lines, are switching over to hot dip and that that is affecting the capacity numbers. I would like the response of the panel on that.

MR. SCHORSCH: Let me take that one because I just checked the number this morning. I think we had over, for electro-galvanized material, which overwhelmingly is used for the automotive market so it's very relevant to some of the discussions you'll have later on this afternoon, our estimate is that there's over 4 million tons of capacity for that product in this marketplace, and, by the way, essentially all of that capacity was built within the last 15 years, so it's relatively new capacity.

Our company, when I was running Ispat Inland, we had one line up, and it was a joint venture line with Nippon Steel. The operating rate was below 70 percent. We had, as Mittal Steel, two lines, one we shared with AK. The operating rate last year, when we decided finally we can't support it at that line, was about 15 percent. The demand for that product is probably about 2.8 million tons a year, and, again, it's in large part because of dynamics in the automotive market, who uses that product versus other product, what automotive companies are growing and which ones aren't.

But, again, over 4 million tons of new capacity for electro-galvanized product; demand about 2.8. So this has been a very ugly product for us, as those market dynamics have shifted.

COMMISSIONER OKUN: Yes. Mr. Goodish?

MR. GOODISH: Commissioner, we have a couple of electro-galvanizing lines. We have one at our Great Lakes facility in Ecores, Michigan. We have a joint venture line, Dofasco Double Eagle steel coating, which is a joint venture with Servistal, and we have one in our Gary, Indiana, plant.

From time to time throughout a year, those facilities are down. It's not a matter of us switching product from an EGL product to a hot-dipped galvanized. We produce what our customers want.

Some of the variability that you're seeing; the way we get an order is a customer gives us an automotive build. Based on that automotive build, we know what parts we have. We back into the number of tons we need and when we need to deliver it into inventory. In the case of the automotive guys, we produce in the inventories -- we have minimum inventories that we have to meet. We get rated against that.

So when you see fluctuations in utilization of the lines, it's a matter of how they are giving us the forecasting. If you looked at the inventories we have, you would fine, in some cases, we have excess inventories because they gave us a production schedule, they were not selling the cars that they had expected to sell, they cut back the production schedules, and, in some cases, didn't tell us, or tell us two or three months after the fact, so that we now have inventory.

Some of the shortages you're talking about can come about by the same way. I now have overproduced on one part of a particular vehicle. Another vehicle is selling. They have not come in and told us that that's happening, and they have access to our records, so they can see this on their own. They have not come back in and told us that we need to pull tons away from this one and move it over here.

All of this stuff is recipe specific. It's like baking a cake. There is a specification that we produce to, there is a specification we roll to, and that's what you're seeing. We can get you the exact capacity numbers we have on EGL product and how utilized those lines have been in the last year or the last five-year period of time.

COMMISSIONER OKUN: Mr. Hecht, you're jumping up there back there.

MR. HECHT: Yes, just a couple of comments.

One, as I understand their argument, it was that some of this EGL capacity may not be as relevant, which I found odd because my understanding is that some of the auto guys have publicly said recently, have made complaints about outages on EGL lines. They seem to be concerned about that. You might ask them about that. It didn't seem to fit with the story you're hearing about what capacity is or is not outdated.

I guess, to go back to your original point in terms of comparing excess capacity here to abroad, I would question the premise of the question in the sense that I don't think anybody here has said that we had shortages despite having excess capacity.

As you know, in 2004, and you've heard in other cases, that was a pretty unusual year worldwide for steel. There were some very unexpected things that happened, and there were some difficulties in supply globally, but that has nothing to do, I would suggest, with what the true operating rates are in terms of why you should look at their excess capacity because that's what the statute directs you to do, and I don't think you have any evidence on the record to suggest why they wouldn't use that capacity to ship here.

One final point is that we've also made the case that they would ship here because of high prices, regardless of their capacity-utilization level.

COMMISSIONER OKUN: I'll have a chance to come back on that. Thank you for those points.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Mr. Gerard, I would like to start and just make a comment that I understand that you have to leave early, and I certainly understand the importance of your leaving early for the meeting that you have to go to, but I would like to observe that, after your meeting, you can come back here because we will probably still be here.

Okay. It was a good try on my part. Let me start with Mr. Lighthizer.

CHAIRMAN PEARSON: Commissioner Lane, I am advised that there is at least one question that would be directed to Mr. Gerard. Would it be possible to stand aside and allow that question to go forward?

COMMISSIONER LANE: Yes, sir.

CHAIRMAN PEARSON: Madam Vice Chairman.

VICE CHAIRMAN ARANOFF: Mr. Gerard, I didn't want to lose the opportunity to ask you this question before you need to leave.

You testified earlier this morning about the way that the VEBAs that you've negotiated work, and there were a few aspects of that that I wanted to ask you to clarify.

MR. GERARD: Okay.

VICE CHAIRMAN ARANOFF: I had heard or read, at various points in the record and in the testimony this morning, that the amount of contributions that the companies make to these depend either on the price of the product or on the profitability of the company, or somewhere I think I read overtime hours. Maybe those are all part of one formula. So the first part of the question is, if you could just explain exactly what it is that governs what goes in --?

MR. GERARD: There's three different ways that we access financial resources from the industry. The Voluntary Employee Beneficiary Association, or the "VEBAs," as we call them, are based on an accelerating percentage of the average selling price.

So I used that example, if I was selling some steel for a dollar, you would get a small percentage of that that would go to the VEBA, making the assumption that, at that selling price, the industry is not doing very much or might even be losing money. As the selling price gets higher, the percentage that comes off gets higher. So if we were selling steel at three, we might get 25 percent. So the higher the price, the bigger the slice that goes on average selling price to the VEBA.

Then we have compensation that goes to our active members that's also based on profit sharing on a quarterly basis and an incentive program that is slightly different between Mittal, U.S. Steel, and AK, but a profit-sharing basis so that there is a wage, a profit, and for the retirees, a slice of pretax earnings that goes to the VEBA based on average selling price.

And the reason that it's such a huge issue for us is that, and we've done the same thing in the round of collective bargaining when we changed the whole workplace relationship, we've based it on assuming sort of our own market study of the level of stability and what we could anticipate based on it.

I make the point that imports into the United States today are almost at the same level that they were at the height of the crisis that destroyed 50 companies, of which we saved maybe 17, between us sitting around the table.

So import penetration is as high as it ever was. We based our ability to negotiate new collective agreements on what we thought were the projections going to how much we would produce and what the level of imports would be. So if we had an import surge in corrosion-resistant that really acted again like a tsunami on prices, the level of contribution going to these VEBAs could evaporate, and those people that I had come here today, most of them rely on those VEBAs to get any level of health care now that was wiped out.

I pay credit to the industry because they are all providing this to employees that were not their employees. When they bought these companies, they negotiated with us to provide this benefit to people that, as a legal matter, were never their employees. So we've got a lot at stake, and those people in the back of the room have a lot at stake.

VICE CHAIRMAN ARANOFF: I appreciate that explanation. I'm just interested to note that because the contribution formula is based on prices, and prices can sometimes be high because they are cost driven and may not reflect a certain level of profitability.

MR. GERARD: They have cried about that. I understand that.

VICE CHAIRMAN ARANOFF: You outbargained them on that point.

MR. GERARD: Hey, we've got to do this again, so, you know.

VICE CHAIRMAN ARANOFF: Your secret is safe with me.

MR. GERARD: Okay.

VICE CHAIRMAN ARANOFF: Thank you so much for your time this afternoon.

MR. GERARD: Thank you.

VICE CHAIRMAN ARANOFF: And thank you to my colleagues for their indulgence.

CHAIRMAN PEARSON: Thank you. Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, Mr. Chairman, and I thank my colleagues as well.

Mr. Gerard, if I could very quickly, before you leave, because we are going to hear a lot from the Respondents about generally these issues of labor costs and how much labor productivity has gone up and what that has done in terms of where it leaves the industry in terms of being in a vulnerable state.

So I guess my question to you is, if we look at the numbers, it's pretty dramatic. We went from somewhere under 400 tons of production per 1,000 man hours all the way up to somewhere over 700 tons per thousand hours of work. So we've seen this huge change in labor productivity. You've seen almost a 50-percent reduction in the workforce in this product area, and yet no diminution in the output.

Can it continue? My question is, where do you see it going forward? Are there huge, additional labor-productivity gains that are on the near-term horizon?

MR. GERARD: We do it a little slightly different than you. We do it in man hours per ton as opposed to -- but we're down to a level now in some facilities -- Lou says, in the Cleveland facility -- we're down to a level of man hours per ton that investments in modernization and more investments and continued reorganization of the workplace will have, I think, an ability to reduce man hours per ton some more, but it will be minimal because once you get down to 1.1 man hours per ton, a 10 percent reduction brings you to .98, you know.

We've gotten, I think, people sitting up here with me that are represented by our union, we've gotten the man hours per ton down almost lower than anywhere else in the world. Now, we can get that down some more when they are making the kinds of investments they are talking about and modernization. There's things we can do to improve the process, improve the quality, produce a few more tons, but it will be incremental.

John Goodish could tell you, not very long ago, we were at eight to nine man hours per ton, and we thought we had hit a home run when we got down to four. When we were starting the last crisis, we were in a lot of places at 3.2, and we were the best in the world. Now we're down in a lot of places at 1.1. So to get much below that is going to be very incremental.

COMMISSIONER HILLMAN: I appreciate that response. Thank you.

CHAIRMAN PEARSON: Mr. Gerard, I keep being impressed by how popular you are. Hang on just a moment for a question from Commissioner Koplan.

COMMISSIONER KOPLAN: Thank you. Thank you, Mr. Chairman. I've got two for you, but they're for the post-hearing, so if I can just get them on the record for you --

MR. GERARD: Sure.

COMMISSIONER KOPLAN: -- and then you can do it in the post-hearing brief.

First, between now and 2008, if the USW will be involved in any new negotiations or agreements with U.S. producers of corrosion-resistant steel, would you provide, in the post-hearing brief, a list of the companies with which negotiations are due to take place and, taking into account past negotiations with those companies, predict as best you can what effect, if any, those negotiations will have on their bottom line and on jobs. All you have to do is, yes, you'll do that. Will you do that?

MR. GERARD: Yes, I'll do that. I was hoping that you would ask what effect removing these orders would have on the negotiations. I could to that, too.

COMMISSIONER KOPLAN: You can do that post-hearing without my asking you the question.

All right. Here is the second one. As we all know, recently, each of the Big Three automakers announced significant production cuts for the last quarter of 2006 and 2007, with Ford announcing the steepest reductions. What is your best estimate of how this will impact corrosion-resistant steel jobs for your USW workers between now and 2008? If you would do that for the post-hearing.

MR. GERARD: We'll do that as well.

COMMISSIONER KOPLAN: Thank you very much. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Any other questions for Mr. Gerard?

(No response.)

CHAIRMAN PEARSON: Thank you, Mr. Gerard, for being here. We appreciate your contributions. Have a great flight to Houston.

Madam Secretary, I suggest that we charge that time for the discussion with Mr. Gerard to the Commission as a whole and that we return now to Commissioner Lane, restart the clock, and allow her to begin her questioning. Commissioner Lane.

COMMISSIONER LANE: Gosh, I hope I can remember what I was going to ask now. Mr. Lighthizer, you probably were hoping I had forgotten who I was going to ask.

In your chart, and this question is also for Mr. Gant because he referred to it in his testimony also, you talked about world prices for this product and that there were higher prices of the product in this country than other markets, and I would like for you to provide backup data for that assertion, if you can, in the post-hearing.

MR. LIGHTHIZER:  Absolutely, Commissioner. We'll be happy to do that.  Basically, what we have in Chart No. 9 is information.  The source is given there, and we'll provide more backup on it.

What we've demonstrated here is that export markets for these countries that are subject imports, their prices are lower than our prices.  If you look at where some of these countries operate themselves -- one is, for example, the Japanese.  The Japanese automobile manufacturers; they pay as much or more as we do for steel in Japan, but their export prices are lower than our prices.

So when it comes to the competitiveness of U.S. automobile companies, first is Japanese or German automobile companies.  They are actually not having any anticompetitive effect from our prices because they are paying about the same price. But when it comes to where they are shipping their steel from those countries in exports, it's at a lower price and a lower price in the U.S.

So it's an odd circumstance where really there is a huge incentive for them to ship here, but really their own auto companies, in terms of their own domestic auto manufacturing, really don't have any kind of advantage over the U.S. manufacturers.

But we'll be happy to supply that information, Commissioner.

COMMISSIONER LANE: Okay. Thank you. Now, sticking with you, Mr. Lighthizer, page 18 of your chart or of your slides, and I appreciate this exhibit because we've heard lots of different facts today, and obviously this is a very complex case, and people have strong opinions on both sides of the issue.

Now, as I understand it, and this is taken from Congressman Visclosky's testimony, he said that in a $27,800 automobile, $473.62 of that is this product. I would like to know, of that amount, $473, how much can you attribute to the effect of these orders?

MR. LIGHTHIZER: Let me say, first of all, that there are some tiny differences between --

everybody agrees there is about a half a ton in corrosion-resistant steel in the average car, and there is some argument about whether the average price should be the 728, which we took out of the staff report -- Congressman Visclosky had a price that was probably slightly higher than ours.

The net of it, given the 5.2 percent means that, maybe in his calculations, instead of it being $19, it's $23, in which case you actually could buy this entire pack of Christmas trees, where, in our analysis, you could not buy it.

So you're going to hear some back and forth, but I just assure you that it's within a couple of dollars.

In terms of making some calculation of what the value of these orders are, that's a more difficult thing to do. We would be happy to address it in the brief, if you like, but it is our position that if you get rid of these orders, you're going to see a substantial increase in volume going forward and a substantial reduction in prices.

Indeed, I would point out that if you look at the auto companies' brief, they don't even really argue that it won't be prices. In other words, they have this elaborate brief of 56 pages, but at no point does it say prices won't be affected. That's what their objective is.

So it's hard to calculate. Clearly, we believe we're going to be in a position where likely we're going to be going to the point where we're losing money on selling the cars again. We're not going to be making any money on steel. That is what we think will happen.

Now, how you actually calculate that, we can probably talk a little bit more about in our brief, and we'll be happy to do that, but it is our view that you're going to see a substantial increase in volumes, a reduction in prices, and we're going to move to a position where instead of making 5.2 percent, we're going to be losing money again, and that's really what we're afraid of.

COMMISSIONER LANE: Okay. Thank you.

Did anybody else want to comment on that? Mr. DiMicco?

MR. DIMICCO: It's always worthwhile to go to the real world for examples to see how to answer a question like that. Between '04 and '05, the industry went through a period where inventory build took place, significant imports came in, and, as a result of that, there was an inventory correction by the customer base, and the price for hot-dipped, galvanized product, which is what we're talking about today, dropped 40 percent within a period of a few months.

So you could say that you would be looking at a 40 percent lower number there, which would put most people in the red. That's a real-world example. It actually happened at the end of '05.

COMMISSIONER LANE: Okay. Thank you.

Mr. Gant, you mentioned that the industry's energy costs have increased by over 90 percent in the last four or five years. I would like some information on the energy costs for this industry.

First, can you tell me what percentage of your total cost of goods sold, or total costs, are energy costs, or if you can give me that number in dollars per ton, that would be fine.

MR. GANT: I don't have that number here now, but we can provide that. It is a significant part of our costs, not only as coal was an input for coke in blast furnaces but electricity for our furnace production, and then, most significantly, natural gas, which hit all-time record costs last year, largely as the result of the hurricanes, but we can provide more detailed information on that.

COMMISSIONER LANE: My second part of the question was, if you could give me the percentage of your total energy costs based upon natural gas, coal, and electricity.

MR. GANT: I don't have that off the top of my head, but we can provide that.

COMMISSIONER LANE: Okay. Thank you.

Mr. Platz, thank you for raising your hand. It's hard to see beyond the first two rows.

MR. PLATZ: I'm still here.

COMMISSIONER LANE: Thank you. You mentioned inventory destocking and that you're at the point of inventory destocking. Would you please explain to me what that is, and when is that point reached?

MR. PLATZ: There has been, through the course of 2005, a very significant increase in service center inventories, which is reported on a monthly basis by the service center industry. It peaked in December of 2004 and dropped off during 2005, at which time prices dropped significantly. It hit another high here recently.

In fact, I'm not sure that it has yet peaked, and we would expect that since service centers have basically stopped buying steel in order to get their inventories back in line, that, over the course of the next quarter to two quarters, we will see that inventory destocking that I mentioned start to occur, and until they get inventories back to where they would expect, which is usually about three months on hand, we would expect that destocking to continue.

COMMISSIONER LANE: Mr. Price?

MR. PRICE: Thank you. It's Alan Price, Wiley Rein & Fielding, for Nucor.

COMMISSIONER LANE: Could you speak into your microphone?

MR. PRICE: Alan Price, Wiley Rein & Fielding, for Nucor.

Just to talk about supply availability a little bit, we happen to have over here the most recent American Institute for International Steel survey to importers about what's going on in the corrosion-resistance market, and, according to their own survey, which none of the Respondents talked about in their briefs, they, for the last two months, 100 percent of those surveyed say there is a moderate oversupply of corrosion-resistant steel currently in the U.S. marketplace.

So while you've heard a lot of discussion of isolated anecdotes on shortage, I would submit to you that there is no shortage out there, period.

COMMISSIONER LANE: Okay. Thank you.

Mr. Chairman, I'll stop before the red light comes on.

CHAIRMAN PEARSON: Thank you.

It's my turn. I would like to go back to the questions that were asked regarding capacity utilization. As I've spent time with this record, I've kind of gotten the impression that there might be two different views of capacity utilization, perhaps one held by engineers and another held by business managers.

I had the experience, when I was in the private sector, of working with some very good people in both of those categories. My impression is that the normal operating engineer, if you ask him, "Can you run that?" the answer is, "You bet. All it takes is this and that, and we'll have it going in a week and a half, and, boom, we're in business." Okay?

The business manager, who has the P&L responsibilities, when asked, "Can you run that again?" "Not on your life, not in this world."

Is there some of that going on in the capacity-utilization figures that we have? In other words, did the engineers fill out the capacity figures in the questionnaires that were went back to us?

MR. GOODISH: Commissioner, John Goodish from U.S. Steel. I don't believe so. If we check what our design capacity for our units are and what we can operate at for a monthly basis or a quarterly basis, and I think you'll find we're either at those capacities or in excess of them. Some of those are the incremental benefits you heard Leo talk about, how we were going to go below the 2.2 man hours per ton. That's how we're getting that.

So I don't think that there's any significant differences between what the engineers, what the design engineers, say the capacity of a unit is versus what the operators say they can produce.

The issue that you are dealing with is either temporary outages or, most likely, it's business fluctuations. There can be two or three months when you would see lines that were 100 percent full, and then you would see six to nine months where the units were not full. So when you average that out over a 12-month period of time, you would see that the utilization rates of 79 or 84 or whatever the number is, that's the kind of rates you would see.

I'm not saying that there may not be a temporary operating problem with a unit where it would not reach its production capability, but I think the record would show, in our case, that we are operating our facilities at or above their designed capacity. Thank you.

CHAIRMAN PEARSON: Other comments? Mr. DiMicco?

MR. DIMICCO: Yes. Dan DiMicco with Nucor. Mr. Chairman, part of the problem here is a matter of product type. The demand for hot-dipped galvanized in the U.S. market has been growing while the demand for electro-galvanized has been shrinking. So if you take a look at capacity utilization, you have to be careful to distinguish between the two.

Part of the reason why electro-galvanizing is losing popularity is because it's a more costly process, and you're going to ask more for your product. But more than that, the movement of market share in the automotive companies from the domestics to the Japanese, Germans, Koreans, for the most part, they do not like electro-galvanized. They use hot-dipped galvanized.

So you see a trend moving away as that market share changes to more and more demand for hot-dipped galvanized, which can create a situation where you're really running, you know, at some fairly high levels, not necessarily exceeding capacity or at capacity, but the electro-galvanizing part of it, which people really don't have as much demand for, shows up to be sitting there running at 70 percent of utilization. Part of it is the market dynamics and the demands of the customer base, that that occurs.

Now, we don't have any electro-galvanizing lines in Nucor. We do have hot-dipped galvanizing lines, and we do see that trend. One of the reasons why we're looking at building our new galvanizing facility in Decatur, Alabama, is because that's down where all of the Japanese and German car companies are building operations, and their demand is for hot-dipped galvanized, not electro-galvanized.

Some of the other folks who are in the electro-galvanizing business might want to elaborate on that, but that's the trend that we see, and that could cause some of these disparities and why someone could say, "Gee, look at all that capacity you've got in electro-galvanized," yeah, but the customer base doesn't want it.

CHAIRMAN PEARSON: Mr. Schorsch?

MR. SCHORSCH: This is Lou Schorsch again. Just to comment on that a little bit, I tried to go through, and, again, this is just back-of-the-envelope stuff as we were listening to the questions, but almost 25 percent of our shipments in flat rolled are corrosion-resistant products, galvanized, so that's about five million tons, more or less.

As I went through, I think part of your question is saying, are there facilities there that are counting the capacity numbers that really are never going to run? We probably have a couple of lines across our company, I think, maybe three in total, between our Sparrows Point facilities and the Weirton facility that I mentioned earlier that we're not running that might be, in total, 300,000 to 350,000. We can't start them again, but they would be in that sort of gray zone that I think you're referring to, but relative to the total that we produce, it's relatively modest.

The other point I would make is that we have a lot of good engineers, I think, and one of the things they do is they find ways, as I'm sure your Cargill experience would have suggested, that every year you can find a way to a better mousetrap, a better idea, without a lot of investment. The rule-of-thumb I use is kind of one and a half percent a year of capacity creep. The people just get smarter about how to do things.

So even while you have certain facilities that you say, I'm going to take this off line, or this is not competitive, or the market is not there, the geography is wrong, whatever it might be, on a very big base every year, you're kind of being a little bit smarter about how to get more out, improve the yield, et cetera.

So I think, for most of our operations, there is that phenomenon going on as well where actually there is a creep up as much as there might be some facilities that are quasi-mothballed.

CHAIRMAN PEARSON: So should we view the excess capacity that we see in the record as a problematic overhang over the market, or is it more just a reflection of changing market dynamics, as Mr. DiMicco mentioned, where the customer really wants something different in terms of this example of electro-galvanized versus hot dipped. So you have fixed assets in the electro-galvanized area that are going to be relatively less utilized for some period of years.

So it's not so much a huge overhang of capacity as it is some misplaced assets that are worth more being partly run than being disassembled.

MR. GOODISH: Commissioner, I guess I

wouldn't agree with that. We have electro-galvanized facilities. As I said, we have three lines, and we have had our hot-dipped galvanizing lines, automotive, hot-dipped galvanizing lines -- as an example, our Midwest plant cut back to 12 and 15 turns versus the 20 to 21 turns, and actually the way you run a galvanizing line is you run at 21 turns for three or four weeks or five weeks, and then you take an outage at 24 hours, and then you bring it back.

Throughout the course of a year, we will have those facilities cut back. We will first load our automotive lines, a joint venture with Kobe Steel. At Pro-Tec, there's two galvanizing lines there. And then based on the efficiency of the operations, we will back fill the other lines. We can show where we have had reduced turns on our automotive galvanizing lines in the past year or the past two years.

So some of it may be a product mix swing from EGL to hot dipped. In our case, the excess capacity that we have in the hot-dipped galvanizing area is not that case.

MR. NOLAN: Mr. Chairman?

CHAIRMAN PEARSON: Yes.

MR. NOLAN: John Nolan, Steel Dynamics. I'm both an engineer and business manager, so the numbers that you saw reported for my company are, in fact, my numbers.

I will tell you that it's appropriate for me to answer your question in the negative, but I will qualify it by saying that there are times that we have what I would call "contractual business," and we do have customers that, for a multiplicity of reasons, decide, at the 11th hour, not to take that capacity, and it's, generally speaking, too late to try to move that.

From a lead time perspective, we can't bring enough material through the system in order to occupy that particular coating hour or number of coating turns. So that would be the only peripheral I would add to this conversation.

CHAIRMAN PEARSON: Thank you. Unless anyone has any more to say about that, something more they want to say about capacity utilization, I appreciate those responses. I think they were helpful.

I would like to shift -- I would like to have my light go yellow. I think I'll take advantage of that and just turn it over to Madam Vice Chairman.

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman, and I join my colleagues in welcoming all of you here this afternoon and what will soon become this evening, and thank you for taking the time to answer our questions.

In the first review of these orders, the Commission found the existence of significant contract sales provided "some measure of insulation" to the domestic industry from spot market price fluctuations.

Now, in these reviews, Respondents and the auto industry have made allegations that since the first reviews, significant changes have taken place in how contracts are structured that provide significant additional insulation to the domestic industry.

So if I could ask each of the producers who is here, have there been changes in the last five years in the way that the price and the volume terms of your contracts are made, and are you making more or fewer sales under contract? I guess there is one last piece: Has the duration of those contracts increased or decreased? Mr. Schorsch, do you want to start?

MR. SCHORSCH: That was a long list, and I don't know if I can remember it all. I think you have to kind of segment our market into three components. We have a spot component, a good example of the customer base. There would be distribution. We have a lot of OEM business -- maybe 40 percent of our sales go to distribution. We have a lot of OEM business, manufacturer business, of which automotive is about a quarter or so of our segment. I put those in three different categories.

The distribution and spot market sales; obviously, that's moving up and down with market conditions and a lot of different drivers and factors in the inventory overhangs, et cetera, and can be quite volatile. I would say, over the past three years, it's probably been the most profitable segment for any of us to be in, with that kind of rising tide of the input costs.

We work a lot with the manufacturer, the OEMs, and I think we all recognize that, on certain markets, some sort of indexing mechanisms are in place, and with many of our customers, longer-term, OEM contract customers, we do have indices that frequently have a band where the price won't change within that band, but it may move up and down if there is some surge in the spot price or a decline in the spot price that provides some insurance to both sides, if you will.

In the case of the automotive market, typically these are fixed price and have always been fixed price, and I think someone made the comment about, you know, selling product to the automotive people that was under contract at less than the price of scrap steel that we were forced to buy.  We had that experience as well for some period of time.

I think, in those fixed-price, automotive contracts, the way I see it, we're always renegotiating.  Some of them are on a calendar year, some of them start April 1, and some of them start in the summer.  We're kind of in a perpetual negotiation mode.  We're a little bit less interested, because of the volatility, in a three-year kind of arrangement that might have been the case in the past, but right now, for example, we have one two-year contract we're still in the first year of, and we have a year-and-a-half contract.

We have a variety.  I don't think there has been any material change in the pattern and structure of those contracts, again, from where I sit.

VICE CHAIRMAN ARANOFF:  Okay.  There is a hand in the back.

MR. SCHERRBAUM:  Joe Scherrbaum with U.S. Steel.  I'll address the same question.  I would agree with Mr. Schorsch.  On behalf of our company, I don't think, in the last five years, that there has been any structural change in the contracts that provides us any more protection now than it did then.

In commenting on the contract durations, I actually believe, as he said as well, that the durations vary. Ours are anywhere from six months to multiyears. If anything, we're seeing more of a tendency from the automotive companies to ask us, in recent times, for one-year agreements versus multiyear agreements that they were more in favor of in the past.

VICE CHAIRMAN ARANOFF: So you're saying that, to the extent that there has been a move towards shorter, one year versus multiyear, contracts, that's been your customers asking you for it, because the allegation that automakers make in their brief is that it pushes from your end to one-year contracts.

MR. SCHERRBAUM: Correct. Correct that our experience has been that it's been from the automakers, and we've agreed to that, and we've also told them, if they want to talk about a multiyear agreement that we can structure that is fair to both sides, we're willing to do so as well.

VICE CHAIRMAN ARANOFF: Okay. Did anyone else want to? Mr. Gant?

MR. GANT. Yes. I'll just add to that. I think, as we have seen over the past four or five years, an extraordinary rise in the cost of inputs, it has taught us a painful lesson, that you can't have a fixed price over a long term in a time of volatile input costs, a painful lesson. I think automotive parts suppliers at large have found the same thing, whether it's resins or oils or other input costs.

So I sense that there is a change from a common-sense standpoint and that it's just been one that we've mutually come to that agreement. We have offered variable priced agreements so that there is a sharing or a fair balance there, and a few have taken us up on that, but I think most companies still seem to have an approach where they want to have a known, fixed cost for their business-planning purposes.

That has not caused us to pull away from supply overall. Our contract percent of business remains about 75 percent, which I think is high for a lot of companies, but it has been our way of doing business for a number of years and the one that we have stuck with, but out of necessity, with the variable costs, we've had to steer more towards a more reasonable time period.

MR. NOLAN: Madam Vice Chair, John Nolan, Steel Dynamics. I concur with Mr. Gant. I would add, though, that there is more of an interest, I think, today in variable priced arrangements tied to index.

I think you've heard me make this type of remark in testimony before.

By and large, I think the focus on shorter-term arrangements is generally coming from the buying community as opposed to the producing community. We would be very comfortable going out some distance in time, so to speak, provided the aspects of raw materials and consumables and other related cost aspects of our product are addressed.

From a structural point of view, as you look at the Uniform Commercial Code, it's still you have a contract is an agreement between two parties, and you agree to do something. There is no change in structure, just a change in what I would say as "business philosophy."

VICE CHAIRMAN ARANOFF: Okay. I appreciate all of those answers. I'm going to think about this some more and maybe come back with some follow-ups in my next round, but, in the meantime, let me ask an unrelated question.

In this industry, what does it mean for a producer, either a domestic producer or one of the subject producers, to be holding inventories? Do you actually produce product without already having a buyer for it, which would be the traditional meaning of "inventory," or is this usually product that's been spoken for that is in process or not yet delivered? Mr. Goodish?

MR. GOODISH: In our case, every ton of steel that we have in the warehouse is committed to a customer's orders. When I referred earlier to our supply chain management system, where we take the number of automobiles that are going to be built, we know the parts that we have on that car, and we know how to equate that back to tons, each of those parts requires a minimum inventory that we have to have, whether it's two weeks, three weeks, or four weeks, that we always have on hand.

So if one of the car companies would take out a week's supply of steel this week, they would expect us to be putting in another week supply so that we maintained a minimum inventory of two weeks. Let's say that was the history for the last month, and they suddenly came in and take two weeks, they would still expect us to put two weeks back into the system so that we had those inventories.

That's what we mean by "holding inventory." We have some product that is in process, but if it's in process, it's produced to a specific customer's order. If it's in the warehouse, if you walked into the warehouse, you would be able to see the customer tag, you would know who the customer was, when the material was produced, and what order it was produced on.

VICE CHAIRMAN ARANOFF: Okay. And I understand that that makes sense when you're talking about a long-term relationship like you might have with a particular model for a particular auto producer. Would you also describe your inventorying practices with respect to other customers, to whom you might make spot sales or other OEMs that way?

MR. GOODISH: Every one of our customers is exactly the same. You have some customers you run a reservation system on where it may only take me three weeks to produce the steel. I would have reservations for his product. I would not produce it, though, until he gave me an actual order, and that's when I would go back and schedule it to melt, and I would melt it. What we do is we don't produce anything in the inventory that we don't have a customer's order for.

VICE CHAIRMAN ARANOFF: Okay. I've run out of time. I'm going to come back in the next round to the second half of that question, which was whether or not the subject producers would inventory in exactly the same way. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, and I, too, would join my colleagues in welcoming all of you and welcoming the steelworkers that have traveled to be here with us today as well.

If I could follow up just a little bit on this issue to make sure I understand the contract and pricing issues. Are your contracts almost exclusively on the auto side, or is an equal portion of your production sold under contract, even if it's going to the construction sector or to service centers?

MR. GOODISH: I'll try to answer that. Joe can help me out if I get in trouble.

We have about 50 percent of our business that is contract business, and that can be generally the automotive and appliance industry as two of the primary examples. Now, we have other business that could have a three-month contract or a six-month contract, which could be the construction industry, as an example, and it all depends upon what the customer wants.

If a customer comes to us, and they want a six-month price -- a lot of that building construction work, a particular customer will go out, and he'll have to build a roof or bid a roof for a new Wal-Mart, and he wants to know that he has got that steel under contract so that when he gives a price to Wal-Mart, he can actually deliver that building or roof to him.

So it all depends, but it's about 50 percent of ours that are what we would consider one year or longer, and then we would have intermediate contracts, which are kind of the three-to-six month, and then we would have spot business beyond that.

COMMISSIONER HILLMAN: Okay. Would others be in a different position? Mr. DiMicco?

MR. DIMICCO: In general, we supply our contract business to not only automotive but appliance, HVAC, some pipe and tube folks, and over the last three to four years, we've gone from a 50 percent contract mix to almost an 80 percent contract mix in the last year, but it covers more than just automotive.

COMMISSIONER HILLMAN: Okay. Mr. Nolan?

MR. NOLAN: Commissioner Hillman, John Nolan, Steel Dynamics. We're in the proximity of 50 percent. It covers all market segments.

COMMISSIONER HILLMAN: All right. I guess part of the reason I'm trying to understand that, and maybe you can help me, is if I look at the pricing data that we have, we've collected pricing data on some eight products, again, not specific necessarily to autos versus construction or to others, but if you look at what appears to be the more, if you will, commodity-grade, ASTM specs, you clearly see some fairly significant price increases over our period of review.

If I look, on the other hand, at the products that may be more auto focused, some of the ones that are baked, hardened, and that kind of a product, you do not see a significant increase over the period in terms of prices.

I guess I would like to hear from the industry, is that perception correct, or is that just unique to the particular products that I'm looking at? How would you describe, I guess, is what I'm saying, pricing trends in the construction, service center, other sectors, vis-à-vis prices for products that are typically produced for the auto side of things? Mr. Gant?

MR. GANT: If I may.

COMMISSIONER HILLMAN: Sure.

MR. GANT: In my experience, it has been as much a preference of the customer as to how they wanted their product priced, and that is, would they care that it would move with the marketplace so that they are competing with other companies that may be buying on the spot market, and they don't want to be disadvantaged and so forth?

So we generally find the automotive customers want a firm fixed price for a period of time. We tend to find that customers in the construction business, the HVAC business tend to be more accepting of a floating price for a variety of reasons, but what I believe is that they want to be in line with the market overall. So it becomes more of a customer-market choice, which we accommodate, as we look at our contracts and our customers as something of a portfolio and that we want to have a diverse portfolio of different forms of contracts and spread the risk out and so forth. So that's our experience at AK Steel.

COMMISSIONER HILLMAN: Okay. Mr. Schorsch?

MR. SCHORSCH: Yes. I think, from my perspective, the situation described is correct, even if a bit counterintuitive, that is, the more commodity-oriented products over the past several years have tended to have higher price levels on average, even if a bit more volatile, versus the higher value-added products, let's say, that are supplied to the automotive sector. I wanted to point out that I think that's a good indication of where market power really lies in these commercial transactions.

I think, in addition, what's going on is that we had this unprecedented surge in raw materials costs in 2004. I think Leo referred to it as a "tsunami." That's not an overstatement, and I think, particularly contracts that are of longer duration -- in some cases we were in the middle or the beginning of three-year arrangements and so on -- they are more sticky, and they take more time to kind of catch up to that total shift in the structure, if you will, of the cost base of our industry on a global basis with this surge in raw materials.

So I think you do find the more volatile or commodity-oriented products have adjusted already to that change in our industry's cost base globally than the stickier, longer-term contract arrangements.

COMMISSIONER HILLMAN: Mr. Scherrbaum?

MR. SCHERRBAUM: Yes. From U.S. Steel's perspective, I would concur with that. The spot pricing over the last three years has gone up and down, but, in general, there has been an upward trend because the spot markets can't keep up with the rising costs, whereas in the contracts, particularly the automotive, which is the largest piece of our contracts, have had more firm fixed prices and have not kept up with costs and are significantly less than the spot pricing information you see.

COMMISSIONER HILLMAN: Okay. I appreciate those answers.

If I can go to another one of the sort of discrepancies or the big differences that, at least, I see in the data, and, again, some of this is confidential, so I'm not asking for confidential information here, obviously. If there is anything that the counsel that can see the data wants to add in the post-hearing brief, fair enough. But there is a clear, pretty sharp difference in the profitability levels of some of the companies here, and I'm trying to understand from what that derives.

This issue of whether you're selling a higher percentage of your product into the auto sector on long-term contracts where you haven't seen a price increase; is that what's driving it, or is it related at all to how you make your hot-rolled substrate, whether you're an electric arc producer or an integrated producer, but to what would you ascribe significant differences in profitability levels of the producers of this product? Mr. DiMicco?

MR. DIMICCO: Dan DiMicco of Nucor. There's a couple of things, but the first thing I would highlight is it's the same kinds of differences that exist between Toyota and GM from a profitability standpoint. There are differences in the way people run their businesses, what their business models are, and what have you that can have a major impact on their overall cost structure and performance. To me, that would probably be the major, number one reason why there's some significant differences.

But in Nucor's case, our contracts are usually six to 12 months in duration, not two to three years in duration. So during a period of rising prices, you would see our average contract price move up, but also we have raw material surcharge mechanisms as part of our contracts that will move with the scrap costs as they move, which have been fairly volatile over the last three years, and we've seen two 300 percent increases in scrap costs, and so there has been some of that that's been in there as well.

MR. NOLAN: Commissioner Hillman, John Nolan, Steel Dynamics. I would tell you that yielded scrap costs and galvanized sheet at my company represents about 45 percent of the selling value, so we're very focused on addressing that aspect of our costs in all of our commercial arrangements, be that residential construction, nonresidential construction, transportation, HVAC, and we do, in fact, have longer-term sales agreements in all of those market segments.

COMMISSIONER HILLMAN: So what you're saying is you're not necessarily making more profit, depending on whether you're selling your product into the construction sector versus the auto sector versus service centers. That's what I'm also trying to understand, is whether there is something about either the product or the way in which it is contracted for and priced that makes it more or less profitable to be more in autos versus more in construction or service centers. Go ahead, Mr. Nolan, finish.

MR. NOLAN: Just to finish -- John Nolan, Steel Dynamics. In our case, I would tell you that we make a very similar product for all of those market segments on the same piece of equipment with, generally speaking, the same types of inputs, if that answers your question.

COMMISSIONER HILLMAN: So your cost of production is the same.

MR. NOLAN: Correct.

COMMISSIONER HILLMAN: Is your profit the same?

MR. NOLAN: Again, it depends on transaction prices, and in some market segments, for a period, they may be lower than the spot market, for example, or higher than the spot market. It depends upon the market circumstance.

COMMISSIONER HILLMAN: Mr. Schorsch?

MR. SCHORSCH: Without trying to give anything away, we looked at this very carefully. We look at a company like Nucor and say we need to get to that level of profitability, and our sense is that, you know, if I can say roughly a third, without getting too specific, has to do with the contract structure of our business and, as I mentioned before, the stickiness in adapting to what I think is going to be a sustained period of a different structure of raw materials costs that we're going to face going forward.

So that's part of it. We have a lot of work to do in other areas to catch up to that benchmark, but I would say about a third of it is that commercial phenomenon.

COMMISSIONER HILLMAN: Mr. Goodish?

MR. GOODISH: Commissioner, there can be a significant difference in manufacturing costs between what it costs to make an automotive piece of steel and what it costs to make a construction-grade of steel that's going to go into a roof deck. I see the red light is on.

COMMISSIONER HILLMAN: I assumed that was the case, and, again, I realize that a lot of this does touch on some of the confidential data, so if there is anything further that any of you want to put on the record confidentially in response to these questions, I would very much appreciate it, and I appreciate that answer. Thank you.

MR. GOODISH: Thanks.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman. I'm going to watch the clock. All right.

This is a follow-up to questions from Commissioner Okun and Chairman Pearson, and it goes back to the issue of capacity utilization and the shift from electro-galvanizing to hot dipped, and it's for counsel. It's for Mr. Lighthizer, Mr. Stewart, and Mr. Price.

Will you coordinate with staff to review capacity data for hot-dipped galvanized steel and electro-galvanized steel to assure the accuracy of the reported capacity-utilization levels that we have in the record now?

MR. LIGHTHIZER: Yes. Absolutely, Commissioner.

COMMISSIONER KOPLAN: Thank you, Mr. Lighthizer. Could I hear the two others?

MR. PRICE: Definitely.

COMMISSIONER KOPLAN: That "definitely" was from Mr. Price.

MR. STEWART: I would be pleased to do so.

COMMISSIONER KOPLAN: Thank you, Mr. Stewart.

This is for Mr. Schorsch, Mr. Goodish, and Mr. Gant. The domestic industry contends that demand for corrosion-resistant steel will likely be reduced as a result of changes in the product mix of automobile manufacturers from SUVs and trucks to smaller, more fuel-efficient automobiles that use less steel. I refer to Nucor/SDI's brief at page 24.

In the Nucor/SDI brief, at Exhibit 14, specifically, Exhibit 2 to that exhibit, there is an average of the percentage of corrosion-resistant steel as a share of total steel in light vehicles. It is estimated to be 60 percent, which is 1,339.8 pounds. Can you provide us with an estimate of how much corrosion-resistant steel is contained in a typical

SUV compared to the amount in the smaller, more fuel-efficient automobiles? Mr. Schorsch?

MR. SCHORSCH: I would very much hesitate to try to do that now, but we can certainly provide that in a follow-up.

I would also mention that the whole mix of materials used in vehicles is changing over time. They moved to a lighter-weight, more high-strength steels, technology-intensive steel, so it's a complicated question, but I think we can do our best to give you -- information that I can do winging it here.

COMMISSIONER KOPLAN: So you'll do that post-hearing.

MR. SCHORSCH: Yes.

COMMISSIONER KOPLAN: Thank you.

Is your reaction the same, Mr. Goodish?

MR. GOODISH: Yes, sir.

COMMISSIONER KOPLAN: You'll do it post-hearing?

MR. GOODISH: Yes, sir.

COMMISSIONER KOPLAN: And, Mr. Gant?

MR. GANT: Yes, same answer.

COMMISSIONER KOPLAN: Same answer. Okay. Thank you.

Next, let me turn to Mr. Schorsch again, Mr. Goodish, Mr. DiMicco, and Mr. Nolan. Respondents contend that consolidation of the domestic corrosion-resistant steel producers has resulted in a sustainable domestic industry that has significantly greater market power than in the initial investigation of the first review. That's Canadian Respondents' brief at page 16; joint Respondents' brief at page 3. And I know you all have been talking about the allegation with regard to market power earlier today.

U.S. corrosion-resistant steel producers reported their mergers and acquisitions but maintained that the corrosion-resistant steel industry still is highly fragmented. For example, that's the Nucor/SDI brief at pages 7 to 10. You note that 21 producers responded to our questionnaire and that the "last ton" of production largely determines the overall market price.

Since the first review, have the mergers and acquisitions in the corrosion-resistant steel industry allowed domestic producers to better rationalize production? Also, has this had any effect on the industry's ability to better control costs?

MR. DIMICCO: Dan DiMicco, Nucor.

COMMISSIONER KOPLAN: Yes.

MR. DIMICCO: Again, I'll refer back to what happened in the real world back in the middle to the end of '05, where the spot price for hot-dipped galvanized dropped by over 40 percent. Now, if there was this so-called "consolidation effect" that greatly reduced the competition and somehow created some price protection to the producers, how the heck did we lose 40 percent in the spot price for galvanized over a couple-of-month period? I mean, it just doesn't exist. It's a fantasy on the part of some folks that that exists at all.

Again, it's the real world you have to look at. If there was that kind of power, then you wouldn't have seen the price drop 40 percent in a matter of months, and it was simply because there was an oversupply situation created in the marketplace, and that was an oversupply situation created by the significant amount of imports that came in.

I'm not saying they were dumped or anything, but it was just a matter of oversupply, and the service center industry and the OEMs had to adjust, and orders stopped coming in, and the price went down 40 percent. That's a big move in price, a big move, and that's documented. That's for real.

COMMISSIONER KOPLAN: Thank you. Mr.

Schorsch, I see you nodding in agreement.

MR. SCHORSCH: I'm nodding in violent agreement. I think, just to amplify that, I did try to look back to our darkest hour, let's say, 2001, in that timeframe, and, oddly enough, the price decrease in most products was very similar to what we saw in 2005, again, around 40 percent. The difference was it was to bankruptcy levels of pricing as opposed to just, you know, marginal or loss levels, and, in addition, the duration of the downturn was much longer than what we saw in 2005. But in terms of our sensitivity to those price movements, I don't think that much has changed at all.

COMMISSIONER KOPLAN: I was asking about the rationalization of production and the ability to control costs.

MR. SCHORSCH: I think, as a larger player, we have more flexibility, and particularly as an integrated producer, we have, as I mentioned, 10 blast furnaces operating now. As the former Inland, we had three. To close down one of your three blast furnaces is a major undertaking and removes a very substantial portion of your production capability.

To take down one of your 10 blast furnaces because the orders aren't there, there is no market control connected with it; it's just that if people want to buy less, a rational response is produce less. I think that's what Ford and GM are doing.

Again, if you're a larger company, you have more flexibility to do that because increments of capacity, which, in our industry, is the way the industry is structured, particularly for the integrated producer, and you're either running them, or you're not. You have more flexibility as a larger player. I think that's the single biggest difference that we would see.

COMMISSIONER KOPLAN: Thank you.

Mr. Goodish?

MR. GOODISH: I would agree. I think that the data will show that, even in the consolidated format that we are in today, in the 2005 period of time when the service centers were liquidating inventory from 10 million tons down to about eight and a half or 8.2 million tons, there was a significant dropoff in pricing, not just on a corrosion-resistant product but across all product lines, and if we got some pricing power by being consolidated, we weren't able to take advantage of it, or we weren't smart enough to utilize it.

I think the other thing that is coming out there is there is a lot of discussions over contracts. Contracts, and people will disagree with this, are essentially one sided. Somebody can come to us and ask for a million-ton contract. We have to supply a million tons, but if they only take 800 in a year, nothing happens with the other 200 tons. They don't pay for the other 200 tons.

So contracts aren't exactly as strong as you're led to believe that they are.

COMMISSIONER KOPLAN: Thank you.

Mr. Nolan?

MR. NOLAN: Commissioner Koplan, I'm struggling here, and it's because I have the confidential data that this Commission and staff sees, and I am also looking at the -- financial summary. I'm talking about my own, my own submission.

COMMISSIONER KOPLAN: You want to do it post-hearing?

MR. NOLAN: I want to make a remark that we're a very small percentage of total net sales for the period, January-to-June 2006, and a very large percentage of the profitability, and you know that. That tells me that the balance of the industry is very marginal in terms of profitability in this product in that same period of time, and that would tell me that the industry is far from a stalwart in regards to market power. I can't comment on the capacity issue in terms of rationalization. I'm sorry.

COMMISSIONER KOPLAN: Thank you. I appreciate that.

MR. GOODISH: Commissioner, can I make one other comment?

COMMISSIONER KOPLAN: You can. My yellow light is on so --

MR. GOODISH: One of the things you're going to see, though, is that what you saw in this period of time are two-to-three-year automotive and appliance contracts that were set prior to the time that prices escalated. So that's why you're not seeing the increase in pricing across all product lines, with 50 to 70 percent of the business in contract, and you did see cost escalate during that period of time because raw material prices went up across all product lines because it starts back in the steel shop.

So you saw that, and there was no way in the contract business to recover those increasing costs.

COMMISSIONER KOPLAN: Thank you. I made it.

CHAIRMAN PEARSON: Yes. Good work, Mr. Goodish, for keeping him in my good graces.

Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman, and thank you again for all of your responses.

One of the things we are looking at in these sunset reviews are changes since the original order and since the first sunset review. I was here for the first review, the 201, the 204 review, and here for the second review, and I think, during that time, I've had the opportunity, with many of you sitting here, to explore the changes in this industry.

Some of those have been touched on today -- the restructuring of the industry, the shutting of legacy pension costs, changes in labor contracts, and if we look at the staff report, we can see that all of those things have significantly lowered your fixed costs.

My question for each of the producers is, is your company today better able to withstand changes in market forces, just generally, than it was at the time of the original investigation? Mr. Schorsch, let me start with you.

MR. SCHORSCH: My company has changed quite a bit. Inland, which was the company I was with originally, was also one of those companies that did not go through bankruptcy, and I think we had a pretty good record of being able to perform well. If I look at the broader company that we are, the rest of the components were companies that did go through bankruptcy, and I think we certainly feel like we're in a more solid position today than immediately before going into bankruptcy.

Again, as I referred to it in my comments, I think that we haven't gone through a macro-economic recession since -- even the inventory adjustments have been challenging. I would say that the improvement is still largely promissory and far from complete, but I think we would say we're in a better position.

COMMISSIONER OKUN: Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor. To be able to withstand -- are we in a better position today to withstand the normal market fluctuations and the cyclical nature of the economy? Yes, I believe we are. To withstand the onslaught of dumped steel that has no rational pricing mechanism except to sell their incremental tons at any price, way below their home market prices, in order to make the profit? No, we are not in any better situation today except for the fact that these orders and orders like this exist today.

COMMISSIONER OKUN: Mr. Goodish?

MR. GOODISH: I guess I would agree with

Dan's comment. While we have made significant progress, a lot of that has been very painful for both us and our employees. From the restructuring we went through, we actually took out 30 percent of our workforce, not just from the hourly employee perspective but also from a management perspective. We trimmed over $600 million out of our costs during that period of time.

We're still on very fragile ground long term, and we can compete with anybody in the world, providing that it's fairly traded steel. But a lot of the business that we're talking about, we know, is not going to be fairly traded steel.

COMMISSIONER OKUN: Mr. Nolan?

MR. NOLAN: Commissioner Okun, we are presently suffering through the effects of a surge in imports this past summer. I will tell you that with respect to that, we are no different today than we were in the early 1990s.

COMMISSIONER OKUN: Yes. Identify yourself.

MR. BLUME: Commissioner Okun, Rick Blume, Nucor Steel. To add to John's comments, one of the additional problems with the destocking that he has talked about and the pressure that we're seeing on spot prices, it's obvious that the market in spot pricing also has an impact to contract prices.

As Dan DiMicco mentioned earlier, as we begin our season of negotiating these contracts in a market that's being impacted by this excess inventory and these imports, it's vitally important that we keep these orders in place so that we maintain a level playing field in this issue.

COMMISSIONER OKUN: Let me come back up to you, Mr. Schorsch, with regard to Mittal and where you're situated vis-à-vis some of the subject producers. My first question is with regard to France.

According to public import statistics, subject imports from France over the period have been very small, one-half of one percent of apparent U.S. consumption, and those figures may include nonsubject micro-alloys. Considering your parent company's recent merger with Arcelor, which is the largest French producer, can you tell me, either here publicly or in a post-hearing brief, what your company projects for the level of subject imports from France in the future?

MR. SCHORSCH: I would be happy to provide some material in a post-hearing brief. It's not to avoid the question, but it's only basically two and a half months since we put the companies together, and we haven't gotten down to that point. I will reinforce, though, that despite that connection, there are other producers in France of this product, and we, as a company, despite our global footprint, you know, support fully the extension of all of these orders.

COMMISSIONER OKUN: Okay. Well, let me stay with you on that because, obviously, in almost every Respondent's brief, I think I could cite, there were a lot of comments with regard to Mittal in the press and what they have said about the global company and how it plans to move forward.

One of those comments has to do with the goal of being one of the largest steel producers and to have production in the various regions in order to supply demand in the various regions.

My question is, how should I take that into account when looking at the record here and the other producers? Obviously, I'll look at what you have to say with regard to France. I would have a similar question about comments in the press with regard to interest in Mexico. How do I take that into account in determining what a subject producer is going to do vis-à-vis the presence of Mittal in the United States market?

MR. SCHORSCH: I think, in the corrosion-resistant area, the only country where there is any potential overlap of the countries that are up for consideration now on these orders has to do with France. Mexico and other regions; I don't think they are relevant to this discussion.

I do want to stress that whatever Mr. Mittal said, I agree completely with it.

COMMISSIONER OKUN: Okay. Then I'll continue with that.

I note that in a recent article, Mr. Mittal stated that he does not think oversupply in China is a threat to the industry, and I will note that this is an article about steel in general, but taking that, he said, "All signs are there that China can't be a long-term exporter," as it lacks raw material and cheap energy. I've heard a lot of talk about China today, and I would like your comments with respect to that.

MR. SCHORSCH: My interpretation there would be, and I do agree with that one, that if you look at the underlying fundamentals for a comparative advantage, let's say, with China, they don't have the raw materials, a lot of the capacity is located inland, and it's very expensive to import. It's literally moved -- in many cases, the raw materials are being moved by truck, which is, if you're in this industry at all and think of the volume of the materials we move, it's incredible to think that that's the way that the production is being organized.

I think, longer term, what he is saying is, particularly if you look at more efficient operations worldwide, the labor component, the labor advantage is not such a great one for this sector compared to access to raw materials and so on.

The issue was that that's true in the long term, assuming that kind of market forces are driving the ultimate outcome, which we all would hope and expect is going to be eventually the case in China. The issue is if that's three years away, five years away, eight years away, what do we do in the interim, and I think the interim, given the numbers involved here -- a 400-million-ton industry, already 80,000 tons a month of corrosion-resistant product coming into our country from China, up threefold from a year ago -- what do we do in the interim while those longer-term, competitive advantages are being played out in what we all hope would be a more market-oriented economy eventually.

COMMISSIONER OKUN: Mr. DiMicco?

MR. DIMICCO: Yes. Never will I speak for

Mr. Mittal. Okay? But having been involved in the International Iron and Steel Institute and discussions with players around the world, that kind of comment is predicated upon the fact that the reality is China is not a low-cost place to make steel. If they are subject to the same market disciplines, market forces, trading rules as the rest of the world, they will not be able to compete internationally and, therefore, should not be major exporters.

That does not preclude them from breaking the law, ignoring the WTO agreements and things of that nature, and becoming a major exporter. So I think those comments should be made in the context of the trade being done according to the global trading rules, not against those global trading rules.

COMMISSIONER OKUN: Yes, Mr. Goodish.

MR. GOODISH: I think the other thing is a lot of people are making those comments, based on the fact of what the Chinese say they're going to do. But what they say they're going to, and what they've done so far, are two entirely different things.

They talked about eliminating their export credit tariff, and they only reduced it by three percent, and 90 percent of the products that we manufacture, including corrosion-resistant, the three percent reduction didn't even apply to.

The other thing we need to bear in mind is, as China has increased their production, the steel that used to go into that country from Russia, Ukraine, Denmark, Finland, and the rest of the countries is not going in there anymore. So it's now available to go to other places in the marketplace, in addition to the Chinese steel leaving the country.

Their five year plan said that they were going to take out 100 million tons of production. Six months after they came out with their five year plan, they came out and revised the time period for that 100 milliontons to move out three years to 2010 from 2007. So far, as near as we can tell, based on unofficial numbers, there's only been about 25 or 30 million tons that's come out of that marketplace in 2006.

So again, listen to what the Chinese say they're going to do on exports, and what they're actually doing, are two entirely different things.

MR. NOLAN: Commissioner Okun, John Nolan, Steel Dynamics.

COMMISSIONER OKUN: Yes.

MR. NOLAN: I disagree with Mr. Mittal, respectfully. I agree with Mr. Goodish. I believe that China will be a long-term threat to the global steel industry for many years to come.

COMMISSIONER OKUN: Well, I have some more specific questions with regard to the Chinese production and demand forecast, but with my yellow light on, Mr. Chairman, I will defer and let colleagues continue, and I'll come back to it; thank you.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Mr. Goodish, in responding to a question from Commissioner Aranoff, you indicated that your inventory is already committed to orders from your customers. Earlier, Mr. Platz was referring to the sell-off of inventories having a downward impact on prices.

It doesn't sound like producer inventories, which are already committed to customer orders could impact prices when they are delivered. Are we talking about the difference between producer inventories and service center inventories?

MR. GOODISH: I'm not sure exactly what Mr. Platz was referring to. But our steel is produced to a customer's order in the warehouse. There is a number published every month from the service center inventory; MSCI, as it's referred to. We all watch that number. We actually keep track of it, both in total tons and the day's supply, based on what shipments happen to go out.

I believe what he was referring to, although he'll have to answer this question, was liquidating that inventory. The service centers, that number is about 9.6 million tons now. At its height, it was about 10 million tons. To get it down from 10 million tons down to the 8.5 tons/8.4 million tons, it took roughly nine months, and that's part of what you see in the 2005 numbers.

I might add that part of what's in those MSCI numbers are people like ThyssenKrupp and others who have service centers who are here; and those service center inventories are not on a specific customer order. They don't necessarily do that the same way we do.

As a service center, you don't want to be in a position where Ford or Chrysler, GM, whoever, or Joe Blow walks into your warehouse and wants to buy 10 tons of steel off of you and you don't have it. But that's what I think they were referring to.

MR. PLATZ: Commissioner Lane --

COMMISSIONER LANE: Yes.

MR. PLATZ: Just to clarify, that's exactly what I was referring to, the de-stocking is the service center inventories that Mr. Goodish referred to as around 10 million tons; and I indicated that we would expect that would take at least six months for that to work its way down to equilibrium levels. I was not talking about producer inventories.

COMMISSIONER LANE: Okay, thank you; I'd like to go now to a legal question. Parties have expressed little, or in some cases, no interest in the Commission's findings with respect to the potential inclusion of micro alloy steel in the corrosion resistant steel domestic like product.

Nonetheless, certain issues do stand out. Do you agree with the definition of the domestic like product from the first reviews and the original investigation so that do not include non-subject corrosion resistant steel such as micro alloy corrosion steel? Are you comfortable with your ability to identify and separately report capacity production and shipments of micro alloy corrosion steel? Mr. Hecht, why don't we start with you?

MR. HECHT: Okay, thank you; some of that, I guess, gets into the APO, too, in terms of specific reporting issues. I think there are some reporting issues out there. I think our view would be that it would be appropriate to include micro alloy in the domestic like product, if the Commission feels it has the data to do so.

We don't feel like that would have a major impact on the way you analyze the data, one way or another. But we would, I think, support including that in the domestic like product.

COMMISSIONER LANE: Does anybody want to add to that; Mr. Price?

MR. PRICE: I'll address that in the post-conference brief.

COMMISSIONER LANE: Okay, thank you; now I'd like to talk about related party considerations. Given that certain U.S. producers are affiliated with subject country producers, exporters and/or importers of corrosion resistant steel and/or purchase subject imports, please comment on whether any U.S. producers should be excluded under the related parties provision.

Mr. VAUGHN: Commissioner Lane, Stephen Vaughn for U.S. Steel -- no, we do not have any concerns that any parties -- we've not made a request that any party be excluded as a related party under the statute. At this time, we have no intentions to ask for such an exclusion.

COMMISSIONER LANE: Mr. Price?

MR. PRICE: I concur.

COMMISSIONER LANE: Okay, does anybody else have a comment?

MR. STEWART: This is Terry Stewart for Mittal. We have the same position.

COMMISSIONER LANE: Okay, thank you; now I'd like to turn to a question about the European Union. It has been argued that European Union member corrosion resistant steel producers are not likely to re-enter the U.S. market at injurious levels upon revocation of the orders because of the current market structure in the European Union, which has been changed significantly since the original investigations.

Are European Union steel producers sales to other European Union member countries now comparable to home market transactions because producers are now free from internal barriers and custom formalities; Mr. DiMicco?

MR. DIMICCO: I don't think we should consider the fact that they would not be in a position to do exporting or importing into the U.S. market. I think they're subject to some of the same issues that we've been talking about.

As I mentioned earlier, the European Union just recently is now entertaining the idea of having anti-dumping orders against China because of the amount of Chinese imports coming into their market.

So the issues that we've been talking about on a global basis apply as much to the EU and where they have to go with their steel, if the Chinese come into their marketplace aren't dealt with, as anybody. So I don't see that there's any reduced likelihood that they would participate in our market.

MR. GOODISH: Commissioner --

COMMISSIONER LANE: Mr. Goodish,

MR. GOODISH: -- we are a producer in Central Europe, in Kosice, Slovakia of corrosion resistant steel. I think we can tell you with some profound experience that where I think what's being referred to here as the accession countries -- the 10 that went into what's being now called the new EU -- those steel producers shipped into those 10 countries prior to the time they were members of the EU anyway, and I don't see what entry into the EU had to do with that.

So I think that we are just as susceptible today to those products coming into the United States as what we were years back.

COMMISSIONER LANE: Mr. Gant?

MR. GANT: Yes, may I add also that I think if you consider the current dollar versus the Euro value, should that shift back in favor of the Euro, that would make this again a much more attractive market; and I think that they could respond fairly quickly, because they have a substantial infrastructure to export product.

ThyssenKrupp owns a very large service center chain in the United States. So I think their means to enter the market very quickly is there, and I think if the economics were there or the need, given the economies in their local markets, I think they could respond very quickly and be very damaging.

MR. NOLAN: Commissioner Lane, John Nolan Steel Dynamics -- first, I'd like to take a moment to comment that we're going very well in the great State of West Virginia, and we're moving exactly as I suggested the last time we were together here.

I'd like to take a moment to read one sentence from CRU Monitor from October 2006. It goes like this. This has to do with Europe. "Market participants report that some of the Chinese mills have been very aggressive in their attempts to place the resulting surplus material into Europe, and have been dropping their offers week by week or even close to day by day in some instance."  So it affirms the position Mr. DiMicco took a moment ago.

COMMISSIONER LANE:  Yes, sir -- Mr. Stewart?

MR. STEWART:  Commissioner Lane, if it would be appropriate, we would like to address it in a post-hearing brief as a matter of law.  Of course, the fact that there is a Customs union in the EU is irrelevant in terms of whether exports from Germany or France or other members within the community should be viewed as a domestic sale or home market sale are not likely to be available for export to the United States.

So as a matter of law, we think it's a red herring-type of issue, just as the Canadian issue of treating North America as a single market is not a legally relevant issue in this proceeding.

COMMISSIONER LANE:  Okay, thank you, I will wait until my next round for my next question -- thank you, Mr. Chairman.

CHAIRMAN PEARSON:  Okay, the auto industry has submitted in its brief that the global steel industry is becoming relately more local and regional, and less of a trading business.  They've indicated that the percentage of all steel traded in global markets fell from 62 percent of the total in 2000 to 52.6 percent in 2005.

The first question, is this a correct understanding of the market? Would you agree that it's becoming more of a local/regional market and less of an international trading world in steel; Mr. DiMicco?

MR. DIMICCO: Dan DiMicco at Nucor -- if it was, it was relegated to that time period. I don't know that to be fact.

I do know what's been happening the last two years in the North American market, and that is record levels of imports from around the world have been coming in. This year, it's going to be bouncing around somewhere between 45 and 48 million tons, which will be a new record for imports into the U.S. market.

So I don't agree with that assessment. I certainly don't agree with it over the long term, as China becomes more of an exporting nation. Just the opposite will happen.

CHAIRMAN PEARSON: Of course, China could become more of an exporter and else of an importer, and have a net effect of decreasing global trade. So does someone who works for a multi-national company -- perhaps Mr. Goodish. Do you have thoughts on this?

MR. GOODISH: I guess I didn't follow the last comment on China.

CHAIRMAN PEARSON: I'm sorry, I was just going to say, China could, if it starting exporting a little and stopped importing a lot, it would be less of a global trader net than it had been before. That was the point.

MR. GOODISH: Okay, there would be less steel going into the country, except there's large volumes of steel leaving China today, and if you go back over history -- and I won't remember the numbers correctly. But they were a net importer of anywhere between 20 and 35 million tons of steel, depending upon the years, if you go back 10 years.

We're in a year now where there probably are going to be a net exporter. So that's a significant amount of steel that is now out into the market place. It can be steel that's coming from Russian or China or Egypt or India. Or, also because Japan shipped into the China; Korea has shipped to China. So, in my opinion, there's still a lot of international activity taking place with steel. It's just there's different players now, and it's going to different destinations, and it's being driven by China.

I might also add that there are Chinese steel producers who can make the automotive grades of steel that we're talking about today. They're not significant, but they can do it. Baosteel, Rulon and Anshan -- galvanizing lines at Anshan are actually 50 percent owned by ThyssenKrupp from Germany. So there are a lot of market influences that are taking place in the marketplace that would end into this market, if these tariffs were to be dropped.

MR. DIMICCO: Dan DiMicco again from Nucor -- on that particular point, the time that they were importing it to their market place, the size of their steel industry was considerably smaller. So shifting from a net importer to a net exporter, when you're producing 100 million tons versus 400 to 500 million tons is a big difference.

So I would contend that in the future, the tendency to export a heck of a lot more than they every imported is certainly there and is certainly a potential reality. So the net of that would be an increased global movement of steel, not a decrease, and not even a net zeroing.

MR. NOLAN: Mr. Chairman, John Nolan, Steel Dynamics -- the information we have from Customs suggests that the Indians, for example, are importing to the United States about 100 percent more corrosion resistive steel than they did in 2003. I think the number is incalculable for China, because their receipts here in 2003 were 29 tons. This year, so far, it's been 479,000.

So it would seem to me that the idea of the market becoming more local is a lot more fiction than fact.

CHAIRMAN PEARSON: Mr. Schorsch?

MR. SCHORSCH: If I could comment, Mr. Chairman, I think you can define this a lot of different ways. I think the best way I've seen it looked at, even though it doesn't capture all the dynamics, would be to look at ocean-borne trade. I haven't checked in a couple years, but that shows a steady march upwards over a very sustained period of time.

So unless things have changed dramatically, I'd suspect that that continues to be a significant factor. The last time I looked, it was around 30 percent of total consumption, as opposed to the kind of 60 numbers that you're looking at.

So I suspect that a lot of if may have to do with, if you look within the European Union, for example, as those borders come down, tracking that, it's not as meaningful to talk about that as trade flow. You know, the stuff that captures more of the sort of thing that would be a concern for us, again, is ocean-borne, even though that's not 100 percent of it, and I think that continues to be substantial.

But I think we can check into those numbers and provide more up-to-date statistics on that aspect of it in a post-hearing brief, as well.

CHAIRMAN PEARSON: Okay, good, I would appreciate that; Mr. Hecht?

MR. HECHT: Just very briefly, just to bring it back to the issue which I think is most legally relevant to you here, there is absolutely no evidence of that point with regards to steel trade coming into the U.S. in general or corrosion resistant steel products coming into to the U.S., in particular -- no evidence of it.

CHAIRMAN PEARSON: Right, but I'm interested more broadly in the conditions of competition that we might find in the global market, because clearly the global market feeds directly into the U.S. market. We do have the argument made by the auto industry, which I may have misinterpreted, in terms of, I think they're arguing that the industry globally has become more local and regionally focused, and less of an importing and exporting type of business.

If, indeed, that's not a correct understanding, could you please put a little time and effort into helping me understand it in the post-hearing? Look at the analysis done by the auto industry, and help me understand why there are other ways to look at the marketplace.

Because I'm hearing two different views -- I think what was in the auto brief and what you guys are saying about what's happening in the global market. I just have an interest in those structural changes. So tell me more; Mr. Vaughn, are you seeking the floor?

MR. VAUGHN: Yes, we will definitely address that in the post-hearing brief. I mean, just to follow-up on what Mr. Hecht just said, I mean, with respect to this product, what you are saying -- and you've heard this from several of the other witnesses now -- more steel of this product is coming into this country now than in prior year. There's been a tremendous upsurge, both in 2004 and another upsurge in 2006.

You have countries shipping into this market, like China and Brazil and India and Taiwan, that were relatively minor players just a few years ago. So if anything, the trends with respect to this market, in terms of how open this market is to outside competition, how likely you are to see imports in this market -- if anything, the trends of this market in the last five years are exactly the opposite of what the auto makers have said in their brief. But we will address that in more detail.

CHAIRMAN PEARSON: Okay, thank you; Mr. Price?

MR. PRICE: And I agree; we will respond in greater detail in our brief. But if you look at Korea, for example, you see a substantial increase in exports to the U.S. this, compared to last year, which is one of the subject countries. The idea of localization being a major factor in this product line does not seem to be the case at all.

CHAIRMAN PEARSON: Okay, good, well, if we should differentiate between what's happening globally and corrosion resistant steel compared to all steel, please go ahead and make that distinction.

A different question, a number of you have indicated that the price for corrosion resistant steel is generally higher here than in other countries. What causes that? Is it a function of the orders themselves leading to a somewhat higher price in the United States than in other countries; Mr. Hecht?

MR. HECHT: I guess I'll just kick it off to get something started. I think that's probably difficult to say, but I think it's perhaps a function of how attractive this market is, in general, and the fact that many of the other export markets people are shipping to are characterized by cut-throat, unfair competition themselves.

CHAIRMAN PEARSON: Mr. Vaughn?

MR. VAUGHN: Yes, if I could just follow up on what Jim said. One of the points that we've been looking at is, let's look at the other potential export markets. Where else could they go? Where are there some other markets where people are potentially shipping to?

The main one that they've identified in their briefs is China. If you look at it, there's an enormous gap in all the publishing pricing between the U.S. price and Chinese price, and that links up with another point that you've heard so much today which is, there's just enormous amounts of over-capacity in China right now. There's just been huge volumes brought on in just the last few years, and that market is now depressed. You'll see that everywhere in the trade press, and it's been like that for some time.

So you know, that's really a big part of the difference in what we're thinking about in terms of where are these guys going to go if the orders are revoked.

CHAIRMAN PEARSON: Okay, well, I may come back to this issue, but my yellow light is on, and I want to earn a gold star today, so I'm going to stop now; Commissioner Aranoff?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman -- one of the arguments that a number of the Respondents make in their briefs is that the fact that the domestic industry's exports have risen over this period of review is evidence that the industry, having reduced its cost, is now globally competitive and able to export.

Now I want de-construct that a little bit. My understanding is that to the extent you all export, it is to Mexico and Canada, and that's about it. Is there anyone who is exporting outside of Mexico and Canada? I see a lot of people shaking their heads. Does anyone want to turn on their microphone?

MR. NOLAN: John Nolan, Steel Dynamics -- we do not, Madam Vice Chair.

MR. GOODISH: John Goodish, U.S. Steel -- we do not.

MR. GANT: Doug Gant with AK Steel -- only to Mexico and Canada.

VICE CHAIRMAN ARANOFF: Okay.

MR. DIMICCO: Dan DiMicco, Nucor -- to the best of my knowledge, principally to Mexico and Canada.

MR. SCHORSCH: Lou Schorsch -- the same.

MR. NARKIN: Vice Chairman, this is Steve Narkin with Skadden Arps. If I can just add to that, we are a little bit perplexed as to which data that argument is based on. Because if you look at table CORE-III-4, and you look at the percentage of quantity that's being exported, the difference between, say, 2000 and 2005, or even January to June 2006 is trivial. Exports are a very small factor for this industry.

VICE CHAIRMAN ARANOFF: Okay, now I understand that. They start from a small number and they do increase, particularly to Canada. But let me just ask then, for those exports that you are sending, either to Canada or Mexico, is that entirely associated with the auto industry, or are there other types of purchasers to whom you are selling in Canada and Mexico? I'll just ask each of you to respond in turn, if you can; or if its' confidential, you can do it post-hearing.

MR. GANT: This is Doug Gant. I would say that it's almost entirely to the auto industry. I can't think, offhand, of anyone else.

MR. SCHERRBAUM: Joe Scherrbaum with U.S. Steel -- I would say it's primarily the automotive, but also the appliance and some of the electrical equipment industry.

VICE CHAIRMAN ARANOFF: Okay, all the way in the back.

MR. BLUME: Rick Blume, Nucor -- the same answer, in terms of customers, appliance and automobile. But I would also point out that the percent of our exports are very insignificant, related to our total shipments.

MR. NOLAN: Madam Vice Chair, John Nolan, Steel Dynamics -- I'm easy. We're shipping corrosion resistant steel only to the continental United States.

MR. PLATZ: Roy Platz of Mittal Steel -- all of our corrosion resistant shipments, or almost all of all of our corrosion shipments outside the U.S. are to Mexico and Canada only.

VICE CHAIRMAN ARANOFF: Okay and to automotive customers or --

MR. PLATZ: I'm sorry, and to automotive customers, yes.

VICE CHAIRMAN ARANOFF: Okay, thank you very much; I appreciate all those answers. Let me turn to sort of the flip side of that same argument.

Respondents also argue that because the domestic industry has maintained, well, what they at least characterize as robust prices and profits, despite what you all concede have been rising non-subject imports during this review period, that this again shows the industry is not vulnerable to any increase in imports that might happen if these orders are revoked.

You've all admitted that non-subject imports have increased almost, or as much as, during the original period of investigation, there imports in this case.  Yet, you know, you're doing, as you all said, not as well maybe as you'd like, but better than you were before.  How does that affect the way that we look at vulnerability to imports if these orders were revoked?

MR. DIMICCO:  Dan Dimicco of Nucor -- the experience that we saw in the 2004/2005 timeframe, where there was a large influx of imports and a major inventory build that later led to de-stocking by the service centers, we did see a 40 percent drop-off in the prices for galvanized material in the U.S. market. That is a significant drop-off.  So I would strongly disagree with the points that are friends, our customers are making.  The actual data doesn't show that.

Today, we're in a similar situation, where the imports have come in very strongly. The inventories are over-done again. There's a de-stocking that is taking place, and where we end up on pricing at this point in time, we don't know where it will go. But last time around, it went down 40 percent.

VICE CHAIRMAN ARANOFF: Well, I appreciate that answer. But I guess what I'm trying to work through is, there seem to be these sort of mini-cycles. The service center stock up and then they stop buying for awhile, and then they stock up.

But meanwhile, the basic fundamental is that demand seems to be going up; so that yes, you might take a short-term hit when some imports come in and the service centers stock up and then they stop buying from you for a little while. But the longer term trend is still that everything is okay again and in a few months.

MR. DIMICCO: I would disagree with that. If it appears to be okay again, it's only because the imports fall off and domestic producers stop producing, and the supply situation corrects itself. But as soon as it gets the other way again, we go through the same situation. So I'd say the vulnerability level is no different than it ever has been.

VICE CHAIRMAN ARANOFF: All right, Mr. Price, you wanted to say something.

MR. PRICE: I just want to address a couple of key facts here. First, compared to the prior POI in the last sunset review, I would say this industry is actually doing worse financially by number, by their measures.

Secondly, we have broken out the profitability of my two clients, which account for a very small portion of this industry; and I think you can make your assessment as to how robust this industry really is. Once you break out these two relatively small producers, I think you see it's not a robust industry. It's not doing particularly well. In fact, I think it's in very poor shape.

If you add dumped and subsidized imports on top of the current import pressures to this vulnerable industry, I think this is going to be a materially injured industry within a very swift period of time; certainly in the reasonably foreseeable future.

MR. NOLAN: Madam Vice Chair, John Nolan, Steel Dynamics -- I would again come back and bring your attention to page 14 of the staff report, which shows the market, from at least a domestic shipping point of view, as stuck somewhere at around 21 or 22 million tons. I think we talked about it being relatively flat.

But more importantly, my company is a major producer of light gauge galvanized products, particularly at our Jeffersonville, Indiana location. I want to share with you, at this time last year, I couldn't find an order to schedule, principally because the Brazilian and the Indian's non-subject importers were pretty much taking over the market.

The only reason we recovered that part of the corrosion resistant steel market was because the Brazilians experienced a major blast furnace outage in the spring, and that helped us a little bit. But they're back in the market, along with the Chinese right now. So I would tell you, non-subject imports are having a significant impact on our business, particularly in those market segments that use light gauge galvanized today.

MR. GOODISH: Commissioner, John Goodish from U.S. Steel -- I would have to agree with that. If we look at our construction business, which is either on three month or six month contracts, if you'll recall how I told you we bid that out, we're also seeing the competition come in from places like India, Egypt, and China, attacking that marketplace.

VICE CHAIRMAN ARANOFF: Okay, all the way in the back.

MR. VAUGHN: Stephen Vaughn -- you have a lot of evidence on the record, I think, that shows that, in fact, these non-subject imports are having a negative effect on the market. I mean, you've heard the testimony.

But I mean, if you look at the data, you know, look at the operating margin for the first half of 2006, for example, compared to the operating margin in 2004 -- I mean, look at the operating margin in the first half of 2006, compared to the operating margin in 1999.

You've heard about the improvements in the industry. You've hear about what's happened to its productivity. You've heard about what's happened to its labor costs. You've heard about all these different things that it's been able to accomplish. Yet, you see how the industry is struggling to pass along the cost increases that it's dealing with on its raw materials.

So it's often the case that you can have imports and prices sort of temporarily going up together, if you have short-term spikes in demand. But the data here clearly shows that as this cycle plays out, those non-subject imports are having a negative effect on the domestic industry.

VICE CHAIRMAN ARANOFF: Okay, I appreciate all those answers. As my light is yellow, I'll pass to the next round.

CHAIRMAN PEARSON: Okay, Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, I have just a quick little follow-up on this issue of non-subjects. Because I, again, in preparing for this looked back at what we discovered in our first review of this case, and Mr. Lighthizer, I will quote you on this one directly.

Because we asked about why it was, in corrosion resistant product, as opposed to hot rolled or cold rolled or plate, where at least at the time of the last review, the industry had been able to hang on to its market share and keep a market share in excess of 90 percent of domestic production. The response that came back to us, in terms of why this corrosion was different from hot, cold, and other products, was the comprehensive nature of the orders. I mean, you said it very clearly that these orders, you know, unlike some of the other commodity grades of product, have been comprehensive. We went across the board. Everybody that was capable of shipping was covered by an order; that these products are high quality and that we've covered everybody that was sophisticatedly capable of producing this product.

I want to make sure I understand the testimony in terms of what has changed since that first review. Are these non-subject imports again coming in somehow differently; or is it that the Indians, the Brazilians, the others have now become more sophisticated in their capability of providing sort of auto-grade, high grade product?

MR. LIGHTHIZER: Did you want me to address that, Commissioner?

COMMISSIONER HILLMAN: Anybody can address it. I'm just saying, clearly, the impression that we got, I will say, sitting here through all of these reviews, through the 201, through the 204, was that corrosion was different because, again, that the orders outstanding covered the waterfront, in terms of who was really capable of doing it; and that the product itself was, again, higher quality, higher tech, and the most value-added and the one that it was the most important for the domestic industry to make the most profit on. I'm trying to understand which, if any, of those pieces have changed since the time of our first review.

MR. LIGHTHIZER: Let me just make a comment on that, because I know you probably really want to hear from the business people.

My comment is, I am here five years later, amazed by the accuracy of my comment, which won't surprise you. The truth is that (A) corrosion resistant is still the crown jewel, as we've testified. It is the most important thing, and (B) it is still very, very high tech. It's what we have to add.

Now what you're seeing is, these non-subject countries coming in to the bottom of the corrosion resistant market, if you will -- niche, if you will. You're not seeing them sell skin for automobiles at this point.

This is why we think it's so important. If you look at every company and every country that develops a steel industry, they slowly try to move up the chain. What they try to get to is something that you put on the outside of a Cadillac, right? That's what they're all trying to do.

If you look at any company here, and if you look at China, that's what they're doing. These other industries are moving up, and they're at the bottom. So right now, we're not seeing them in that market.

You saw the slide I put up where General Motors said they're using Chinese Steel for Chinese cars made in China, and eventually will ship it here. That's exactly what's going on here. Right now, it's a few years away before they're at the top. They're coming in at the bottom for the grades that are still high tech, expensive, very important products, but they're down the technology food chain, if you will, and they're slowly moving their way up.

So I think what I said then is still exactly right. The fact is that at that time, those countries could not compete in that area. The corrosion resistant orders in 1993 -- and I think I'm the only person who was actually here in 1993. The rest of you were in high school or something.

(Laughter.)

MR. LIGHTHIZER: The corrosion resistant orders in 1993 were comprehensive. It's one of the reasons why this industry, the corrosion resistant steel industry, did better in the last, you know, tsunami or crash or whatever you want to call it.

It's because of these orders really are the reason they survived and managed to keep going.

What you're seeing now, in the last few years, is people coming in -- China, primarily, because they have a government policy to do it -- but also India, Brazil, Taiwan. They're starting to move up the chain. That's what is going on. At the very highest level, these orders are still extremely effective. At the bottom, they're less effective right now.

COMMISSIONER HILLMAN: Do any other company folks want to add to that?

MR. NOLAN: John Nolan, Steel Dynamics -- I would support counsel's interpretation of the circumstances. I mean, we were in a situation earlier this year where we had to put together what we call a "foreign fighter" program in order to manage the Brazilians and the Indians, particularly -- of course, again, until Brazil lost number three furnace.

Consequently, we found ourselves, you know, essentially looking to them to set the bar, so to speak, in the market. They're back in the market again doing the same thing, along with the Chinese. I would tell you that we don't produce at Jeffersonville the more sophisticated products that counsel describes.

But similarly to our competitors, as I explained before, we're putting another pot in for an additional coating chemistry and putting a paint line down there. Because we feel we need it. It's like the analogy I used in the 201. You know, my house is flooding. Where am I going to go? Am I going to go down or am I going to go up? I'm going up. That's really where we are.

COMMISSIONER HILLMAN: All right, then on the issue of prices and again where we see them, at the time of the first review, the perception was that, again, hot rolled was the ultimate commodity product; and as you keep moving up, cold rolled, less so; corrosion, even less so.

Would you still describe it that way -- I mean, that corrosion product is much less of a commodity product than hot rolled or cold rolled?

MR. GOODISH: I guess my analysis of that would be that corrosion is less of a commodity product than hot rolled is. But a lot of the grades of steel or a lot of the applications for corrosion are rapidly reaching the commodity level.

The construction business, 33 carbon steel -- the only thing you have to do is get galvanized to stick on it, paint it, form it, and you can get into that business. That's where the Chinese and everyone else are moving into. Primarily, the proceeds are incrementally higher there than some of the manufacturing cost that goes into it.

But yes, Bob's answer on what has happened in the last five years, or actually fifteen years in this particular case, is exactly what's going on. Those producers, particularly in China and the other countries will get there, are moving more and more up the food chain, becoming more value-added. They are going to produce. People like Baosteel in China can produce automotive steels today.

Rulon has one line that's under construction and two others that are on the drawing board to make automotive-quality steels. Anshan already has one that is a joint venture with ThyssenKrupp and have now announced a second one. So they're rapidly going to move into the value added automotive-type coated product.

COMMISSIONER HILLMAN: Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor -- we would agree with everything that's been said so far.

COMMISSIONER HILLMAN: Is any of this notion of how commodity and how the prices get affected influenced by this switch out of electro-galvanizing into hot dipped? I won't say switch, but I mean this greater willingness to purchase hot dipped.

MR. SCHORSCH: Lou Schorsch from Mittal Steel -- just to comment more broadly, I think the same number of cars, more or less, are being built. The same requirements are there. In fact, the requirements keep going up in terms of the quality that's there.

It's a different coating technology. There's a different process involved and so on. But I don't think that's a change from a more commodity-like to a less commodity-like product or vice versa.

I think, in general, your question about, as we move into those more value-added products, are you also moving away from commodities? In general, that's true, but there's a lot of grey area in there. So if you take a galvanized product that is going into a heating duct, for example, that's not a very technology-intensive product; versus a hot rolled product, an X-70 or an X-80 grade that's going into a pipeline, a very high strength product and so on, that can be a hot rolled product, but very few people can make it.

So there are grey zones within those. But I think, in general, I think the chain you described is appropriate.

COMMISSIONER HILLMAN: Thank you, I think just to follow-up a little bit on some of the questions that Commissioner Okun's in terms of Arcelor and its connections here.

If I could ask you, Mr. Schorsch, to put on the record this issue of the status of Arcelor's relationship with Dofasco in Canada, and whether there's anything you can tell us about whether that relationship has any implications for whether or not Dofasco would be continuing to ship product into the U.S. market.

MR. SCHORSCH: Commissioner, you know you're yellow here.

COMMISSIONER HILLMAN: Exactly.

(Laughter.)

COMMISSIONER HILLMAN: I was saying, for the post-hearing brief.

MR. SCHORSCH: I can comment very briefly. We have an agreement with the Justice Department, a consent decree, that was signed before the acquisition. That's a binding agreement.

The fact that it's binding is recognized by everybody involved in the new company; that we will divest Dofasco, and as part of that arrangement, we have a whole separate agreement where they run -- you know, they're technically part of our company and the financials will be consolidated and so on. They're run totally separately with a trustee at this point. We have, I think, until the end of November to basically execute that transaction.

There was a take-over defense put in place that may make that impossible for us. But we're operating certainly with the full intent to implement that consent degree and as though, in fact, it had already been implemented.

COMMISSIONER HILLMAN: Okay, I appreciate that response; thank you.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman.

Just a quick housekeeping matter, Mr. Lighthizer, for the record, I will say -- and I'm not speaking for the rest of my colleagues - but like you, I was not still in high school in 1993. You don't need to respond to that.

(Laughter.)

COMMISSIONER KOPLAN: Mr. Gant, with regard to the lockout at the Middleton Works that began on

March 1st of 2006, what is the current state of negotiations between AK Steel and the machinists?

MR. GANT: We continue to negotiate. We met earlier this week, and I've been traveling a great deal. But I believe it's tomorrow. There's a local election to vote on the contract proposal that the company has put forth.

COMMISSIONER KOPLAN: So that could be coming to a close?

MR. GANT: Yes, we hope so.

COMMISSIONER KOPLAN: What do you think, if any, are the implications of this for labor relations in the broader steel industry -- the fact that this has been going on so long?

MR. GANT: Well, I think this is a unique case, evidenced by the fact that in the past two and-a-half or so years, we have been able to reach eight new labor agreements with United Steel Worker locals and United Auto Worker locals, including two at our plants in Zanesville, Ohio and Butler, Pennsylvania with the United Auto Workers since the beginning of this labor dispute on March 1st.

So again, it's a unique and frustrating situation, and I don't think it typifies labor relations or the steel industry's restructuring at all.

COMMISSIONER KOPLAN: If that does come to a close, could you put that on the record before this closes?

MR. GANT: Yes.

COMMISSIONER KOPLAN: Thank you, sir.

This is for Schorsch, Mr. Goodish, and Mr. Gant. The auto producers claim that the consolidations by the domestic core producers increase the economic power of the largest corrosion resistant steel suppliers. The domestic industry contends that in this review, the financial performance of the five domestic producers reportedly selling the largest share of their production to automotive end users has lagged significantly behind the industry as a whole, and that these producers have received a lower price per ton than the industry average.

For example, I'm referring to the Nucor SDI brief; the discussion at pages 33 to 36. I have three parts to my question. First, why should corrosion resistant steel producers' sales to the automotive sector lag behind the corrosion resistant steel industry as a whole?

MR. GANT: Well, let me take that because of my 26 years of history of dealing in Detroit, in particular. That is that I think we have felt the buying power and the negotiating pressure from the auto companies throughout all these market cycles, which some would say were very strong market cycles, because we looked to the future, and we want to have an ongoing relationship.

So I think our position with them has been very fair and measured. I think the spot market at large has been more reactive to prices and supply jumps and so forth. So the relationship with them is more stable, more long-term, and I think that's probably why it lags the market at large.

COMMISSIONER KOPLAN: Thank you; I saw a hand up in the back. Could you identify yourself for the record?

MR. MORICI: My name is Peter Morici. I'm with Nucor. In this relationship, you have some similar power on the part of the automobile companies. They have demonstrated a capacity to extract from their suppliers rather low prices, to the point that many of their suppliers are now bankrupt. It's not much of a surprise that they would be able to get a better price than, say Whirlpool. It's not much of a surprise at all.

COMMISSIONER KOPLAN: Thank you; Mr.

Schorsch?

MR. SCHORSCH: Yes, I'd make maybe two comments. One, I'd just repeat one I'd made before, that I do think we had a tremendous change in the industry environment, in terms of their raw materials' prices and a step change, really, that all contract business is a bit stickier, and I think it's just taking longer to catch up. Maybe I'll leave it at that.

COMMISSIONER KOPLAN: Thank you; Mr. Goodish?

MR. GOODISH: Commissioner, I believe that what you see, at least in our case, is the fact that we're, in 2006, coming to the end of two and three year contracts, with most of our automotive customers, and you're seeing a lag as a result of that. We have not been able to recover significant increases in raw material and energy costs from our automotive guide, because they simply will not allow it.

Whenever you bid the spot market, you bid the spot market with the raw material increases and energy increases that are known at the time. Since you are making commitments for a shorter period of time, you can recover some of those costs at that time.

COMMISSIONER KOPLAN: Thank you; Mr. Lighthizer?

MR. LIGHTHIZER: Yes, Commissioner, can I add a brief point? That is that is that on this issue of the relative relationship in market power between automobile companies and steel companies, I would just direct everybody, at some convenient point, to look at the auto brief, page 31, where they have a description of how these contracts work called, "Volume Limitations."

It essentially says that we negotiate a price and then a volume, and we expect that we don't have to buy the volume. But if we want to buy more than the volume, you have to sell it to us at the price below.

I mean, it is the sort of thing that if you brought it up in first year contracts, the professor would sort of send you out the door for having not done your homework. It's a very revealing paragraph, and I hope that everyone gets a chance to read it. Because it sort of lays out exactly how auto companies think they're relationship is with steel suppliers which, to sort of add on a little bit to what Dr. Morici said, it gives you some idea about how they feel about all auto part suppliers.

That is, they set a price. They don't have to buy a quantity. So if you want to buy 10 houses from somebody down the road and you negotiate a price; you come in two years later and say, I don't want to buy any houses, or I actually want to buy 40 and you have to give it at that price. This is the nature of this kind of a relationship.

The other thing I would add very briefly is, they think that if you don't give them the steel above the contract amount, that that's a shortage; and many of the shortages that they detailed in their brief are basically situations where they said, I'll buy 800,000 tons. Then they come and say, okay, what I really want is another 100,000 at that price. The steel company says something like, well, this is above the price. That, they would call a shortage. I think this paragraph, Commissioner, is very revealing about the relationship.

COMMISSIONER KOPLAN: Can you document examples of that in the post-hearing?

MR. LIGHTHIZER: Absolutely.

COMMISSIONER KOPLAN: Okay, thank you; let me move to the second part. When corrosion resistant steel suppliers sell to a particular auto company, and that company expects them to satisfy the needs of all their North American plants, how does that affect the market power of other steel producers, for the same three people; Mr. Schorsch?

Mr. SCHORSCH: I'm not sure I fully understand the question. But let me just describe a little bit the business and building on some points that Bob made.

Largely, what we sell is defined in terms of a part, and there's a long negotiation, and there's a matrix connected with broad product categories and pricing levels and extras and so on. But ultimately, we're committed to make a part, and part of the volume uncertainty there which, you know, part of it is everybody wishes they were better forecasters -- part of it is, a vehicle takes off. We may need to re-adjust our schedules to make more to supply that part. If the vehicle is a dud, the opposite is the case. But we're selling very much on part, and typically, you know, we're the exclusive suppliers of that part.

I think on the scarcity question that Bob sort of alluded to, I think one thing that did happen, particularly in 2004, if you look at most automotive companies, you should ask them. But my sense is, they buy in three chunks. They buy steel products for processing in their own operations. They buy some to be processed where they're doing the buy-though by third parties; and then some they buy in the spot market.

Now there was an effort by a lot of automotive companies to try to bring those spot market buys, when our raw material prices surged, the spot prices surged to say, oh, by the way, that 20 percent that we have been buying at spot market, we want to fold that into the contract.

In other words, we want you to eat not only all the raw material cost increases on the 80 percent that's under the contract, but the other 20 percent we buy in spot, as well. We typically declined that offer, and that may be perceived as, gee, this is short supply. But we were providing the material in the spot market to the same people that had been buying it before.

COMMISSIONER KOPLAN: My yellow light is on, but I haven't hear from the other two, yet. I can let it go to the next round.

CHAIRMAN PEARSON: Okay, if you have quick responses, please go ahead.

MR. GOODISH: Commissioner, John Goodish -- Lou's definition of how it works is accurate. You're generally awarded a part, which is associated with specific plants. You may be a supplier of parts to all the plants, but they'll be different parts in different quantities and volumes. The supposed shortage, from the perspective of trying to go above the contract terms is apparent, thanks.

COMMISSIONER KOPLAN: Mr. Gant, do you agree?

MR. GANT: Yes, I don't have anything to add.

COMMISSIONER KOPLAN: Excuse me?

MR. GANT: Nothing more to add.

COMMISSIONER KOPLAN: Nothing more to add -- thank you, Mr. Chairman.

CHAIRMAN PEARSON: Thank you; Chairman Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman.

I wanted to return to the question about demand, both in the United States and globally for a moment, just to make sure that I understand what the producers see first in this market. Because I've tried to look through to record to figure out what we actually have on the record with regard to projections for the future. I saw a couple of things there.

I saw one source, the Automotive Market Research Council, predicting increased production of 5.4 percent from 2005 to 2010, or a 1.1 percent increase a year. Then with respect to non-residential construction sector, an estimate of 6.2 percent in 2007 from the American Institute of Architect's Chief Economist, Kermit Baker.

But I also heard in testimony today, Mr. Scherrbaum, I believe it was you who saw a 10 percent reduction in automotive production, I believe you said. So I want to go to the producers and just say, in looking at your making your forecast in the reasonably foreseeable future -- and tell me what you think that is as you do this -- does it matter who your clients are?

In other words, to the extent I've heard differences between what's going on with the transplants and what's going on with the Big Three, if you're a company who happens to be supplying the transplants, do you just see your demand as going up because they're going to keep increasing? So if you can do that without revealing anything confidential, do that here; if not, for the post-hearing. But help me out on the demand projections for our record here, and I'll start with you, Mr. Schorsch.

MR. SCHORSCH: Yes, Lou Schorsch -- let me just speak broadly. I think we would tend to look, you know, maybe over a five year timeframe and think about kind of one and-a-half percent being the underlying growth rate for steel consumption in our country. Again, I think that's close to our de-bottlenecking rate for most capacity, if you will.

As a mature market, I think we see some, you know, good evidence in demographics in the wealth of the economy aging of people who were in high school in 1993, et cetera.

COMMISSIONER OKUN: None of them sitting here, by the way.

(Laughter.)

MR. SCHORSCH: More vehicles may be sold in the future; but again, I think at that relatively slow pace. We're a big enough supplier to the automotive industry that we supply all of the companies. We wish them all well. We try very much to work as closely as we can with all of them and, frankly, to not allow price to be something that advantages Company A versus Company B.

Again, we supply all these companies, and I think let the market determine which ones have success. We know what the past record has been. But, you know, in the future, we may see some recovery with more domestic players, and we'd certainly welcome that. We supplied all these companies.

COMMISSIONER OKUN: Okay, and just before I move to Mr. DiMicco, on the non-residential construction side, do you have much going there?

MR. SCHORSCH: We supply into that market, and I think that's a relatively strong market, as we see it. But again, the market, in general, at least I think we start out with, if things are good, kind of one and-a-half percent as a mature economy, as a good sort of basic number for steel consumption growth more broadly.

COMMISSIONER OKUN: Okay, Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor -- I really don't have anything more to add to that. I think we did submit a forecast to you ahead of time.

COMMISSIONER OKUN: Okay, I think I have seen yours.

MR. DIMICCO: I don't really have much more to add than what's there.

COMMISSIONER OKUN: Okay, great, yes, in the back row?

MR. SCHERRBAUM: Yes, Joe Scherrbaum with U.S. Steel -- yes, what you referred to earlier was in the testimony I had. On the automotive side, we did cite Wards' Auto Forecasting, which is a very reliable source, who is forecasting automotive production of the Big Three, in the later part of this year into the first half of next year to be off by 10 percent. We do supply all the six companies that are here. I do see continued strong schedules from the transplant companies.

As we talk about the non-residential, again, we are seeing some growth there. However, it is coming from a very low base. After 911, et cetera, non-residential construction really slowed. So we're seeing a pick-up, but it's coming from a low number. Residential, as I commented, is really driven by interest rates, and housing starts are extremely off, as I think everybody has probably read recently.

COMMISSIONER OKUN: Okay, so based on those answers, no one is forecasting a decrease in auto demand. It's just the size of it and a difference between the Big Three and the transplants. Is that accurate; that they have differing -- yes?

MR. SCHERRBAUM: This is Joe Scherrbaum.

COMMISSIONERS OKUN: Yes.

MR. SCHERRBAUM: Again, we, on auto demand, would be forecasting for the next nine month period a decrease in total auto demand. We don't think that the increase in the transplants will be making up for the reduction in schedules of the Big Three.

COMMISSIONERS OKUN: Okay, for the next how many months?

MR. SCHERRBAUM: About through the middle of next year.

COMMISSIONERS OKUN: Okay, thank you, that's helpful -- yes, Mr. Price or Mr. Stewart?

MR. STEWART: This is Terry Stewart. In Mittal's prehearing brief on pages 37 and 38, we provide forecasts from different sources that have a similar outlook for the automotive, with a decline in the rest of 2006 to part of 2007, with a slight pick-up after that.

COMMISSIONER OKUN: Okay, and I see someone in the back row, yes? Use your microphone, please.

MR. MORICI: Peter Morici, Nucor -- what of the things to remember about automotive demand is, the costs of the change in the macro-economic environment. The shift away from the domestics could not be wholly compensated by the transplants immediately, because their ability to build out capacity is somewhat constrained.

However, three years from now or four years from now, it should not really make much difference, given the plants that they have already planned. By about 2009/2010, as you can see on the paper that's attached to the Nucor brief, we should see automotive production at a pretty high level. It's merely a problem of build-out on the part of the transplants. There will be plenty of cars being built in the United States by the end of the decade.

COMMISSIONER OKUN: Okay, I appreciate those comments; Mr. Lighthizer?

MR. LIGHTHIZER: Commissioner, I will be very brief. The CRU that just came out in the last couple of days notes this weakness in the market. It talks about three straight months of sheet price drops. It says the principle reason for this weakness is poor demand, largely from the most important direct customers in the mills, service centers, and automotive sector.

I would also note that the Metal Service Center Institute just came out with a report saying that for the ninth straight month, we've seen an increase in August for the ninth straight month in a row, of inventories in both the U.S. and in Canada. So the two most recent reports that we have, just from the last few days, bear out this current weakness.

COMMISSIONER OKUN: Okay, and I assume we will see those in your post-hearing report, and you'll submit those for the record. Okay, thank you, then let me turn again on the global side a moment, and I noted, Mr. Lighthizer, your comments to Commissioner Hillman about the accuracy of your predictions at the last sunset review.

I noted, in reading the Japanese Respondent's briefs, that there were a lot of comments in their brief saying that, in fact, they made a lot of accurate predictions about what demand growth was going to be in the Asian markets, which we discounted and, in fact, that they were more right. I will go back to actually look at a few of those things.

But my question about that really is, at the first review, we were looking at the hills of the Asian financial crisis in a much different economic environment out there globally. I don't think I've heard anything different on that.

So in looking at the arguments, in particular from the Japanese Respondents, I wanted you to comment on the global environment. I've heard a lot of your comments about China and where they might be going, so I may have a couple of follow-ups, but I might do those post-hearing.

But one of the arguments the Japanese Respondents have made, and I wanted to see if you could comment on it, is that they are established in

China in the way that the Japanese establish themselves in many markets. That is, they have relationships and they have a whole paper on this -- these contractual relationships -- and that that will allow them to stay in what is forecast to be, by what I've seen, the number two auto market. So after the United States, China is projected to become the second largest market.

And I wanted to see if you had comments on that. Should I assume that a lot of the Japanese product will continue to go to that market because of the way they've established themselves, which they would argue is different than just being someone going in the door and trying to sell to one of these Chinese auto manufacturers that are cropping up or to one of the transplants, for that matter? I'm not sure who's in the best position. Mr. DiMicco?

MR. DIMICCO: Just recently, one of the top trade officials in Japan basically pleaded with China to reduce the amount of steel that they're producing and the amount of capacity that they're building, because it's getting out of control. It's having an impact in their market and in their ability to send product into China. In addition to that, the conversations I have had with some of the largest

Japanese steel producers in the world at the International Iron and Steel Institute is that they express very grave concerns about the magnitude of the capacity builds in China and how that will effect their future business. So, I'm not sure what they have in their briefs, I haven't read it, but certainly doesn't cut with the top people at those companies.

COMMISSIONER OKUN: I see my red light has come on and so I do will come back to this, because I had a couple of other ones, as well. I know everyone has their hand up, but Mr. -- do you want me to just come back on another round?

CHAIRMAN PEARSON: Do you think these are quick responses?

COMMISSIONER OKUN: They're from counsel, I'm never sure.

CHAIRMAN PEARSON: Well, counsel don't want to get you in too much trouble; so if they think they can be brief, let them go ahead.

MR. LIGHTHIZER: My responses have always been quick, Mr. Chairman. I would just say on this issue of demand in Asia, I would just refer you back to our slide number six, which is a part of a confidential document. It shows what POSCO really thinks is going on, not what their counsel is saying here. In terms of relationships, I would refer you to our slide number 10, which shows that these same Japanese companies have great relationships with U.S. customers, just like they do with Chinese customers, and they can ship the product over here in a heartbeat.

I would also say that my economic projections in 1993 were more accurate than the Respondents. My economic projections in 1999, when they said everything was going great and right afterwards we had eight bankruptcies, were more accurate. And if you read their current brief, they seem to agree that I was more accurate in 1993 and 1999. And I've just got to convince them on one more year; that's the current situation.

COMMISSIONER OKUN: Thank you, Mr. Chairman. I'll return to this.

CHAIRMAN PEARSON: Okay. Commissioner Lane?

COMMISSIONER LANE: Well, Mr. Lighthizer, since you're so good at predicting the future and you are convinced that you are infallible, tell me when we're going to finish today?

(Laughter.)

MR. LIGHTHIZER: We're going to finish in 14 minutes, Commissioner.

COMMISSIONER LANE: Okay, thank you. The first question I have relates to the U.S. Steel brief, the Nucor brief, and the SDI brief, and the Mittal brief, where they talk about the industry returns financial performance during the review period. It's called anemic and far from adequate to meet the cost of capital. At what level would industry returns financial performance be good, healthy, or non-anemic, or adequate? Anybody want to take a stab at that?

MR. LIGHTHIZER: That sounds to me like a business man's -- no, I'll be happy to answer from the point of view of a lawyer. I think you have to make -- you have to get substantially more than your cost of capital over a substantial period of time. In my judgment, that's what you have to do not to be anemic.

MR. GOODISH: Commissioner?

COMMISSIONER LANE: Mr. Goodish?

MR. GOODISH: I guess my response to that would be the fact that during this period of time, I think average returns were about five percent. Three percent of that were the first couple of years and it averages over five percent. In order for us to be competitive with other manufacturing industries, we would have to be in the 15$^{th}$ percent range consistently over an extended period of time.

COMMISSIONER LANE: And that's for the return on your -- I mean, your cost of capital, not your operating income?

MR. GOODISH: Correct. Our cost of capital, during this period of time, is significantly above what our rate of return was on this product.

COMMISSIONER LANE: Okay. Anybody else? Mr. Schorsch?

MR. SCHORSCH: Schorsch.

COMMISSIONER LANE: Schorsch.

MR. SCHORSCH: Commissioner, I'll try to weigh in on that. I hesitate a little bit, because I don't want to give anything away competitively and we focus more on kind of what's the monthly cash that we're generating and so on. But, I can tell you that in 2004, even though that was a very good year, it wasn't a knock-your-socks-off year. I think that's probably close to what John would be saying we need consistently. Two-thousand-five, we were below the number that we'd say we need in terms of the cash we generated to be a self-sustaining business. I would say this year, we're kind of right on the cusp, but the fourth quarter is softer. It's difficult to say, but it would be kind of just barely if it works out for us this year.

COMMISSIONER LANE: Does anybody else want to make a statement?

MR. DIMICCO: Dan DiMicco, Nucor. Part of the issue that I've heard today is that these long-term contracts have been in place for two to three years or more. They were not able to recoup their raw material price increases, energy, iron ore, what have you. And you asked what it would take to change those dynamics, would be the ability to have a set of contracts in place that more realistically reflect the actual cost to produce steel in today's environment. And, hopefully, with these orders still in place, a market pricing system that is fair to the producers and representative of true market dynamics, not over capacity by state-owned entities.

COMMISSIONER LANE: Okay. Mr. Schorsch?

MR. SCHORSCH: My counsel suggested I correct myself. I was talking about our total business there. I think if I looked at our corrosion resistant business, in part, because of these contracts that Dan just mentioned, that results have been not as good as I described. So, I was kind of looking at the total business, the comments I made.

COMMISSIONER LANE: Okay. I'm going to ask a really naive question that contracts should be enforced. Why are these contracts not enforceable, if you've entered into contracts on a price or volume, et cetera?

MR. LIGHTHIZER: Let me say that it certainly is our position that the contracts are enforceable. It's the way their written, generally. And I don't want to talk about any current contracts. Things are changing and they're influx and there are commercial considerations between the various companies. But, for example, there was a Michigan study, University of Michigan study, which talked about how they contract. And it's easier to talk about that, because it doesn't reflect on any one company. And the way -- and you can see it again on page 31 of their brief. They arrive at a price and they arrive at a volume, but they're, for the most part, not committed to buy the volume. In some cases, there's a small minimum they have to buy. And this is, once again, influx. And I don't want to say I'm talking for all people always and what's going forward. Everybody has got their own situation. But, as a general matter, they arrive at a price. They arrive at a volume. They are not really agreeing to buy that volume. They are agreeing to buy something much less than that. But, this is more of a target that they're shooting at. And then if they come in above that amount, they have traditionally wanted to buy that, as if it was under the contract volume. And there has been some disagreement. There's even been some litigation, as I understand it, not that I've been involved with, but I understand it on this question. And that traditionally is how it has worked. So, if you're saying, is there a contract to buy some minimum amount with respect to a price, yes, that's probably a contract.

Now, as a whole separate issue in the terms and conditions, just to give you a little more idea of who has market power in the terms and conditions. For example, at General Motors, they will have provisions in there that will say things like -- once again, I'm going back to the study, not talking about any individual -- that says, we can get out of this contract for our own convenience. We can get out of this contract for any reason or for no reason. And that's traditionally in the terms and conditions according to, at least, this study, that General Motors likes to put forward, and presumably other automobile companies like to put forward. Now whether those are anybody's contracts right now, I don't want to reflect on, because, you know -- but we can certainly talk about this sort of an issue. But, that's in that study. But on the question of volume, for the most part, there's not a commitment to a volume.

COMMISSIONER LANE: Okay, thank you.

MR. NOLAN: Commissioner Lane, John Nolan, Steel Dynamics. I happen to be the only steel supplier in the room that was sued for breach of contract by an automaker, so I think I might be in a position to comment on this. The documents that we received from General Motors, which, again, all public information in the lawsuit, so I think I can speak to it. Hopefully, I don't inflame emotions on that side, but this is just a matter of fact. Documents provided, or let's say, were judged by Judge Schneltz as demanding, if you will, an unqualified right to purchase, but no obligation to buy. And it's very simple. Judge Schneltz was involved in contract law, as I understand it, for many, many years, and considered it one of the most lopsided documents he ever reviewed. And in most contract law, you need an equivalent commitment on both parties' part, in order to effect a contract that's enforceable. So, he ruled on that basis. It went to appeals court and it's public information that General Motors decided it was prudent to withdraw from the appeal. So, we won in our opinion, both at the circuit court level and the appellate level. And that's where we stand today.

MR. DIMICCO: Dan DiMicco, Nucor. The straightest talk as I can give you, for most of the last 30 years, a contract was not a contract. I'm not just talking about the auto folks. I'm talking about in general with other suppliers, other customers, and other industries. Contracts were in name only. They were very one-sided. I can't tell you how many times we had customers come back to us and say, we are not going to honor that contract. You have to lower your price. We had one customer, very large customer, very international, multinational customer, not in the auto business, in this case, three times within the first six months renegotiated a long-term contract with us. Why? Because spot market prices had changed and they came back to us, you either lower your price or we're taking the business away. And we sit there and say, wait a minute, the contract doesn't allow you to do that and it was too bad; that's the way it's going to be. And I can't tell you how many times that's the way things went with respect to contracts versus most of the steel producers over the last 30 years. And I'm not saying that's with everybody. I'm saying it was more that way than not and that's the reality of it. They were one-sided in nature.

I think that has changed and hopefully that will stay changed, where there is true partnership between supplier and customer and contracts are honored, as they're intended to be.

COMMISSIONER LANE: Okay, thank you. I have one more question, but I'll wait until the next round, Mr. Chairman.

CHAIRMAN PEARSON: Okay, thank you. Going back to the question that we had started earlier about, whether U.S. prices are higher than world prices and, if so, why, and are the orders, themselves, a reason that U.S. prices might be higher? What are your thoughts on that? I mean, if, indeed, that's the case, then we have a policy in place that guarantees that because of the orders, the United States will always be an attractive market for non-subject imports. And we, also, would have a policy that would put the U.S. users of steel at a competitive disadvantage to steel users in other countries. Mr. DiMicco?

MR. DIMICCO: Dan DiMicco with Nucor. The reality today is that these orders do not prevent any one of these countries from exporting steel into the

U.S. marketplace. What it does do, and it doesn't put any duties on them, unless they dump their product in our market. This is not an issue against imports. This is an issue that prevents unfairly-traded, illegally-traded dumped material into our marketplace, which they clearly demonstrated and was ruled on by the ITC twice now. And my point here is that this is not an issue of, well, gee, imports can't come in. They can come in. They just have to be fairly traded, according to the trading rules that we are all supposed to live by.

So, all of these countries can ship into this marketplace today and they can ship in at prices and they do, in many cases, at prices that are not dumped and cannot influence the marketplace. And they have, as I've explained to you numerous times in 2005 and are doing that again today. But, there's nobody that they -- none of these guys are preventing from exporting into the U.S. market.

CHAIRMAN PEARSON: So, is it your position that the orders are not a factor in the U.S. price being higher than the prices in some other countries?

MR. DIMICCO: That would be my contention, yes.

CHAIRMAN PEARSON: Mr. Schorsch?

MR. SCHORSCH: Yes, I think there's a structural reason for some price differentials, all else being equal, and that is we are, as we know, a major net importing region. So, we import a substantial amount of steel that's between this year almost 40 million tons or more; with the numbers that Dan cited, they are going to be 45 plus. So, a phenomenal amount of material that comes in, our market needs that material. If you assume, and I think we can say we are an industry that's very competitive; if the dollar comes down, it's even more the case. If you assume a competitive industry that has to import, the price in the domestic market will be more of an import parity price than what it cost to ship the material in from other regions. I think there's a structural reason, all else being equal, why you're likely to see somewhat higher prices here.

Without these decrees and these orders, you take even those competitive, let's say, equal cost producers in other regions, allow them to dump into our market, I think you'll see that import -- now, you'll able to sell below your home market price to cover the transportation cost difference and you would tend to bring that U.S. price level down to the level of the net exporting region, where it's an export parity price instead of the import parity. So, I think there's an underlying reason, a lot of factors drive it and move it around, but an underlying structural reason for that to be a case.

CHAIRMAN PEARSON: Okay. I appreciate that. I think that's a perfectly legitimate argument. I appreciate that. Mr.

MR. HECHT: If I could just jump in first. You seem to ask a question that sort of goes to the purpose of the law. And I guess I would say, from the standpoint of the law, what you're trying to do is remove unfair trade from the U.S. market, such that the prices that prevail in the U.S. market are based on market forces and market trade. So, if the question is, are the prices in the U.S. market going to be higher than the prices in a market characterized by unfair trade, then of course they are. That's the purpose of the law. But part of the purpose of the law, as well, is to disincentivize people from engaging in the type of behavior that leads to dumping, that tends to lead to these lower price levels in markets worldwide. So, I would argue through strong enforcement of the law, which is, of course, what you're statutorily instructed to do, you are discouraging the types of behavior that would lead to that type of pricing abroad, where it does occur. But, here, I think we are still in a world where you do have markets that are characterized more by unfair trade or excess capacity or market distorting practices. And are prices higher here than there? Yes, that's the purpose of the law.

CHAIRMAN PEARSON: Mr. Nolan, did you have a comment?

MR. NOLAN: Mr. Chairman, I believe that Mr. Hecht most eloquently made the point that I wanted to make. Thank you.

CHAIRMAN PEARSON: Okay. The European Union, is it also a structural importer or is it a net exporter? Does anybody know? Mr. Schorsch?

MR. SCHORSCH: I'd be winging it, so I hesitate to. I think --

CHAIRMAN PEARSON: Okay. Well, the reason for asking is that the EU, I believe, doesn't have antidumping orders against any of the subject countries. And so, I was just wondering how that market dynamics work there relative to here. Mr. DiMicco?

MR. DIMICCO: People behind me can correct me if I have this wrong, but I believe they are a net exporter. And there are a host of reasons why they may not be subjected to them, including side agreements that are negotiated between the EU and other countries relative to quotas and how much they can ship into their marketplace, what they're allowed to ship in without incurring penalties. That's done all the time in the EU.

CHAIRMAN PEARSON: Okay. Well, perhaps for purposes of the post-hearing, if you could shed a little more light on this, comparing the United States and the European Union, the market dynamics, the prices levels, because I think we'll have representations on the other side that the EU prices often are higher. And if we have a structurally quite different market there, I would be curious to know more about it and what your perspective is on it.

Different question. Do corrosion-resistant producers tend to be relatively more profitable when raw material costs are rising or when they're falling?

MR. GOODISH: Commissioner, John Goodish from U.S. Steel. I think that is more related to the amount of contract business you have than it is strictly to the raw material pricing. In a particular case we're talking about now, when we negotiate contracts back in 2002 and 2003, that go through the 2004, 2005, and, in some cases, 2006 time period, we cannot recover all of those rapidly increasing raw material prices. Just like in September of last year, even if you had an annual contract and you negotiated it, you saw a significant increase in natural gas prices. In the September through December time period, there's no way to recover that. So, it's just a matter of when you negotiate your contract and whether or not you have any provisions in there.

Today, we're all a lot smarter than we were two or three years ago. We will all put provisions in, if there's a significant change in raw material pricing, that there will be some avenue to recover it. Now, there will be resistance on the customer side. When you're selling a customer or potentially selling a customer a million tons of steel, and you're a 19 million ton customer, you may not sound like that's -- or a producer in the United States, you may see that -- think that that's not a significant volume; but, it is. So, it all depends on what your contract negotiations are with your customer, when the raw materials go up. Is it projected to go up? And whether or not you can recover the cost from that or not and whether you're going to make money on that or not.

CHAIRMAN PEARSON: Okay, fair enough. I can see in this industry, in particular, that contracts are very important and have got a lot of influence on the results that we've seen here over the POR. How about just on spot sales? Are those relatively more or less profitable? Mr. DiMicco?

MR. DIMICCO: Particularly those of supply and demand and typically when raw material prices are going up it's because demand has gone up and typically you are able to maintain or increase your profitability in those periods of high demand, unless something changes as supply/demand relationship, like a contract that you're stuck in for two to three years, where you're not allowed to change your prices, even though the raw material prices may have gone up by 200 percent. And that's part of the issue. But, in general, the experience has been that when demand is high, import costs can be high, but also the ability to get a better price is there, as well.

CHAIRMAN PEARSON: Right, okay. Well, I appreciate that, because that's much more in line with some commodity businesses that I'm more familiar with. But, I appreciate also the comment by Mr. Goodish about the imports and contracts here, because there's no easy, simple, straightforward answer to the question would be my takeaway.

Okay. Madam Vice Chairman?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman. I'd like to address some questions to Mr. Bates, who probably thought he was going to be able to stay all the way in the back there and not answer any questions. Mr. Bates, it's not entirely usual for us to see a service center appearing on the panel with the domestic industry in one of these cases. So, I'm going to start by asking you about your business. Do you sell only domestic product or do you, also, sell imported corrosion-resistant product?

MR. BATES: I would say that 95 percent of our product is domestically produced and the five percent that comes in, we get -- about two percent of it would come in from Asia and three percent from Canada. The balance of it is all domestically produced. And, again, most of this goes to automotive through -- where we are managing the supply chain. We purchase a lot of the material and sell it to automotive, but it's on a see-through basis, where we're working with a mill as a partnership and two of the mills represented here today are our largest partners, Steel Dynamics and Nucor, in providing that material to automotive.

So, I was requested by John Nolan to come in here and speak or answer any questions that you may have with the service center and how the supply chain works on these hearings.

VICE CHAIRMAN ARANOFF: Okay. Well, then let me ask you to give me more detail about this intermediary role that you're playing between the mills and automotive customers, how that works and whether that's the kind of role that other service centers typically fulfill.

MR. BATES: I would say, yes, that's the major auto service centers, which I would say would be Worthington, Steel Technologies, Heidtman Steel, Kenwall, and there's a few others out there, but I think I've touched on most of the major automotive service centers. Particularly, we're managing supply -- the supply chain. We are the ones that have to adhere to the just-in-time delivery in making the deliveries to the stampers and to the -- basically the stampers, not the assembly plants. If you look at a Nucor or an SDI or any of the mills, they like to roll the steel in volumes and they roll it in sequences, particularly the mini-mills. It makes the most sense for their profitability and to lower their costs. So, they may roll two months supply of one item in two hours and when it rolls, there's no place to store it at the mini-mills. It ships out the door to a service center. And then we take that product from there and, generally, it's a -- even though we sell steel, we're really a processor. We get our -- our income is from pickling, slitting, managing the supply chain, and then making sure we're meeting the just-in-time delivery.

But, there's a lot of our business that we're speculating on. We, also, have a percentage of our business that we're trying to -- we're speculating on steel, as all the other service centers do, trying to maybe buy steel on the downside and sell it when it's more expensive. But, we're in a situation of the last four months, which you've heard on the inventory, the service center inventories have exploded to historical highs right now, at the same time that the -- as you have also heard, that the domestic producers have reduced their build in the fourth quarter on some models 50 percent. And that's what I call the perfect storm. And you're -- even as we're here today, I can tell you the price of steel probably fell $20 a ton, while we're in these meetings, simply because of those dynamics. People have to make steel and there's really very little people out there that have any room to put steel right now in the service center industry.

So, it's a very trying time for the industry and I think this is going to last for -- it's going to take a long time to get inventory levels down to normal levels, which, depending on which part of the steel industry you're in, it's a different kind of inventory. If you're a general line service center, you typically can have, you know, three or four months of inventories when you're selling like a beam and an angle and a plate. But, if you're in the automotive supply side, you're optimum inventory is probably no more than 60 days and I think everyone right now is approaching 90 days inventory on the floor. So, the service centers wouldn't have to buy any steel right now and can continue to supply their automotive contracts until December or even January.

VICE CHAIRMAN ARANOFF: Well, let me just follow up on that, because that makes it sound like the relationship between the service centers, the mills, and the ultimate purchasers is a little different than I understood it to be.

MR. BATES: We're partners.

VICE CHAIRMAN ARANOFF: Do you -- so if the -- I mean, as I understood it, the mills and, in your case, the automakers negotiate an arrangement to contract for the supply of steel for a particular automotive part. And then who comes to you and gets you involved in the middle?

MR. BATES: It varies with each one of the big three that we're dealing with. General Motors has a tendency to -- will make a program to buy the steel from whoever they -- maybe they set up a program with Nucor to purchase x number of tons of steel at a certain price. Then, their resale -- they call that a resale program. They will sell that material to us, as it's rolled, and it comes into our facilities. Now, we will pickle it, slit it, or, in the case of our galvanizing plant in Monroe, will galvanize it and add all those costs in and the carrying charge for the inventory and an operating profit and that will be what we add on to the purchase price that they sold to us. Or they'll sell us something for $500 a ton and we'll turn around and sell it for $620 a ton delivered to them. So, General Motors is managing that side of the program and they expect us to do all the logistics and the processing and the value added.

VICE CHAIRMAN ARANOFF: Okay. So, when you talk about the need for inventory destocking by service centers, you're not describing the kind of inventories that you hold, where you're standing in between a mill that's produced something that's already basically under contract and going somewhere. I mean, I always understood inventories that service centers to be holding to mean things they basically bought on speculation to make spot sales.

MR. BATES: No. That's part of it, but -- for instance, the steel would keep on coming in to maintain that -- having the six to 12 weeks or depending on which automotive company, is you're required to have in the pipeline x number of days of steel for them. And if it's some of these huge volume, like the Ford F-150 pickup, which, you know, they make about a million of them a year, if all of a sudden the steel is coming in, it's already rolled at the mill. So once it's rolled, they have the agreement that they have to take it or that we have to take it. By the time the steel comes in and they start their cutbacks, which is not like they don't -- they don't give you a warning that they're going to chop their production by 50 percent. Now, all of a sudden, you've got these huge buildups in inventory. And this is for all the people that are doing all the automotive. But, you're right, the speculative inventory is the same thing. Plus, mills on the speculative inventory, when they were real busy in the first part of the year, I know one mill that we're real close with that -- like had a 200,000 ton late position when they came into July. Well, it's all caught up by the end of September. So, they didn't ship your stuff for two or three months and then they shipped your stuff for the current month and the past two months and the month that they rolled for next month. It all came in at the same time. And that's just -- it sounds crazy, but that's part of being a service center partner with the mills. But, it -- when everything is going in the wrong direction, you really have, I think, a serious issue right now in the steel industry, in the country. And, if anything, not keeping on these duties could really exasperate this problem and make it much more serious than it is.

VICE CHAIRMAN ARANOFF: Okay.

MR. BATES: You would have more steel coming in here.

VICE CHAIRMAN ARANOFF: All right. Well, thank you, very much. That's all been very helpful and to my great surprise, I used all my time. So, thank you, very much, for your answers.

MR. BATES: Thank you.

CHAIRMAN PEARSON: Commissioner Hillman?

COMMISSIONER HILLMAN: I hope at this hour only a few follow-ups. Just to make sure I understand this issue of the electro-galvanized versus the hot dipped, are there any applications for which hot dipped galvanized product cannot be used? When do you absolutely have to have electro product?

MR. GANT: Your question is -- this is Doug Gant -- is there any application you cannot use electro-galvanized?

COMMISSIONER HILLMAN: You cannot use hot -- or you must use electro-galvanized.

MR. GANT: Yes. There are some applications where for welding purposes, the coding composition of electro-galvanized welds easier. It's typically in only certain thin gage ranges. I think, for example, Ford Motor Company has been able to make the product interchangeable above a certain thickness, above, I think it's .7 millimeters, it's interchangeable.

COMMISSIONER HILLMAN: Okay. And how large a market is there for the product that, again, must be electro-galvanized?

MR. GANT: I would have to follow-up, but it's a small portion, because most panels are thicker than that.

COMMISSIONER HILLMAN: Okay. I appreciate that. Then another issue I wanted to make sure I understood, which is the issue of the, if you will, North American auto market. The Canadian producers have alleged that the North American market for automotive steel is essentially an integrated market with increasing trade flows in both directions between particularly the U.S. and Canada and automobile producers treating the Canadian and the U.S. producers as part of a single market. I'm wanting any of you that are in this to comment on whether you would agree that the auto market in North America has become an integrated market, in terms of sourcing steel. Mr. Goodish?

MR. GOODISH: Yes. I would not look at it as an integrated market. We do put bids out.

COMMISSIONER HILLMAN: I'm sorry, you would or you would not?

MR. GOODISH: Would not look at it as an integrated market. Auto manufacturers come to us and we bid steel -- or price steel based on specific models, not looking necessarily where they're going to be bid. We do have different arrangements that we have to make from a freight perspective on getting material into Canada. So, we're not looking at it as an integrated market. I think that would be dangerous on our part.

COMMISSIONER HILLMAN: Okay. Anyone else?

Mr. Vaughn?

MR. VAUGHN: Yes. I'd just like to make a legal point. I mean, as I understand their argument, their argument is saying when our customers tell us to ship this stuff into your market, that's not really harmful. That's not really an import. That's not really a dumped and subsidized import -- or dumped and unfairly-traded imports hurting you. And I just don't see legally why that makes any difference. I mean, we think that the evidence is very strong that the customers are going to tell a lot of these subject producers from a lot of these countries to ship into this market, if the orders are revoked. So, I just don't understand the legal -- I just disagree that the point that they are making is sort of legally relevant to what you all are supposed to be considering. The question for you is are the subject imports going to be significant. It seems to me their argument seems to indicate yes, subject imports will be significant.

COMMISSIONER HILLMAN: I appreciate the legal side. I was just trying to understand factually whether -- again, this issue of how you contract and how you price, whether it matters to you whether you're selling to a GM plant in Canada versus the U.S., whether your perception is that the auto producer treats this as a single market. Mr. Gant?

MR. GANT: Doug Gant. I think they would like to and I think from a practical matter, the transportation and so forth, it's a border that's easily crossed. But, from another matter, it is a different country. There are different trade laws. There are different currencies. And there are different costs of doing business for producers there, because of nationalized health care and other things. So, from a practical matter, as I said before, we ship to Mexico and Canada at the request of our customers and we do that to serve them, because its proximity is reasonable. But, it's not the same market.

COMMISSIONER HILLMAN: All right. Then, I wanted to follow-up a little bit on the discussion that you were having with Commissioner Okun, in terms of the crystal ball. I won't comment on the quality of everybody's crystal ball of forecast. But, I wanted to make sure -- I heard a lot of your responses on the demand side. I want to make sure I understand your sense of what you expect on the price side of it. I noted in Mittal's brief, there was an exhibit that, if you will, forecast declines in prices for hot-dipped galvanized, down from the 2006 levels. First, I want to make sure I get everybody's comment on whether you think that's likely to be the case over the next couple of years and, again, to what you would attribute those forecast for a decline in price over the next couple of years. Do you agree with it? To what degree is it attributable to a moderating of raw material prices?

MR. NOLAN: Commissioner, John Nolan, Steel Dynamics. I think it's very difficult, you know, for an electric furnace producer, particularly to look out that far and speak to raw material prices, other than the fact that they're extremely dynamic. They go up, they go down. You know, the whole concept of crystal balling, so to speak, is -- you know, particularly if you're trying to anticipate scrap prices or trying to project for a legitimate business reasons going forward, product prices. I look at my track record or the lack of maybe is a better way of describing it, I think it's very difficult to look maybe out beyond more than one or two quarters. And I would tell you that we see declining prices near term. I would like to believe prices will stabilize sometime in 2007. We see some strength in the market segments that we've discussed today, such as non-residential construction. We're hoping that the Fed makes a move on interest rates that will stimulate residential construction.

But, these are not carved in granite, so to speak. These may not happen. So, a forecast is just that. All it is, is an idea that you might have for the future; but whether it materializes is very difficult for anybody to guarantee or affirm or assure.

MR. GOODISH: Commissioner, I'll speak on behalf of U.S. Steel. I would rather talk about what we saw happening in 2006 and what actually happened in 2006. If we were to drop back in time and look at 2006 from 2005, and you've heard some of Joe's comments on CRU, we go back and we look at all kind of data from automotive forecast, CRU, what's going to happen with GDP, what's going to happen with industrial production, new housing starts, what's going to happen from the weight goods perspective, appliances, and all of that, we, in effect, said that business was going to be good in the first quarter and then it was going to start dropping off from the second quarter through the balance of the year. And we were going to see prices fall over that period of time.

That never materialized. What actually happened is we saw a rather strong market through about the May-June time period and, at the same time, we were seeing the escalating inventories in the service centers. We, also, saw that new housing starts start to fall off. And actually where we're going to end up, where it appears we're going to end up through the fourth quarter is the fourth quarter is actually going to be a little bit worse in actual practice in 2006 than what we thought it was going to be back in 2005. Now, from a financial perspective, we've done better for the first half of the year and we're pretty much on track for the third quarter, where we thought we might be. But the fourth quarter is going to be significantly worse.

So, we can end up projecting where we're going to end up being or where we're going to be in 2007 or beyond. But, really, there is just so many market forces that impact it, that nobody can tell you that for sure. And, you know, I think it was Dan, who made the comment, it simply is a matter of what the supply and demand is. If our customers can all do an accurate job of telling us exactly what they're going to do and if that happens, then the next time it happens will be the first time, then we can do a good job of telling you what we're going to do.

COMMISSIONER HILLMAN: All right. I appreciate those responses. Perhaps it would be helpful, though, if you could -- if all of the companies could provide the Commission with any data on any price increases that you requested from any of your customers and what actually happened in the post-June 2006. Obviously, we have all of the data through June of 2006. But, if, again, trying to make sure we understand what these price trends are and what they might mean going forward, if there is specific data that could be provided, in terms of, again, what, if any, price increases you saw, what you were able to achieve, that could be put on the record, I think that would be helpful, in terms of answering this what do we think prices are going to do in the near term.

Mr. Lighthizer?

MR. LIGHTHIZER: I presume you're not going to ask another question. I just thought I would like to very briefly address this Canadian question and I wanted to wait until you had used up your time before I did. And that is whatever --

COMMISSIONER HILLMAN: Just because you want to get me in trouble with the Chairman. I know, Mr. Lighthizer.

MR. LIGHTHIZER: No, I'll talk quickly. Whatever your judgment is on this one market with Canada, which we don't agree with at all. There, also, is a very large segment of shipments coming in from Canada through resellers. If you look at Dofasco's numbers and Stelco's number and Sorevco's numbers and compare to census numbers, you will see that there's a very large -- we can't get into the number size or the number, but, it's large, it is damaging, and it is a matter of great concern to us. It is something I would direct you to, as you sort of analyze the U.S.-Canada problems.

COMMISSIONER HILLMAN: No, I appreciate that. Thank you. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman. For the record, Madam Secretary, this is only the beginning of the fourth round, not the fifth round.

CHAIRMAN PEARSON: Madam Secretary, I think you better not try to record which round it is for Commissioner Koplan. We might have a hard time figuring that one out.

COMMISSIONER KOPLAN: Thank you, Mr. Chairman. I will try and be brief. First, I would like to follow-up to Commissioner Hillman's question regarding Canadian Respondents on the issue of -- going to the issue of cumulation. They spend the first 15 pages of their brief making the argument that we should decumulate Canada from the other subject countries, because they have an entirely different pattern of competition for Canadian imports than for imports from any of the other subject countries. And that phrase appears on page 15 of their brief. What I want to ask you is, are there any unique conditions of competition involving the trade with Canada that they describe in that portion of their brief that would diminish the likely overlap in competition between subject imports from Canada and subject imports from other countries, such that Canada should be decumulated?

MR. NARKIN: Commissioner Koplan, this is Steven Narkin. If I could speak to that briefly. The short answer to your question is no.

COMMISSIONER KOPLAN: I understand that.

MR. NARKIN: As I'm sure you're aware --

COMMISSIONER KOPLAN: I would like you to give me a little more though, if you would.

(Laughter.)

MR. NARKIN: Yes.

COMMISSIONER KOPLAN: Thanks.

MR. NARKIN: The major difference that they've identified between imports from Canada and imports from the other subject countries is that they have ability to provide things like just-in-time delivery. That may give them an advantage over some of the other subject countries, but that is not a reason for you not to cumulate imports from Canada. If you keep in mind what the purpose of the statute is, cumulation is designed to allow you to take into account the hammering effect of imports from different sources. What they're telling you, in essence, is that the Canadian hammer is a little heavier than the other hammers and that, to us, clearly is not a basis for not cumulating imports from Canada.

COMMISSIONER KOPLAN: Thank you. Mr. Price?

MR. PRICE: I would add when you get to this just-in-time argument, because of service centers and service center activities here, they, in essence, function and provide that just-in-time service for all of the other import sources that are offshore.

COMMISSIONER KOPLAN: Okay. Anybody else? If not, thank you. I'll move to my last question. This is for Mr. Gant, Mr. Schorsch, and Mr. Goodish. Respondents claim that the lower financial performance of the five domestic auto corrosion resistant steel producers and other producers is not because they primarily supply the automotive sector, but rather is really the result of their not restructuring. That's at Joint Respondent's brief at page 69 and Japanese Respondent's brief as pages 79 and 80. Would you respond for the record? Mr. Gant?

MR. GANT: Yes. I would say that the return on the sales to automakers of corrosion resistant products is because of the prices and the contracts, which were not able to respond to input cost increases, which, as I testified, have gone up dramatically.

COMMISSIONER KOPLAN: Mr. Schorsch?

MR. SCHORSCH: No, I would agree with what Doug just said. I certainly feel like I've been restructured.

(Laughter.)

MR. SCHORSCH: So, I think --

COMMISSIONER KOPLAN: Mr. Goodish, do you have anything you want to add to that?

MR. GOODISH: I will attempt to be diplomatic. We combined -- in 2003, Leo referred to the restructuring that took place. We acquired the National Steel facilities out of bankruptcy and they had some contracts with some of the customers that where at extremely low prices at the time and we continued to honor. But, today, we have 20,000 employees domestically in the United States, after we picked up about eight million tons of capability from the National facilities. We have fewer employees today in the United States, a 19-million ton company, than what we had in 2003 prior to May, when we were a 12-million ton company. Not just that we reduced our administrative -- our United Steel Worker workforce, we, also, reduced our management workforce. We have had significant restructuring. The way we schedule our facilities today is entirely different than what we had done before. Anyone, who looks at our performance, and says that you have poor performance because you have not restructured is out of touch with reality.

COMMISSIONER KOPLAN: Thank you. And with that, Mr. Chairman, even though my green light is on, I have no further questions.

CHAIRMAN PEARSON: Good work. Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman. I want to return to where I was at the end of my last round, Mr. Lighthizer, and you had started responding -- or started talking about why the Japanese would come back into this market and the arguments that have been made by the domestic industry with respect to existing relationships. The transplants are here. They sold them a lot of material before the order.

The Japanese Respondents have argued that things have changed; have argued that at the end of 1993, the transplants were already transitioning to, want to source from domestic steel sources; that the just-in-time delivery is important; and would continue to mean that most of the product is sourced domestically and that it's also important for domestic production under the NAFTA. And for those reasons, among some others, they say that there would not be the incentive to come into the U.S. market. The final one, which I do want you to comment on, as well, is that they, also, note that four out of the five Japanese producers have investments in the United States and they would not jeopardize those investments by bringing in product from offshore.

I would like you to comment on that and for post-hearing, if you -- I would like you to comment on it here and then also for post-hearing, if you could look at the forklift trucks case and tell me whether you think it's the same or different in this instance. But, if you could comment on that right now with regard to Japan in the U.S. market. With your microphone, it would be helpful.

MR. LIGHTHIZER: I actually thought I was going to get through an entire hearing without speaking with -- without the microphone off, but I didn't; sorry. The Japanese had investments in the United States before they started this whole thing in 1993. And the fact is, they did spend a lot -- they did ship to this market. They, also, have a lot of export markets that they're being pushed out off. Whatever you think about the Japanese, they make great shipments and they ship about four -- they export about four million tons somewhere, whatever is going on. They have ready relationships right now with U.S. suppliers. The idea that somehow because they have invested here, they're not going to do it, we think is not true, because, in fact, they had them in 1993 and still shipped at that point and still took a large market share. I would also point out, as one who was here sort of from the beginning, the fact is that the Japanese took a position that the U.S. couldn't even supply this kind of steel. We weren't qualified. When we won these cases in 1993, within about two months, they discovered that companies like U.S. Steel and others, in fact, could make the steel.

I cite that as sort of evidence of the fact that I believe, at least, the Japanese automobile companies want to buy steel from the same people they buy it from all over the world; that is to say Japanese steel companies. And I, also, think that the Japanese will try to get into other parts of our market. So, yes, I don't -- I mean, from my point, at least, I don't buy the argument at all. And I don't think there's any historical record that they would stay out.

COMMISSIONER OKUN: Okay. And then -- Mr. Hecht, did you want to respond to that or were you just --

MR. HECHT: Well, I'll just add a couple of short things. I'm not aware that they could not provide just-in-time inventory in the U.S. Others maybe could comment on that, sourcing steel from Japan. They're shipping a lot to Mexico right now, as I understand it, as well. So, this idea that they're not interested in shipping across the ocean doesn't make a lot of sense to me. And they have a lot of excess capacity and are getting much lower prices and a lot of the export markets they're selling to, in terms of what the pricing data that you show is for some of those markets, it just doesn't make a lot of sense.

COMMISSIONER OKUN: Okay, then, Mr. Price?

MR. PRICE: I'll just come back to the point I made earlier, that this whole just-in-time argument is a bit facetious, because that's what the service centers do provide, that flexibility, and there are plenty of Japanese relationships with the service centers in this industry to supply this market.

COMMISSIONER OKUN: Mr. Scherrbaum?

MR. SCHERRBAUM: Yes. I was just going to say the same thing, that there are Japanese service centers and trading companies that have an infrastructure together that can handle this market, as they're doing in Mexico, as well as Mr. Hecht referred to.

COMMISSIONER OKUN: And I will have the opportunity to ask them about the Mexican numbers when we get to the next panel, which we will. Hold on back there. Yes, someone else wanted to comment?

MR. NOLAN: Yes, Commissioner Okun, John Nolan, Steel Dynamics. It occurs to me that if the Japanese Respondents are not interested in this market, then they should be indifferent to whether you continue the orders or not.

COMMISSIONER OKUN: If they don't show up, everyone argues you ought to keep the order. So, I'm not going to even go down that line of questioning.

But, okay, Mr. Lighthizer, since you were here in 1993, I, obviously, have looked and will look back at the original investigation, but in the original investigation, Japan was cumulated with the other countries.  For purposes -- well, I'd like your comment on one thing, which is in the original investigation, do you think the pricing by the Japanese was different than the other subject producers?  In other words, the Commission cumulated and found significant price effects.  But was their pricing similar to the other subject countries?  You can look at this post-hearing, as I will be doing, as well.

MR. LIGHTHIZER:  It may be something that I should -- my recall is fading.  It was better at 4:00 than it is now.  It was better at 3:00.  I don't really -- honestly, I don't remember what their pricing was, at this point.  I will be happy to look at it and comment on it.

COMMISSIONER OKUN:  And, actually, if you could do that post-hearing.  And I will make this request, which is, if I do not exercise my discretion to cumulate all the subject countries, if you could brief the individual countries on whether -- on their own, they would be likely to cause material injury --

or material injury likely to recur.

MR. LIGHTHIZER: Absolutely.

COMMISSIONER OKUN: Okay. Mr. Price?

MR. PRICE: We would be happy to also brief that. But, I just would like to go back to one reason, one thing here, the Japanese prices are extraordinarily high and robust, also quite healthy. So, if you want to understand why they want this order here -- why they want this order off, it's because they can't ship in right now with this order in place without paying significant duties. So, they will -- this order is very material in holding them in check.

COMMISSIONER OKUN: Okay. Did I get all the comments with regard to Japan? No? Please identify yourself, please, if you could?

MR. ALVARADO: Pete Alvarado from U.S. Steel. We're actually right now being replaced on several pieces of business in Mexico, parts that we supply today, by Japanese mills.

COMMISSIONER OKUN: This would be parts to auto companies?

MR. ALVARADO: Yes, it's automotive.

COMMISSIONER OKUN: If you haven't already supplied that information, if you could put that in the post-hearing?

MR. ALVARADO: Absolutely.

COMMISSIONER OKUN: Okay. I appreciate that, very much. Let me return to my first question, which I didn't put very well, probably because it was the last number that I looked at before I walked in the hearing. And this is what I'm trying to understand in the brief, there is emphasis on the excess capacity of foreign producers. And taking your point, Mr. Hecht, that in the statute, we have to look at their capacity and inventories. But, I've seen lots of cases up here, as you have, as well. I guess what struck me about the number of the excess capacity by these subject countries, relative to the excess capacity in the United States, and relative to other numbers I've seen, it didn't seem like a huge number. Is it significant? Is the excess capacity and inventories significant in this case? That's what I'm trying to understand. Yes, Mr. Vaughn?

MR. VAUGHN: We would say it's very significant. We would say that what you are supposed to look at, when you look at the concept of excess capacity and excess inventories, you're supposed to be looking at what is the likely volume of subject imports that should come into this country. A lot of times, the other side, they try to make the argument that unless they're shipping 50 percent of their production to this market, thus they abandon all of their other customers and all of their other markets and only ship here, that the volume is not significant. You found in 1990 to 1992, that they held 14 percent of this market; 1.9 million tons in 1992, you held that that was significant, because you held it had significant volume effects, price effects, and the impact on the industry.

So, when you compare -- the relevant comparison is between what sort of excess capacity in numbers are they reporting and what sort of volume, in the context of a 20 to 22 million ton market, would be enough to have a significant impact on these companies. Now, we think that when you make that comparison, it's not even close, that the type of numbers that you're looking at are significant and would be significant.

COMMISSIONER OKUN: Okay. I appreciate those further comments. I have two post-hearing requests. One is with respect to the two documents in the Skadden & Arps charts here, Chart Number 6, which is the POSCO document, and Chart Number 9, which is the prices in other markets, for post-hearing, if you could comment on why you believe -- and I've heard some of the testimony today -- why you believe we should use those sources, rather than the sources that we have collected and have used in a number of the other sunset reviews, with respect to pricing in other markets and also with regard to demand and consumption projections, whether the sources we use are more -- something that the industry relies on or not. Just, if you could make a comment on which one is better, that would be helpful.

MR. LIGHTHIZER: We can do that, Commissioner Okun.

COMMISSIONER OKUN: Okay. And then my last post-hearing question is we've had -- there was a lot of discussion, which I appreciate, about the non-subject imports. As counsel is aware, the Federal Circuit issued a decision in Bratsk, which was a material injury investigation, not a sunset. But in all the sunset cases, I have asked counsel to brief whether the analysis that the Federal Circuit asked the Commission to go through should apply or should have applications in a sunset review and particularly because in the recent line paper products case, three Commissioners, including myself, did apply it in a threat context. And so just for post-hearing, if you could give me your views on non-subject imports and how we should take them into account.

MR. LIGHTHIZER: We would be happy to do that, Commissioner.

COMMISSIONER OKUN: Okay. And with that, I don't have any other questions. I really want to thank all of you. I know it's a long day. We still have plenty of energy for the next panel. And I do think that the answers you give and our ability to question you is extremely important in these. So, thank you.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: At the end of the last round, I had one question. Now, I have three. Going back to the contract issue, if the producers have entered into a contract with an automaker based on price, based on volume, and then the automaker comes to you and says, I don't care what the contract says, I want to buy it at this price. And your response is that you've got to agree with that; otherwise, the automaker will go someplace else to get the product. Will the automaker go to another domestic supplier or will the automaker go to a subject country or a non-subject country? What has been your experience? Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor. All of

the above.

COMMISSIONER LANE: Okay.

MR. SCHERRBAUM: Joe Scherrbaum with U.S. Steel. Probably, they would go to wherever they had the lowest price.

COMMISSIONER LANE: And so, it's possible that those of you on this panel would be competing with each other, if a dispute arises as to whether or not the automaker is going to buy into a contract.

MR. NOLAN: Commissioner Lane, John Nolan, Steel Dynamics. That was exactly the circumstance in the wake of our squabble, so to speak, with General Motors.

COMMISSIONER LANE: Okay, thank you. My next question is, have the investments that have been made by the U.S. industry during the review period been predicated upon the continuation of the antidumping countervailing duties? Mr. Goodish?

MR. GOODISH: Yes.

COMMISSIONER LANE: Mr. DiMicco?

MR. DIMICCO: Mr. DiMicco, yes.

COMMISSIONER LANE: Mr. Schorsch?

MR. SCHORSCH: Yes, and I'll add, again, that our -- as I described before, we really have only made one, I'd call it strategic investment and that was, in fact, in this product category and it was very much dependent on the expectation that these orders would continue to be in effect.

COMMISSIONER LANE: Okay. Anybody else want to respond to that? Mr. DiMicco?

MR. DIMICCO: I'll add one thing to that. Not only did we do it based upon these orders staying in effect; but, also, that future cases, if they were necessary, would be filed and won against other countries that would be abusing the trading laws into this country, including China at the WTO.

COMMISSIONER LANE: Okay. Anybody else want to respond to that?

MR. NOLAN: John Nolan, Steel Dynamics. I concur with Mr. DiMicco.

COMMISSIONER LANE: Okay. My last question is, please comment on how the Commission should take into account and the relevance of the testimony and arguments that we are going to hear later this evening from the auto industry in this proceeding, is the Commission precluded from considering the impact of subject imports on consumers, purchasers?

MR. HECHT: Commissioner Lane, Jim Hecht. I'll start. I think you are precluded from considering the impact on the consuming industry, as part of your analysis. Obviously, they have the ability to appear and have appeared in a number of cases to offer testimony with regard to market conditions or other things that could be relevant to your analysis. But, I think, absolutely, you are prohibited from addressing anything other than the statutory test, which is whether injury is likely to recur to the domestic industry before you.

MR. PRICE: I concur with that.

COMMISSIONER LANE: Okay. If nobody has any answer to the contrary, Mr. Chairman, that is all that I have.

MR. LIGHTHIZER: Commissioner Lane?

COMMISSIONER LANE: Oh, Mr. Lighthizer?

MR. LIGHTHIZER: This is not to the contrary, Commissioner. I would just not that I think that there is almost no disagreement on this. Indeed, the auto companies spend a lot of their energy in Washington, trying to get the law changed, with no success. But, I don't think there's any disagreement about this -- on this part.

COMMISSIONER LANE: Okay, thank you.

MR. LIGHTHIZER: I mean, I don't know why they would be trying to get the law changed, if they thought they were permitted to do it right now.

COMMISSIONER LANE: Okay, thank you. Thank you, Mr. Chairman. That's all I have. I want to thank the panel for being so knowledgeable and with a good sense of humor this afternoon. Thank you.

CHAIRMAN PEARSON: For purposes of the post-hearing, I would like some comment on the question of whether companies that produce multiple steel products and sell multiple products to auto companies ever negotiate prices on a group of products at once. What I want to understand is whether corrosion resistant is a standalone negotiation or whether possibly corrosion-resistant steel is a lost leader in a package of other products, in which you make huge profits on something else. I think I probably know the answer. I don't want to take a lot of time to discuss it now. But if for purposes of the post-hearing, I could ask that counsel would clarify that.

MR. HECHT: We will.

CHAIRMAN PEARSON: Thank you. Then, I have a live question, which I hope is my last one. If you look back at the period of review, there was a time when the domestic industry appeared to be injured and, of course, subject imports didn't have anything to do with it. You look at 2001 to 2003, when they weren't dumping, and the industry did not do well. Mr.

Schorsch, in Mittal's brief, you indicated two issues that cause you some concern looking forward. One is that the domestic industry might overexpand and injure itself, if you will, and the other is that non-subject imports could increase to the point that they would cause damage to the industry.

Assuming that some of that must have happened, plus probably a drop in demand within the POR, as we look ahead and try to figure out what's likely to happen in the future, why is it that we would think lifting this order would make any difference? I mean, this is an industry that has some ups and downs to it anyway. Given the changes in the global and national steel economies, why do the orders make a difference?

MR. SCHORSCH: I think it's pretty late in the day to tee that one up. But, I guess my response more broader is I look at the downturn and really the cataclysm that hit the industry in 2000-2001. Obviously, there are a lot of factors behind that. You can say that that happened even with the orders in place, and that's true. But, I think this was the result of really a generation of declining performance, import pressure, a lot of factors that basically culminated in this phenomenal wave of bankruptcy. Leo mentioned 50 some companies. The way I like to think of it is if you look across NAFTA, 17 integrated producers, 13 of which went bankrupt within that period. So, I think it's a much more complicated issue. As we've described, I think we're in a -- you can see some glimmers of recovering from that situation. This is a product, I think as John and others have stressed, is really the most value added, most demanding force, at least at the high-end corrosion resistant steels. It's the future for the industry to a very great extent and I think that recovery is too fragile to say that it's a right moment to remove those orders. So, I do think that -- again, it's future facts, but the recovery is not established enough to say that it warrants those orders being removed.

MR. DIMICCO: Dan DiMicco, Nucor. No doubt, the economy in this country and the world ebbs and flows and no doubt that what took place in 2001, 2002, and 2003, was impacted by imports and the only thing that gave us some breathing room was a 201. And what changed and brought the industry, started to come back out of it was the up tick in demand, not only here, but in the world. We will always compete with one another, okay, and we will always compete with fairly-traded imports. And I have no complaints about that. And down periods in the economy, it will be tougher and we will not make as much money. In up periods of the market, it will be -- demand will be stronger and we should be making more money.

What happens is the willingness of countries around the world to engage in dumping; not only makes the bottoms more catastrophic, as what took place in 2001, 2002, and 2003, and earlier in the late 1990s; but, also, that when we are in a period of peak demand, that the willingness to dump product into this marketplace, way below their home market prices or below their cost of production, will take the peak opportunities away from the industry and that was what really did the industry in, in the late 1990s and early 2000, because we should have been in a period where we were able to compete fairly and have a strong demand and be able to do well. But, what happened was there was a flood of imports that drove prices down to dumped levels and the willingness to continue to drive them down past those levels. And that is what is really the issue here. And the willingness of these countries to participate in that, time and time again, is clear and these orders need to be upheld, and there may be new orders that have to be in place against some of the folks that are -- may be engaging in that in the future, if that trend repeats itself.

CHAIRMAN PEARSON: Right, I understand. But, the real damage that we saw during the period of review was some eight to 10 years after the orders had gone into effect. So, the damage from imports, at least from subject imports, is a little hard for me to find in this record.

MR. DIMICCO: The damage -- the original review stemmed from one period of time; but, that same problem was there going forward from other countries and other products. And we're talking about -- the industry, as a whole, was your question. And that's what was impacting the industry, as a whole.

MR. NOLAN: Mr. Chairman, John Nolan, Steel Dynamics. The Department of Commerce believes that injury will reoccur. Why would we not -- if you look at the statistics -- to answer your question, differences, maybe up to a million tons of fairly-traded imports from the subject countries versus two million tons of unfairly-traded imports, there's a huge difference in terms of market impact. Again, I reiterate, the Department of Commerce believes it is highly likely that dumping will reoccur. Why should we not?

CHAIRMAN PEARSON: If I could clarify, the Commerce Department determines only the margins and we are the ones that determine injury. So, the Commerce Department -- we stay out of each other's line of work. Okay, Mr. Lighthizer?

MR. LIGHTHIZER: And, Mr. Chairman, I would just add that there's no guarantee when you have orders in place that you're never going to lose money. You're never going to have bad times. The fact is these were real tough years globally for the steel industry. It's our view that without these orders, we would have been stoned to death. It would have been much, much worse. And the only reason that we just took on water and didn't sink was the fact that we had these orders.

But, it certainly is not in our view that we're guaranteed to make money forever, because we have these orders. That's not how the law is supposed to work and it's not how we want it to work. If we have a bad time, this makes it less bad, because it stops unfair trade in our market from these people. But, we can still lose money in a circumstance like this and, in fact, that is what you saw happen in 2001 and 2002. But, it would have been far worse without these orders and with unfair trade in the market.

That's our view.

CHAIRMAN PEARSON: Okay. Any other comments? If not, I, too, want to thank you, very much, for your tolerance and perseverance and your good responses to the questions. This has been, I think, a most interesting and engaging discussion. I have no further questions. Madam Vice Chairman?

VICE CHAIRMAN ARANOFF: I actually don't have anymore questions for this panel. I was going to say, I have no further questions. But, I actually have dozens of them. They're just for the other panel. But, I do want to join my colleagues in thanking this panel for your forbearance and I hope you don't all get to go off and have a drink now and stay with us for the rest of the evening. We can all go out for drinks about midnight or whenever we wrap up. Thank you.

CHAIRMAN PEARSON: Commissioner Hillman?

COMMISSIONER HILLMAN: I, too, have no further questions, but do want to thank this panel, very much, if nothing else for your stamina, as well as for your answers to our many questions. It's much appreciated and a lot of very good information was conveyed. And we do thank you, very much.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: No, I have nothing further, Mr. Chairman.

CHAIRMAN PEARSON: Any other questions from the dias?

(No further questions from the dais.)

CHAIRMAN PEARSON: My goodness. Do the staff have any questions?

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Chairman Pearson. Staff have no further questions, but would like to request that any company that submitted a no response to a Commission questionnaire, review that response and, in light of today's testimony, revise the response, as appropriate. Thank you.

CHAIRMAN PEARSON: Do opponents of revocation of the -- rather supporters of revocation of the orders have any questions for this panel?

MR. MCCONNELL: Mr. Chairman, Mark McConnell on behalf of the auto producers. I will resist the temptation, in light of the hour. We have no questions.

CHAIRMAN PEARSON: Okay. And Mr. DiMicco, did you have a comment?

MR. DIMICCO: Yes. I thank you for your recognition of the stamina on our part, but the stamina on your part is really something that we appreciate very much, because your day is still continuing. And we appreciate your attention to this matter. Thank you.

CHAIRMAN PEARSON: Thank you. This panel is excused.

(Panel excused.)

CHAIRMAN PEARSON: And let me just advise, as we're switching panels, that I had mentioned earlier today that we had hoped around 6:00 to take a break. We will take the break at the conclusion of the direct testimony of those in support of revocation.

(Whereupon, a brief recess was taken.)

CHAIRMAN PEARSON: Okay. I think we are convened. I had mentioned in my opening comments that this was day one of our hearings. Some of you may think we're starting on day two, but not quite. We're making good progress. We're heading in the right direction. Who is starting here? Mr. McConnell?

MR. MCCONNELL: We'll be starting. Could I just clarify before we begin, Mr. Chairman? I didn't have a chance to check with the secretary. We have a time allocation between us. I just want to make sure that we're going to be separately timed.

CHAIRMAN PEARSON: You're separating the time into --

MR. MCCONNELL: We are, yes. Let me --

CHAIRMAN PEARSON: Sixty minutes per parties and 15 for --

MR. MCCONNELL: Actually, we have a different allocation that we worked out, which I would like to -- if I could just talk to the secretary for one moment.

CHAIRMAN PEARSON: Please clarify with the secretary, yes.

MR. MCCONNELL: Thank you.

(Pause.)

MS. ABBOTT: Mr. Chairman, we are in agreement on the time allocation. I will notify counsel of time limits when they're approaching. And, also, all of the witnesses have been sworn.

CHAIRMAN PEARSON: Excellent. Mr. McConnell, please proceed when you've mopped up the water and are ready. Is there a shortage of paper towels? Is the market adequate --

MR. MCCONNELL: Suddenly, there was a shortage of paper towels here, yes. We will give a soggy recitation here, if we can. We're ready? Okay.

Good afternoon. I'm Mark McConnell with Hogan & Hartson. With me today are Louis Lewis Leibowitz and T. Weymouth. We're appearing on behalf of DaimlerChrysler Corporation, the Ford Motor Company, General Motors Corporation, Honda of America Manufacturing, Nissan North America, and Toyota North America. I would like to just thank the Chairman for his request at the beginning of this afternoon's hearing to calm the tone. I have to say, we frankly were disappointed by some of the statements this morning from both sides. And we actually believe that we do have a partnership with the U.S. steel industry. You might have concluded from this morning that it's gotten a little bit rocky and probably would rather not be in the position of marriage counselors between us. But, we very much believe that we have a bright future together with our U.S. steel suppliers and we, also, happen to think that they're ready to face competition. We're here to provide our views on the marketplace.

The case before you today is very different from the Commission's proceedings in 1993 and 2000. And what is different is the steel industry, itself. It is fundamentally transformed from the industry you examined just five years ago. This transformation, combined with the performance that you've seen in the facts of this investigation mean that a recurrence of injury is not likely to result once these orders are revoked. In our brief, we stressed three developments: concentration, cost reduction, and demand growth, consolidation.

The transformation of the steel industry has consolidated U.S. production into the hands of very few companies. Just three companies effectively control the market for automotive quality, corrosion-resistant steel. These companies now have the power to push through price increases and to restrain production to maintain prices in down cycles. They have used that power to lock in high prices with our industry that will benefit them throughout 2007.

Cost reduction: the restructuring of the industry, including the U.S. government's absorption of nine billion dollars of pension obligations has significantly reduced the industry's costs. That means they can be profitable at lower prices and importantly, it means that they, also, can operate profitably well below full capacity. They can and do profitably restrict supply when prices fall.

Demand growth: all of this has taken place during an upsurge in global demand for corrosion-resistant steel, demand so strong that the U.S. producers, themselves, have made well calculated decisions to invest hundreds of millions of dollars to expand their capacity. The result of this is a healthy industry. But another result is less competition. And competition doesn't just mean price. It means willingness to meet demanding delivery schedules, the willingness to develop innovative new products, the willingness to make small volume runs of important parts. In short, it means the willingness to support the U.S. auto industry as a world class producer. Competition is what creates that willingness.

We think the most important issue before you is to examine this transformation and the implications of it for your decision. To help in that, we have executives from all six companies, sworn and prepared to answer your's and the staff's questions. Four of our witnesses will offer direct testimony. And our first witness is Susan DeSandre of Ford.

MS. DESANDRE: Good afternoon. My name is Susan DeSandre. I am the director of body and chassis purchasing, North America for Ford Motor Company. I have been with Ford for over 20 years and involved in Ford's steel purchasing since February 2002. On an annual basis, I oversee purchases of about $15 billion, including all of the flat-rolled steel that Ford buys. Thank you for the opportunity to share Ford's views on this important issue.

In my position, I am responsible for delivering Ford's overall purchasing strategy. This strategy has four key objectives: ensuring quality, controlling costs, establishing continuity of supply, and maintaining a healthy supply base. A healthy supply base is very germane to our discussion today. We, at Ford, and I, personally, given my experience with the steel industry dating back to 2002, understand that our own success must not come at the expense of our supplier partners. When I arrived in my current position in 2002, over half of our steel suppliers were in severe financial distress and by the end of 2003, four were in bankruptcy. As a result, Ford faced significant supply disruption and struggled to get the steel it needed to assemble vehicles. That was an unhealthy supply base and one that disadvantaged Ford's competitive position. Ford would not be here if we believed that revocation of these orders would lead to a return to those conditions.

So, why is Ford confident that the steel industry would not suffer injury if the orders are revoked? Firstly, because we have completed internal analysis, which we would be willing to share with the Commission, that shows North American integrated producers are earning a minimum of $120 per ton profit on corrosion-resistant steel at current raw materials prices and current market pricing, an approximate 15 percent return on sales. We have reviewed the elements of this model with all of the mills and some of them have confirmed it is quite accurate.

Secondly, we're confident that the steel industry won't suffer injury if the orders are revoked, because we have experienced dramatically different behavior from the suppliers, behavior that demonstrates strength and market power and a fundamental shift in the market. Prior to the steel industry consolidation, the steel industry valued the stability of Ford's high volume contract-based business. It was worth it to the suppliers to commit to a certain price, in order to ensure a certain volume of ongoing business. In contrast, steel suppliers are now so confident in the future of the market, even with current record high prices, that they have fundamentally changed the behavior in the market. For example, starting in 2004, our suppliers have shown reluctance to enter into long-term contracts. That's a big issue for us. Vehicles have a multi-year life span and we need some certainty on costs in order to plan our business. Long-term contracts, which used to involve flat or declining prices, now come at a price premium, if at all. This demonstrates the steel industry's confidence in the future of the market.

Steel producers have also started to limit the volumes they will sell us under contracts in contrast to past steel contracts which asked for guaranteed minimums.

We have also had suppliers decline to bid on certain orders and not just small volume lots. They have been quite open that this is because their other business is more profitable. And they are doing this at a time when we are paying record prices, as detailed in our confidential brief. In fact, our most recent contract with one corrosion-resistant supplier is at more than 40 percent higher prices than our 2002 agreement.

There is good reason for the steel industry's confidence in the future of the market, the steel industry is in a much better position to control supply and the industry expects very strong demand to continue. The steel industry is in a dramatically different position than in 2000. We are seeing high prices and restricted volumes now in 2006.

Mr. Mohatarem will show you next that world vehicle demand is going to increase dramatically by 2010 and U.S. production will increase as well. If you do not revoke these orders now we will have to find steel for that demand with these restrictions in place. We urge you not to wait till 2010. We urge you to revoke the orders in this review.

Thank you.

MR. MOHATAREM: Good afternoon. My name is Mustafa Mohatarem. I'm the Chief Economist at General Motors Corporation. I am responsible for assessing the effects of worldwide economic development on the corporation and advising in competitive and economic policy issues.

This afternoon I would like to talk to you about the forecast demand for vehicles and for corrosion-resistant steel. We expect demand for both to grow, let me show you why.

First, let's look at global vehicle sales. The slide shows long-term growth for 2005. As you can see, global sales have grown steadily. Global sales exceeded 65 million unit last year. This growth is a fundamental trend. It is part of what is driving strong global growth in steel demand.

Now here is our projection for the next ten years. Global sales are forecast to increase by ten million vehicles over the next five years. Ten million vehicles is nearly two-thirds of the current annual North American production. That growth will be driven by markets like China. In just five years the Chinese market has almost tripled from two million to six million units. We project it will grow another four million units in the next five years.

Strong demand growth for autos means strong demand growth for corrosion-resistant steel. And the fact that demand growth is so strong outside of North America means that foreign steel producers are quite focused on serving that demand. The chart looks good for growth but it also underscores the urgency of your review. You are making a decision for the next five years. In five years we will have to find enough steel globally to build ten million more vehicles per year.

Let's look at vehicle production in North America. Some of the briefs submitted to the Commission emphasize the vehicle production cutbacks at my company and some others as a risk factor for steel demand. I urge the Commission to recognize two points: first, what matters for steel demand is total North American production, not one company's production. We are in a with our competitors for market share but North American auto production as a whole is basic.

Second, projections are for North American production to remain stable to slightly down over the next six months but then we're projecting that it will grow steadily. Wards, which was quoted in the previous testimony, which is a well-known auto industry publication, shows production dipping slightly, less than 2 percent in '06, stabilizing in '07, and growing steadily from 2007. This is the same data that Mr. Scherrbaum of U.S. Steel relied on this morning. But I've shown you the next five years. If you get the past to recent headlines and look at the whole industry you will see growth not declining.

Let me finish by explaining why GM is here today. GM and the steel industry have a long history of working together to address competitive challenges each of us face. Traditionally GM has relied on long-term contracts to procure steel. Long-term contracts gave us a reliable supply of steel at predictable prices and provided stable demand for steel producers. We stayed with long-term contracts in the past even when we could have lowered our costs by purchasing in the spot market.

But the steel industry has changed dramatically. Our most recent negotiations were a real eye opener. This year our steel suppliers refused to commit to long-term contracts. They also refused to supply all the steel we needed under our contracts, instead placing limits on the volumes they would supply us at contract prices.

As an economist this behavior tells me several things. First, the refusal of the supplier to enter a long-term contract, to pass an opportunity to lock in prices is strong evidence that the supplier expects prices to rise even higher in the future.

Second, if a supplier limits the volumes it will sell at contracted prices that is strong evidence that the supplier thinks it can sell those volumes elsewhere at higher prices.

And, third, the ability of suppliers to do this tells me they have market powers.

The restructuring of the steel industry has created a very different industry. It's not just an industry that is ready to face competition, it is an industry that needs more competition.

MR. JUTTE: Good evening. Guess I'm the

first one who can say that today.

I'm Larry Jutte and I've been the head of Purchasing of Honda of America Manufacturing since the year 2000, currently serving as Senior Vice President and General Manager of Purchasing. I want to start by emphasizing that we have a strong relationship or what I might refer to as a very good partnership with the domestic corrosion-resistant steel producers. We as a company want a healthy U.S. steel industry. And we believe we have contributed to that health by working together in this partnership. Given the current state of that industry we believe that these orders are unnecessary going forward.

I'd like to focus on two issues that are relevant to the Commission's review. First, the growth in Honda's U.S. production and our plans for future growth.

Second, the fact that Honda, like the other international companies, makes vehicles in North America from North American steel.

Let me start with the growth of our U.S. production. Since the Commission last reviewed these orders we have built two new assembly lines in Alabama. The first opened in 2001 and can produce 150,000 vehicles annually. We added a second line at that same plant in 2004, also with 150,000-unit vehicle capacity.

We are now building a new facility in Greensburg, Indiana, which will add 200,000 vehicles per year and will open in the fall of 2008, increasing our total North American production to 1.6 million vehicles annually.

Now let me address our use of North American steel. Honda's philosophy is to produce vehicles in the markets where we sell and to purchase inputs where we produce. When we first began making cars in the United States in 1982, ten years before these orders were adopted, we immediately sought to qualify U.S. corrosion-resistant steel. And we almost exclusively buy North American steel today. We don't just do this to support the local communities, even though that's the right thing to do, there are compelling business reasons for our decision as well. We need top quality material that arrives at our plant in a very narrow time frame. The further this material travels the greater the chance of delivery delays.

If we have a problem with one or our deliveries increased distance makes it hard to deliver a replacement. Our assembly lines produce one vehicle per minute on average and production disruptions can cost us over a million dollars per hour per line.

When I say we source locally I mean we buy in North America. We have plants in the United States and in Canada and we buy both in the U.S. and Canadian steel. We qualify specific North American steel mills for specific uses. We then source our requirement for those uses from that mill regardless of where we produce that vehicle, in Canada or the United States. We routinely use U.S. steel in our Canadian production operations and vice versa.

The fact that we are growing in North America we want North American steel to fuel our growth in the future. And that is why we are here today. It is critical that the steel industry work hard with us on new products. And actually I worry if you continue to shield them from competition for five more years will they have the incentive to be good partners in developing those new products with us for the future?

We also have seen some developments in the marketplace that other auto companies have described. The market is tighter. We are not just seeing higher prices, we are seeing other things like delivery issues that tell us that our suppliers are stretched. We have ambitious growth plans and so do a lot of our competitors here. We can't afford artificial restrictions on the growing steel market. These restrictions need to be lifted and lifted in this review.

Thank you.

MR. NIELSEN: Good evening as well. My name is Chris Nielsen and I serve as General Manager, Purchasing, for Toyota Motor Engineering and Manufacturing North America. I have been a part of Toyota's purchasing organization for over 19 years. Thank you for this opportunity to share Toyota's views on this issue, one which is critically important to our company and to our industry.

Like the other automotive producers here, Toyota needs a healthy, robust and efficient domestic corrosion-resistant steel industry. Toyota aims to produce our high volume vehicles in the markets where they are sold and it is our policy to source needed parts and materials from suppliers close to our production facilities. We therefore depend on the North American steel industry to supply all of our North American steel requirements. The revocation of the orders will not change this in any significant way.

Toyota has enjoyed a long and mutually

beneficial relationship with our steel suppliers. We have invested many hours and resources to collaboratively develop the high quality steel products that are used in all Toyota vehicles. There are very few global suppliers that can meet our quality requirements. Our health and prosperity is tied to the health and prosperity of our supplies.

For example, in 2004 our routine monitoring of the steel industry and of cost of inputs revealed that the negotiated contract price with the domestic corrosion-resistant producer was lower than the producer's acceptable profit. To protect the financial health of that producer we voluntarily modified a long-term contract and agreed to pay a higher price. Since then all evidence indicates that the industry as a whole, not only our steel suppliers, has experienced a dramatic and successful financial turnaround. We project growing demand for Toyota vehicles in North America and we are increasing production capacity to meet that demand.

Before 2003 we had no problem in obtaining required volumes of galvanized steel meeting our specifications. At that time we had seven different qualified North American suppliers, all of which were willing and able to supply to our specifications without limits on volume.  Last spring we expected that our contract negotiations with our corrosion-resistant steel suppliers would again be without volume limitations but we were surprised when two of our suppliers, citing capacity constraints, effectively imposed a maximum volume commitment that is lower than the volume we sought.

As the general manager of purchasing my job is to minimize the risk of losing production due to supply disruption.  Because the volume caps imposed by the steel producers could disrupt supply we researched options for addressing the expected shortfall. Despite our exclusive reliance on North American suppliers one of the options we explored was to reach out to global suppliers approved by Toyota overseas affiliates to see whether they could fill any potential shortfall.

What those companies told us basically was no.  Virtually all of those suppliers said they could not commit to any additional volumes because of high demand in their local markets.  Please understand, we were not seeking lower prices but simply to ensure Toyota's future production requirements would be met if the North American steel mills could not supply our needed volumes.

Regardless of whether the orders are revoked we do not foresee any significant increase in imports to meet growing domestic demand. We strongly prefer to continue to source our growing long-term supply needs from North American producers due to quality, logistics, cost, lead time and technical support requirements. We will continue to work with those producers as we feel they are the best equipped to meet our exacting requirements and to avoid the inherent risks of supply interruption associated with overseas sourcing.

For the reasons and examples I shared we do not believe the domestic steel industry needs the protection of these orders and as such they should be revoked.

MR. McCONNELL: Mr. Chairman, that concludes our direct testimony. We'd like to reserve the rest of our time.

CHAIRMAN PEARSON: Very well. Madam Secretary, is it time then to move to the second part of the panel?

SECRETARY ABBOTT: Yes. Mr. Malashevich.

MR. MALASHEVICH: Good afternoon, Mr. Chairman, Members of the Commission. I am Bruce Malashevich with Economic Consulting Services. My initial testimony today is with respect to the subject countries collectively considered in this investigation.

My impression is that the chief U.S. industry claim throughout its pleadings in testimony today is that its condition is "very precarious" and is otherwise vulnerable to imports in the event of revocation, including non-subject imports, Brazil, China, Zimbabwe, whatever have you.

The fact is that the domestic industry producing core has indeed undergone a rebirth resulting in increased concentration and associated market power. The details and the facts I won't belabor you with but they're summarized in Exhibit 1 to my public testimony delivered to you earlier today and have been discussed elsewhere by others.

As a result of this growing concentration and increasing efficiency the domestic industry has sharply reduced its fixed costs and moved downward on the world cost curve. This is not only my assessment, I reviewed a speech by no lesser figure than the CEO of U.S. Steel, Mr. Surma, just a few months ago and he stated, I quote, "In fact, North American integrated companies now may be the low cost producers among the developed region." That the domestic industry showed a dramatic improvement in profitability is telling, especially given as we've heard today it's reliance on long-term contracts, idle and obsolescing electrogalvanizing capacity that's producing almost nothing, and considering the inclusion in supported results of substantial non-recurring expenses as detailed in Exhibits 13 and 14 of Joint Respondent's brief.

Another illustration of the competitiveness of the U.S. mills is their dramatic increase in U.S. exports to Canada which now account for 20 percent of the Canadian core market. Apart from the fact that all measures of practical production capacity by their nature are estimates, the domestic industry, very importantly I believe, conceded today, every single one of them, that the results reported for the capacity includes idle and obsolescing electrogalvanizing capacity that obviously inflates practical capacity and deflates the average utilization rate for the industry as a whole.

The Commission should continue to ask themselves why the U.S. industry would spend the proposed amounts on new capacity if they really could simply ramp up their under-utilized capacity that already exists. And the fact is, they can't. The weight of the evidence indicates that under-utilized capacity is being phased out by the industry and that the U.S. industry has been working at full practical capacity for some time now. Please see Exhibit 2 passed out to you today.

The recent record high selling prices seen across the globe are further proof that actual capacity utilization globally is much higher than the domestic industry would like to acknowledge. With record high prices, producers are likely maximizing production. These high global prices are expected to remain firm. To the extent you see short-term forecasts of a slight diminution of selling prices you will see all the sources indicate that they will be short-term and they are from the small change from a record high absolute value.

Consequently, there are multiple announced investments in new domestic hot dipped galvanizing capacity by U.S. producers attempting to capitalize on the record high prices today and obviously well into the future. Please see Exhibit 3 of my testimony which contains some of these details.

In addition, I would note that Petitioners themselves cite five such domestic investments in new capacity in Exhibit 2 of the Mittal Steel U.S.A. brief and earlier today in their oral testimony.

Notwithstanding the very interesting academic exercise offered by U.S. Steel's expert, Professor Korajczyk, investors in the real world are voting with their dollars to bid up the price of steel company assets, creating a huge increase in their market value. Exhibit 4 to my testimony today is simply a copy of Exhibit 11 in the Joint Respondents' brief. It shows that the market capitalization of the top four domestic producers is soaring, by roughly seven times if I remember correctly, illustrating the fact that this industry is creating, not destroying, value for shareholders.

The industry's current and future condition has been and will be shaped by the developments since the watershed year of 2003, especially the substantial elimination of so-called legacy costs. It's pre-consolidation condition is irrelevant to the current proceedings. There is no sense in relying on historical data five years back when after you go back two or three years most of the companies involved no longer exist. As you heard today from the domestic producers, investment decisions are forward-looking by their nature. And the steel companies too are voting with their dollars to expand their capability.

Again, Mr. Surma stated in his view that consolidation had led to a "restructured domestic industry that is stronger, leaner and," most importantly I believe, "better able to manage across changing business cycles." In large part for reasons you heard earlier today, but also simply because they have the position to change volumes and adjust to changes in price. That's been demonstrated again and again.

In any event, the near-term outlook for autos is for demand to remain firm at historically high levels. I defer to the industry representatives on that score. That is important for obvious reasons. You already heard from the producers. But non-residential construction, not residential housing starts -- the two terms were used interchangeably today and they are very clearly not with respect to this industry -- accounts for most of the remaining demand. And booming conditions in that market segment currently and in the foreseeable future are well documented in Respondents' joint brief.

Last but not least, substantial devaluation of the U.S. dollar, considered in today's testimony as well by the industry, has in effect increased quite significantly the reliance of the U.S. industry in the face of foreign competition from anywhere. See Exhibit 3 of the joint brief.

The U.S. industry's second broad claim that it is already suffering at the hands of and is threatened by non-subject imports also relates in part to the issue of so-called vulnerability. Here too the facts show this claim to be without merit. Mr. Surma, again of U.S. Steel, among other commentators, has opined that the U.S. industry's international competitiveness has been enhanced, not hurt, by the recent sharp increase in world prices of energy and raw materials shrinking to insignificance differences in wage costs and working to the benefit of U.S. producers that enjoy close control of their own raw material supplies.

As an economist, one of the clearest illustrations of this new found competitiveness is the sharp increase of U.S. exports of CORE as shown in the pre-hearing report. Another is found in the behavior of non-subject import volume and their market share.

The domestic industry claims to have been shaken by these imports' increased share. Most others and I are more impressed by how small that share is. In the last full year of the POR all non-subject imports supplied only 7.4 percent of total consumption. The emerging steel behemoths in places like China, Russian and India over which the domestic industry purports to shudder have enjoyed 14 years of unrestricted access to a growing U.S. CORE market which in recent years also has suffered domestic supply shortages. If a 7.4 percent market share is the best that they could collectively muster then it's a tribute to the domestic industry's new found competitiveness and invulnerability to those imports. The few months of data they rely on in their testimony for '06 which I examined, autonominaly I could talk to if you want to and the latest data actually show them receding and in decline, including from China.

The third broad claim is that subject producers have substantial under utilized capacity and are poised to dedicate that capacity as well as send all current inventory to the United States in the event of revocation. Both arguments are pure assertions. As the individual Respondents represented here can tell you in detail, the bulk of reported subject inventories overseas consists of pre-sold merchandise awaiting shipment, are contractually bound for non-U.S. customers, or otherwise are unavailable for shipment to the U.S. market.

The Commission must seize upon the fact that global growth in GDP is at its most rapid pace and is more broadly based than ever before arguably in history since World War II. Remarkable confluence. And there's also a confluence of robust history for the auto and non-residential construction in the United States but also overseas that will certainly continue to keep prices and volumes high in the foreseeable future.

Thank you.

MR. HEFFNER: Doug Heffner of Hunton and Williams, representing the Canadian Respondents. Mr. Kenny, please introduce yourself for the record.

MR. KENNY: My name is Don Kenny. I'm Director of Automotive Business for Dofasco. I've been at Dofasco for 32 years in a variety of positions in the commercial and technology departments and I am currently responsible for all automotive sales.

MR. HEFFNER: Do Canadian producers face different conditions of competition in the U.S. as compared with producers from other subject countries?

MR. KENNY: Canadian producers do indeed face different conditions of competition as compared to offshore producers because Canadian producers are part of an integrated North American market for autos and steel. And this integration process has accelerated over the last five years. Let me explain further.

First, because of the Auto Pact and NAFTA auto producers have the legal and economic basis for treating North America as a borderless integrated market, and they do.

Secondly, although the Auto Pact and NAFTA have existed for a while, two additional factors exist that have significantly spurred integration since 2000. Significant increase in steel industry consolidation has resulted in auto companies moving from local steel purchasing policy to a key steel supplier policy.

As a key steel supplier, of which Dofasco is one, the auto company expects the steel company to supply their plants across North America. Auto companies have shifted production of models from plants in one NAFTA country to another NAFTA country and require the existing steel suppliers to rechannel the steel to the new production facility in the new country.

Third, economic and legal factors also differentiate Canada from subject countries. Economic: we deliver on a different time basis, usually via truck in lots of 20 to 30 tons. Offshore producers deliver over oceans on ships generally in 15 to 20 thousand ton lots.

From a legal standpoint the American Automotive Labeling Act requires automotive manufacturers to post domestic content of their vehicles. Canadian steel is domestic content.

Finally, this has resulted in significant two-way steel integration and trade flows with U.S. and Canadian companies competing on the same basis. Just as Canadian exports to the U.S. have grown since 2000, so have U.S. exports to Canada. In fact, U.S. exports of corrosion-resistant steel to Canada are higher and have grown faster than Canadian exports to the U.S. In 2005 U.S. exports to Canada were just under 600,000 net tons, a number that I believe earlier today was referred to as trivial by the U.S. mills. While Canadian exports to the U.S. are under 550,000. So if U.S. exports to Canada are trivial then I guess Canadian exports to the United States are somewhat less than trivial.

While Canadian exports to the U.S. account for slightly more than 2 percent of the U.S. market, U.S. exports to Canada account for 20 percent of the corrosion-resistant market. Due to this change, Canada is a net importer of corrosion-resistant steel with respect to the United States and overall.

Trade in corrosion-resistant material has increased by over 50 percent between Canada and the U.S. between 2000 and 2005.

MR. HEFFNER: From 2000 through 2006 Dofasco's exports have increase to the U.S. Why?

MR. KENNY: Of the 90 percent of Dofasco's exports about 270,000 tons to the U.S. between 2000 and 2006 is a result of auto producers rechanneling production from either Canadian facilities or Mexican facilities to the United States. For example, in 2002 Honda moved the Odyssey from Alvinston, Ontario to Lincoln, Alabama. Dofasco material was rechanneled from the Canadian plant to the plant in Alabama.

Similar things have happened with the Pilot, with the Civic, with the Toyota Solara that was made in Cambridge, Ontario and is now made in Georgetown, Kentucky, as well as the Ford Focus that was made in Mexico and is now made in Wayne, Michigan. Therefore, Dofasco's growth in the U.S. was not the result of targeting the United States but rather customer pull. Contracts were originally struck for supplies to Canadian plants. Basically, auto companies rechanneling production from country to country, which is consistent with the concept of the North American integrated market in automotive vehicles and steel. These were not lost sales to U.S. producers because Dofasco already had the business in Canada and Mexico.

Finally, unlike other countries, we do not ship to China or Asia for that matter.

MR. HEFFNER: Thank you.

Ms. Towers, please introduce yourself for the record.

MS. TOWERS: Good evening. My name is Christy Towers. I've been at Dofasco for almost 20 years. I'm currently Corporate Account Manager in our automotive sales responsible for all sales to Ford Motor Company. As one of our largest customers this represents hundreds of millions of dollars.

MR. HEFFNER: Why has Dofasco been successful with Ford U.S.?

MS. TOWERS: Our success has primarily been based on unique innovations we provide to our customers. I'd like to give you some examples.

The first example is we actually were the first steel supplier to go out and purchase a vehicle and tear it down in our research department and analyze part by part the engineering functions, the steel specifications used for those parts. We were able to come up with some engineering recommendations that we made to Ford that resulted in significant cost savings for them. And Ford liked this so much that they then asked their other steel suppliers to do the same thing. They now have a significant cost saving activity that they mandate to all their steel suppliers.

Another example is the launch support we provide where we provide material expertise to Ford from concept stage through to development, design and through to launch. I believe again we are the first steel supplier to provide in-plant launch support throughout the launch phase, which could be up to a 6-month period.

A third example that I'd like to tell you about is an innovative product that we introduced to North America. We call it Extradel. It's a hot-dipped product that's used for exposed body panels like fenders and doors. We were the first supplier to, and are still the only supplier in North America to introduce this product. And Ford was the first customer of ours to trial the product and introduce it on their vehicles. They introduced it onto the Winstar in 2000 and subsequently onto other vehicles after that. To the point now where they use it as vehicles are introduced and it's now used on most of their fleet in North America. This is the key reason why we have grown with Ford in the United States.

And I would like to point out one other thing. Ford quantitatively analyzes their steel suppliers, rates their steel suppliers for a number of different things, including price. And they have consistently rated Dofasco high, in other words our prices are high. So we have not grown because of our low prices.

MR. HEFFNER: How will Ford's restructuring plans affect Dofasco?

MS. TOWERS: I just talked to you about historically some of the reasons why we've grown. And it's true that the restructuring plans that Ford has announced will result in a decline in the future in our shipments to the U.S. However, we have been expecting and planning for this kind of restructuring for some time and our shipments to Canada will grow as plants are opened by other customers in Canada.

So the net result to Dofasco as pointed out in the 3-year business plan that was supplied to the corrosion-resistant earlier is that there will be no net result, we will continue to operate near capacity?

MR. HEFFNER: Thank you.

Mr. Davey, please introduce yourself for the record.

MR. DAVEY: Good evening. My name is Brad Davey. I have been at Dofasco for more than 20 years in various roles in manufacturing, technology and marketing. My current position is General Manager of Marketing. And one of my main responsibilities is for the target market position of Dofasco.

MR. HEFFNER: You've heard earlier today that the volume of imports from subject producers will surge if the orders are revoked. With regard to Canada do you agree?

MR. DAVEY: No. Canada will not surge. First, Canada has been operating at high utilization rates. Dofasco as the main exporter has been at high utilization rates and as part of the business plan that we submitted to this corrosion-resistant, the 3-year business plan, we have included that we will be operating at capacity in corrosion-resistant products. And we also understand that Stellco and Sorevco have been operating at high capacity utilization rates.

Secondly, as part of the business plan, the 3-year business plan we've submitted, we've also included what our investment plans are and they don't include for adding new galvanizing capacity. In fact, it was interesting today when the representative from

Nucor was talking about the capacity being added in many countries around the world and he did leave out Canada because Canada is not adding capacity.

Third, the Canadian economy is expected to outperform the U.S. economy over the next 12 to 18 months. Specifically, within automotive despite some retrenchment by the Big 3 auto makers, Canada is expected to produce, and we've given independent forecasters, Wards and CSM, Canada is expected to produce 2.54 million vehicles this year, growing to 2.58 next year and 2.64 in 2008.

Now, much of the growth in Canada is due to a new plant opening up by Toyota which will initially produce approximately 100,000 new vehicles. And that plant in Ontario is located just 40 minutes from Dofasco's door.

Also, in non-residential construction which accounts for 70 percent of Dofasco's construction shipments of corrosion-resistant product we've had a boom going on related to the oil industry and the rest of corrosion-resistant. But in 2005, non-residential construction went up 7 percent. And in 2006 and 2007 it's gone up 11 percent.

And last point I'd like to make about this is exchange rates. As we have taken on more business in the U.S. the Canadian dollar has been appreciating and that has brought us less revenue back to Canada. So as part of our corporate strategy we don't see that it makes sense to increase our U.S. shipments. And, in fact, the exchange rate risk doesn't provide us any incentive to increase to the U.S.

MR. HEFFNER: Will you price more aggressively if the orders are revoked?

MR. DAVEY: No, we will not price more aggressively if the orders are revoked. The auto makers in particular have ratings and scorecards for us. And they rate a number of facts, including quality, delivery, service. And what we see on those scorecards which we would be willing to submit to the Commission afterwards from various suppliers is that Dofasco consistently ranks at the top of the non-price ones and that allows us to be one of the highest priced suppliers.

MR. MALASHEVICH: Bruce Malashevich again with regard specifically to imports from Canada considered separately. It's interesting, U.S. imports from Canada increased by more than 200,000 tons during the POR. At the same time dumping margins remained, I think we could all agree, extremely low. Yet despite these increases the key indicia for the domestic industry show that the industry's overall condition improved dramatically.

Simply put, all the changes in the performance of the domestic industry that I outlined in my earlier testimony bear no correlation, as the Commission applies that term, to the increase in Canadian imports or to the behavior of Canadian import pricing, the latter being also very relevant. If you review the record with respect to Canada you will find a distinct lack of correlation between movements of Canadian prices and movements in U.S. prices for the products surveyed. The details are laid out in the Canadian producers' pre-hearing brief.

With regard to products for which most of the underselling existed, it's a very important point, product seven, the reason for the underselling was that most of the Canadian imports were made pursuant to two- to three-year contracts about which you've heard lots of discussion, after which prices increased dramatically. Furthermore, the volume sold by Canada of this produce was very small. And the products for which there was 70 percent overselling was much larger in terms of volume.

The U.S. industry mantra is that U.S. prices are the highest in the world. If that is so, why are

U.S. exports of CORE to Canada greater than Canadian exports of CORE to U.S.? The fact is that the Canadian market is attractive to the domestic industry and to the Canadian industry due to its high prices and the U.S. industry's heightened international competitiveness. There is an exhibit attached to my testimony today.

Thank you.

MR. KIM: Good evening. My name is Steven Kim. Until September 2006, I was the sale manager of the Union Division at Dongkuk International, the U.S. sales affiliate of Union Steel. I worked in DKA's Los Angeles office for the past six years. I am now with the Union's Overseas Sales Team in Korea. I am here today to speak about Union's sales of CORE to the U.S. and also about Union's sales of CORE in general.

Union has exported CORE to the U.S. since the 1980s. Union does not produce automotive steel. Union produces CORE for the home appliance, electronics and construction industries, but Union's sales of CORE to the U.S. are to the construction industry. Union's exports to the U.S. of unpainted electrogalvanized and hot-dipped galvanized steel, which have only a zinc coating, have declined sharply over the years. Union's exports to the U.S. have focused on galvalume and prepainted CORE since the late 1990s. Galvalume is a metal coating that combines aluminum and zinc.

Union sells to U.S. customers on a made-to-order basis, under short-term contracts. Today, the vast majority of Union's U.S. customers are end-users. DKA arranges production with Union, and merchandise is normally delivered to the customer about three to four months after the order is placed. Union ships the material directly to the customer's chosen port of entry.

DKA does not maintain any inventory in the U.S. Also, material sold in the U.S. must meet ASTM standards, and Union does not maintain U.S. Spec inventory in Korea. This is also true for products exported to other countries which are produced to their national standards. The only inventory Union maintains in Korea is Korean specification merchandise, which is sold only in the domestic market. Union sells KS merchandise primarily from inventory to the home market, and produces foreign specification material to order.

Union has supplied its long-term customer in the U.S. while maintaining low or de minimis dumping margins since 1994.

Our natural export markets in East and Southeast Asia, as well as the Middle East, have a number of advantages. Growth rates in these developing country markets have been very strong, and they are expected to continue to grow. In addition, the freight rates to our Asian markets are much lower than to the U.S.

To serve such a wide customer base, each quarter Union's sales division determines how much material it has available for each market, including the U.S. Therefore, Union cannot shift substantial volume to any particular market without affecting the availability of material to customers in other markets.

China is our biggest market, and Union's exports to China have been at high levels because of demand and the gap in quality between Korean and Chinese CORE. This year, Union's exports to China have exceeded last year's volume and we expect this strong demand to continue. At the same time, the quality difference between Chinese and Korean CORE has limited Chinese CORE in Korea to relatively small and acceptable levels. Demand in our other export markets, particularly in Asia and the Middle East, has remained strong as demand for CORE continues to grow around the world. At this time, we have no reason to believe that this will change as the economies in these markets continue to be strong.

Thank you for this opportunity to testify. I would be happy to answer any questions.

MR. CHUN: Good evening. My name is Se-Yong Chun. I am the Marketing Manager for POSCO America Corporation, which is POSCO's sales arm in the United States. Prior to this, I worked for POSCO in Seoul, Korea. POSCO is the sole integrated steel producer in Korea and one of the largest steel manufacturers in the world.

In my current position, I am in charge of POSCO's sales of automotive quality corrosion-resistant steel to Hyundai Motors in Alabama. Hyundai Motors is now POSCO's only CORE customer in the United States.

POSCO's exports of CORE to the United States illustrate the extent to which the United States market for CORE and POSCO's role in the United States market have changed over the last five years. POSCO has had very low to negligible antidumping and countervailing duty margins. Despite these low margins, the United States was never a major market for POSCO for CORE. Rather, POSCO has focused on its home market and Asian markets. POSCO focuses on its home market and Asian markets for a simple reason: these markets have been strong and they are growing as the economies in the region increase their consumption of higher quality steels like CORE.

Moreover, the cost of transportation to supply these markets is far lower than the cost of transportation to the United States. As a result, the United States has never been a primary market for POSCO's CORE.

In 2004, Hyundai Motors established its manufacturing facility in Montgomery and began producing automobiles in the United States. POSCO supplies CORE to Hyundai Motors in Korea, and Hyundai's machinery and dies are calibrated based upon POSCO's quality and specifications.

When Hyundai established its facility in Alabama Hyundai required POSCO steel in order to maximize the efficiency of the facility and maintain the quality of its cars. At the same time, POSCO understood that Hyundai Motors would develop United States sources of supply for CORE because of the advantages of the local U.S.-produced supply over imports. These advantages are:

Proximity to the customer, which meets the

Just-in-Time inventory requirements of the automobile companies;

Lower transportation costs; and

Superior ability to meet after-sale serving needs.

These are the advantages that POSCO has over imports in the Korean market.

POSCO does not expect that it will remain the primary supplier of CORE to Hyundai Motors in Alabama. As United States producers of CORE qualify to supply Hyundai Motors, it will reduce the quantity it imports from POSCO. It is important to understand that POSCO's CORE was essential to the successful launch of the Hyundai facility, but the success of that venture will lead to demand for United States-produced CORE. But without POSCO's CORE, the success of that venture and additional demand for United States-produced CORE would have been jeopardized.

One final comment. KIA Motors is also planning to establish a new facility in Georgia in 2008. POSCO expects to be the initial primary supplier for that facility as well. And once that facility is on its feet, POSCO expects KIA to turn to United States-produced CORE as its primary source of supply.

Thank you.

MR. FURUTA: Good evening. My name is Yoichi Furuta and I am the Executive Vice President and General Manager for Nippon Steel USA in Chicago. In my testimony today I would like to talk about Nippon Steel's worldwide strategy for sales of corrosion-resistant steel, which I will call CRS.

The most important markets for us are Japan, China and Asia. Nippon Steel has been operating at full capacity for the past several years to keep up with demand from these regions, and we believe that is also true for other Japanese producers. We think this situation is likely to continue, and I will try to explain why this is so.

In Japan, we are seeing extremely strong demand from our key customers in the automotive industry. This year auto production in Japan will be more than 11.5 million units, which is almost 20 percent higher than 2001. Rising auto production means more demand for CRS. For Nippon Steel, our most serious concern has been whether our production can keep up with the increased demand. Over the past four or five years, we have faced the unusual situation of struggling to satisfy the needs of our automotive customers. We are renovating some of our facilities, but supplies are still very tight today.

The other part of the tight supply equation is our increasing exports to China and Asia. In these markets, Nippon Steel and the other Japanese producers sell mostly to automotive and electronic appliance producers. The rate of growth in the Chinese automotive industry is almost unbelievable. About two million cars were made in China in 2001; for 2006, production is estimated to be 6.5 million units and the market is still growing. Since Chinese manufacturers are not able to supply the necessary CRS, the customers strongly request supply from Japan. The other key end use market for us in Asia is electronic appliances. Unlike the United States, our customers in Asia need special electrogalvanized CRS for hard disc drive casing, DVD players, copy machines, plasma and LCD monitors, and other electronic equipment. This demand for such specialty electrogalvanized CRS has been growing rapidly in Asia and we think it will continue to increase in the future.

Why do Nippon Steel and the other Japanese mills focus on these automotive and electronic appliance customers in Asia? There are several reasons:

These customers are very sensitive to quality. We have a long history of working very hard to meet their demand and have established our own strengths in production technology and product development as a result. For example, our researchers work directly with our customers' engineers to develop steels that are higher strength, lighter weight and have improved formability for automotive customers. These joint efforts reduce costs for our customers and give Nippon Steel a stable position as a supplier that can command premium prices. In addition, there are few producers in Asia outside of Japan that are capable of providing these services. Japanese producers are the main suppliers to these customers and are expected to continue in that position for the foreseeable future. Our long-term, strategic direction is to integrate even more closely with our customers and limit our exposure to the commodity side of the CRS business.

I know that some parties have argued that new Chinese capacity will displace imports from Japan. With all respect though, this argument is completely wrong. China is one of our most important markets and we pay very close attention to developments there. Almost all of the capacity being built or planned by local Chinese producers is hot-dipped galvanized for commodity end users, such as low-grade construction applications.  But the exports to China by Nippon Steel and other Japanese producers are either special electrogalvanized steel, mostly for appliance production, or high-grade hot-dipped galvanized for automotive producers. These products are not available from local Chinese mills.  We know this because our major automotive and appliance customers in China remain dependent on imports from Japan.

So I believe that Nippon Steel and the other Japanese producers are likely to remain focused on Japan, China and Asia.  These are our "home markets" and are the fastest growing areas for our key automotive and electronic appliance businesses. Regarding the U.S. market, our involvement is centered on I/N Kote, our 15-year-old joint venture with Mittal Steel in New Carlisle, Indiana.  Through transfer of technology and other support to I/N Kote, we have been contributing to our automotive customers in the United States.  We are committed to serving these customers in the future through local production in North America rather than by exports from Japan.

Thank you for your attention and I would be pleased to respond to any questions.

MR. MIKI: Good evening, Commissioners. My name is Heiki Miki, Vice President of Marketing for JFE Steel America. Prior to joining JFE Steel America I spent three years as the General Manager for Marketing and Planning for National Steel in Indiana. My comments today relate to How JFE Steel supports automotive customers in the United States and our view on the role of Japanese imports.

To start with, there are very few imports of corrosion-resistant steel from Japan to auto companies in the United States today. I would say that over the last few years we have shipped only when customers have faced some kind of supply emergency and are unable to buy the steel they need from U.S. mills. As a practical matter, our ability to help even in these situations is very limited right now. JFE Steel is also facing a very tight supply situation and we do not have excess capacity to sell in the United States.

My years of experience in dealing with U.S. auto purchasers leads me to believe that our position in the market is not likely to change very much even if the antidumping order were revoked. When I talk with the auto companies they are mostly interested in whether we can supply certain specialty high-strength steels, such as 780 MPa or 980 MPa. These steels are difficult to source from domestic mills on a consistent basis. These grades are only needed for a few specialized applications though, so we are not talking about large volumes of imports in any case.

None of the auto companies has shown any interest in asking JFE to become a major supplier here in the United States. Each auto company has a strong interest in sourcing its steel from suppliers located nearby their production operations. All of the automotive companies utilize just-in-time delivery systems and try to minimize their overall logistics costs. It is hard to imagine that they would choose to extend their supply chain by weeks or months and incur extra costs to bring corrosion-resistant steel over from Japan.

For JFE, we try to support localized sourcing by establishing technology-sharing alliances and joint ventures to ensure that the products they need can be purchased locally. In Europe, we have a comprehensive cooperation agreement with ThyssenKrupp for automotive steels; in North America, we rely on our DJ Galvanizing joint venture with Dofasco, which is focused on supplying automotive customers. We have no plans to alter this basic approach whether the order is continued or revoked. The principal benefit we see to revocation is that our customers would not be subject to duties on specialty corrosion-resistant grades that are not available from U.S. mills. This would not result in large volumes of imports or in harm to the domestic industry.

My final comment is that I hope you will take note of the tremendous changes that have taken place in the United States industry over the last several years. I can tell you from my personal experience that things were very different five years ago when I was General Manager of Marketing for National Steel. We were in bankruptcy, we desperately needed cash to keep our operations running, and many of our competitors were in the same position. It was very difficult for anyone to do well under those conditions. Today, the biggest players like Mittal and U.S. Steel are much larger and stronger financially. They are able to align their production volume and their sales strategies with market conditions. I think that explains why U.S. prices have stayed high even as demand has fluctuated over the last few years. The restructuring and consolidation has made this industry much more competitive and much better able to manage the business cycle than it was in the past. These changes are permanent, and have certainly improved the overall position of the industry.

I appreciate your attention to these comments and would be pleased to answer any questions you may have. Thank you.

MS. CUMINS: I am Gail Cumins of Sharrets, Paley, Carter and Blauvelt, counsel to ThyssenKrupp Steel and Saltzgitter, two German CORE producers. I am accompanied today by Stefan Gruenhage of ThyssenKrupp Germany and Johan Wesslen of ThyssenKrupp North America. And because Thyssen has consistently accounted for virtually all of the German shipments of CORE to the United States over time we appear here today to answer any questions the Commission may have.

Thank you.

MS. ROSS: Chairman Pearson, Commissioners, Lisa Ross of Akin Gump here on behalf of TCC Steel today. I have Mr. Chang with me from TCC Steel in Korea. We are happy to respond to any questions the Commissioners may have.

CHAIRMAN PEARSON: Okay good.

Mr. Secretary, is this a propitious moment to take a break or would we do well to begin the questioning?

MR. BISHOP: Take a break.

CHAIRMAN PEARSON: Yes, okay, this is a good time to break. We will recess for about 15 minutes, returning at 7:15. So please get up and stretch your legs.

We stand in recess.

(Brief recess.)

CHAIRMAN PEARSON: The hearing will please reconvene.

Let me start by offering a sincere welcome to this panel. I really appreciate the efforts that the parties made together with the auto industry to put together a single panel. We considered the request for a separate panel. Given the hour perhaps it's just as well that we've combined the two. I understand the panel is very large, but it will make for efficiencies as we go through the questions.

That questioning will begin with Commissioner Okun.

COMMISSIONER OKUN: Thank you, Mr. Chairman. I join the Chairman in welcoming all of you here this evening. We appreciate your willingness to be here, to stay with us late. I've had both food and caffeine so I'm ready to go. I hope you all are as well.

I'm going to start with a question for the auto producers.

Among the arguments made by the domestic industry, but I think that's crystallized by Mr. DiMicco, was that there was some inconsistency in what you were arguing. Are you arguing that, you're saying on the one hand that the subject producers don't have any incentive to come to the United States, but then there's a lot of discussion about the difficulty you've had with respect to getting product in the United States and many references both by the domestic producers and by the congressionals about the focus on price.

The question I want to ask you is when I look through this record it seems to me that the argument you're making is that there will in fact be some volume from these subject producers. I would direct this particularly to the transplants. But that you think a restructured domestic industry can withstand that because of the reasons you've mentioned, you argue market control and the decrease in fixed cost.

So I want to ask you, what volume do you think will be in the U.S. market if the orders were lifted? From what countries in particular, if you think it will be country specific? And what affect that will have on prices?

I don't know who wants to start.

MR. McCONNELL: Commissioner Okun, can I just start from a legal perspective? I think a number of the comments this morning went to the legal side.

Our focus is on competition in the U.S. market. That is what's driving our appearance here today. It's not just price. Price is certainly part of the mix, but it is also the nature of the cooperation between the steel industry and the auto industry and making sure that the steel industry, which we view now as well recovered, has a continued incentive to make the investment and work with us to go forward.

So we think that competition is a good spurt of that and we also think that the industry is not in a vulnerable position.

So that from a legal standpoint is what we're arguing. I should let the company experts talk about what their particular expectations are.

COMMISSIONER OKUN: And that's my focus, is on the competition side. When you say you think the competition would be good for the domestic industry, that's what I'm trying to understand as we evaluate what the volume/price impact would be. I'm trying to get some understanding of whether the producers could help me on that.

MR. McCONNELL: I don't think you'll hear a single producer here today say that they could be in a position of putting a substantial portion of their requirements for North American production into an off-shore mill. That's just not a possibility. So we are talking about competition on the margin. But let me let the witnesses speak to it.

COMMISSIONER OKUN: Okay, and if you can reidentify yourself as you answer the questions it would be helpful, thank you.

MR. MOHATASEM: Commissioner, I'm Mustafa Mohatasem, Chief Economist for GM.

I think to echo what Mark just said, this really is about competition and potential competition in the U.S. market. As we negotiated our most recent contract it was very clear that the domestic industry, because of the consolidation, does not believe that there are alternatives to sourcing from the domestic industry. That was reflected in the contract negotiations, it was reflected in the contract language.

We think if you revoke the orders the industry will know that the domestic buyers have an alternative and therefore will be much more willing to sit down in a partnership with us and supply this field we need at globally competitive prices.

Keep in mind, speaking for GM, we produce around the world. We have qualified suppliers around the world. Yet we still source 98 percent of our steel in the U.S.. And as we've stated, almost all the representatives here have stated, there are very good economic reasons for sourcing as much of the steel in the U.S. as possible. But we believe that the threat of potential competition, the alternative is what will drive the domestic steel industry to behave competitively in negotiations, in the supply terms, with the domestic manufacturers.

COMMISSIONER OKUN: Thank you.

MR. NIELSEN: Chris Nielsen from Toyota.

I stated in my prepared testimony that we did not anticipate any change in our sourcing pattern, any significant change if the orders were revoked. Perhaps the best indicator of that would be to look at our behavior in the past, maybe especially the period before the orders. When we first started production in North America in 1988 one of our first priorities was to localize as much of the steel as possible. Within the first several years the production we achieved, nearly complete localization. Through the years the only times when we have not purchased domestically is when an actual specification has not been available in North America.

Today through working with our engineers to make sure that we design products as specifications are ones produced by the North American producers, we have 100 percent of our product produced in North America. Again, we don't anticipate that changing.

MR. LUTHER: Randy Luther with Honda.

Our import experience has been extremely limited to this date, and only have we imported products that have been technologically advanced high strength steel such as 780 Trip. This is a brand new product, new to the mills not only in Japan but also in the U.S. and in Europe.

In those cases where we developed new technology, we wanted to be able to assess how those products will perform in our vehicles, and to compare those products from each mill so we have a good, fair assessment, will this product work on our global platforms.

We've also had to import from time to time products that we've been unable to secure and we've had, as you can see based on our response, we have had to secure some coated hot roll as an example from

Japan from time to time because we've been unable to find a local source for that particular product, either because of the gage and the coating weight combination.

We have no formal plans to shift a significant amount of our production to imports. However, our chief procurement officer in Japan is always extremely concerned with risk management whenever I sit down across the table from him. At this time we have two sources here in North America, in the United States, to supply our corrosion resistant steel. If there's an outage there, we're always concerned about what will we do? Where will we get our steel from? And we need to have every flexibility possible to keep our lines running.

MR. SILVERMAN: This is Bill Silverman. I wanted to add to that.

You asked a question about the forcing and what the auto companies plan for their sourcing. I wanted to clarify that the Canadian mill, Dofasco, has indicated what its plans are. We submitted a business plan. We've had testimony here about sales to the various companies and the fact that models move from Canada to the United States. They were supplying models in Canada and they moved to the United States.

Our imports have increased during the period of review.

The reason I mention this is when you hear these answers to these questions they're talking about off-shore. Canada is different. We were in the market for a long time, and during the period of review our imports increased due to the decision by the auto industry to move models such as Honda, from Canada to the United States.

COMMISSIONER OKUN: Thank you, Mr. Silverman.

MR. VICKERS: Good evening. Cal Vickers with Nissan.

As a member of the Renault-Nissan Alliance I think it may be understood that we have a number of approved, well qualified steel suppliers --

COMMISSIONER OKUN: Mr. Vickers, can yo move your microphone a little closer?

MR. VICKERS: Sure. We have access to a number of approved, well qualified steel suppliers, but I'd like to note that as Nissan North America, again, if you look at the history we've been 100 percent domestically sourced since the mid '80s when we launched and we are that way today.

To kind of demonstrate some of the support that we've given to the local industry, we launched a vehicle this year and we were using an advanced high strength steel material that was under development. To support the local industry we made arrangements with a foreign producer for a three month supply of material to support the local supplier until they were ready to launch. So I think that kind of demonstrates our commitment to the domestic industry.

COMMISSIONER OKUN: Okay.

Ms. DeSandre, do you have anything else to add? Or anyone else?

MS. DeSANDRE: Maybe just a little levity.

We are constantly asked by our senior leadership because of the globalization of our business in all of the components that we buy, everyone is always asking why is the steel content and the steel purchases so high domestically, and is it an opportunity for globalization? As Lisa, my colleague, often says, it's heavy, it's bulky, and it rusts on water.

(Laughter).

From a supply standpoint, it's just frankly logistically very problematic. Because as all the producers will tell you, continuation of supply is paramount to our business. We have to keep our factories running.  And to the extent that we cannot, flying steel to support production is just not a business equation that works.

COMMISSIONER OKUN:  Thank you for all those responses.

MR. COVER:  May I make a comment, please?

CHAIRMAN PEARSON:  You may.

MR. COVER:  This is Richard Cover.  I'm commodity purchasing manager of steel for General Motors.

To supplement what Mustafa said, for our 2007 steel requirements we invited quotations from suppliers in Canada, Japan, Korea, France, and China. Four of those countries are subject countries.  From Japan, Korea and France we receive no offers to ship steel to any of our 17 metal fabricating plants, nor to our 250 stampers from whom we buy steel in the United States.  It was not a matter of price that we invited those proposals. We were looking for two things.

One, as Mr. McConnell pointed out, increased competition, so we would have enough flexibility to know that we could run all of our plants.  Also to be able to procure all of the qualities and grades that we need to make all of the vehicles that we need to bring to market next year.

In the case of Canada I think it's been stated and doesn't need much repetition, that there is not much traction that the Canadians have for introducing new volume into any of our United States plants.  We do buy from the Canadians.  It's predominantly for Canadian consumption.

We also invited proposals from China and we found that we can bring steel from China into the United States.  We found that it's of sufficient quality to meet our standards, however, the quantity available to us is extremely small.  It's barely enough to say that we can validate the supplier to meet our requirements.

I would also point out that in the case of the one supplier for China, or any new supplier, whether it's domestic or off-shore, our technical validation process takes 12 to 24 months to validate a supplier.  Our product is in the hands of the consumer.  It needs to be safe and it needs to be built to specifications.  It needs to have crash-worthiness and structural characteristics that we cannot bend the rules about those things when we're procuring the materials of construction.

For all of those reasons, bringing

substantial volume, even if it were to become available three to five years down the road, is just not a viable alternative. We need the flexibility so that we can get those incremental quantities that we need to run our manufacturing operation.

CHAIRMAN PEARSON: Thank you, Mr. Cover.

Madame Secretary, would you please reset the timer and we will begin now with Commissioner Lane?

MR. McCONNELL: Our apologies for that, Mr. Chairman. A lot of us have been waiting a long time.

(Laughter).

COMMISSIONER OKUN: I liked it. I got a whole free answer on that one.

COMMISSIONER LANE: Thank you, and thank all of you for your patience, and hopefully you're still in a good mood to answer questions from us this evening.

I have to admit that I am a little confused at this point, so I'd like maybe somebody, if you could reconcile what you are saying and what we heard today. I'll start first with the contract issue and whether or not long-term contracts, short-term contracts, I guess what I heard from the first panel is that contracts really didn't make any difference and that if the producers entered into a contract with the auto industry that the auto industry would then come in with changing the volume, changing the price, and the steelmakers had no ability to really negotiate and had to accept it.

Now I've heard here that it's the steel producers who will not enter into contracts with you and that has an adverse effect upon your plans.

Would somebody try to reconcile those two testimonies for me?

MR. McCONNELL: If I could again start from a legal perspective. I concluded that Bob Lighthizer and I went to different law schools this afternoon.

(Laughter).

The kind of contract that seemed so surprising to him was actually something we studied quite a bit in my contracts course which was a requirements contract. It is the kind of contract where the parties agree to enter something that is something of a partnership, that they're going to work together and they know that the markets for the consumer product, the automobile, is very uncertain, and the supplier upstream agrees to support the automobile manufacturer in dealing with that uncertainty by committing volumes that will permit the auto manufacturer to proceed.

The point that Mr. Jutte made about the expense of a production shutdown is real, and having the coverage of flexible supplies when those are necessary is a real contract issue that parties can very validly go forward and reach that kind of arrangement.

So from a legal standpoint a long-term contract, or any kind of requirements contract, particularly over a longer term, is simply an attempt by the parties to establish stability.

I would go on to say that contrary to Mr. Lighthizer's point that this shows some sort of vulnerability on the part of the steel industry, that the fact that they're very confident they don't need the stability any more shows that they are not vulnerable to further injury.

But let me let some of the witnesses talk to the contract issue.

MR. COVER: Mark, if I could start for the group.

We have counter-signed contracts with our steel suppliers, and I think it's common among the six car companies represented here, that the contracts are for estimated volumes. We need a supplier to agree that for a particular part number, for the steel required for an Escalade fender, that they will produce the coils that are needed for that fender through the course of the contract period at the volumes that we build that vehicle, and that vehicle build volume is related to the number that we sell.

To be a supplier to an automotive company, and this is well known globally, it's essential that in your business model you have the flexibility to dedicate your resources and be able to move your production volumes in support of that automotive customer.

We don't buy truckloads, we don't buy boat loads, we don't buy commodity, we don't buy steel that is just steel. It has to be the right steel for that.

I would also add that for that Escalade fender or any panel that you could name, there is only one supplier that we award that business to. So one steel supplier produces all of the coils needed for a particular automotive body panel for the entire contract period.

We release schedules to the steel suppliers that are rolling, 12-week schedules. They have an annual blanket contract. The schedule becomes the contractual commitment for the quantity to ship each week. Neither a steel company nor a car company ever intended for our contract to be a take or pay contract. We've never had one. I don't think anyone in this room has ever had one. Nor would we.

I would also say that GM and probably others do not expect access to unlimited volume as a part of a contract. The volumes are defined, but they are estimates and we need enough fenders to build every Escalade that we can sell. And every steel company understands that.

MR. NIELSEN: This is Chris Nielsen from Toyota. Just to add briefly to what Richard shared, maybe to illustrate this, last year for the first time in my 19 plus years working for Toyota, when we approached suppliers and told them that due to the market acceptance of some of our vehicles that we are able to increase some of our volumes, instead of smiles and high-fives, we were met with no, we can't support that. So it was a very big change in our experience.

COMMISSIONER LANE: Ms. King?

MS. KING: I think some of the confusion has also been around long-term contracts and the question of whether we're able to get long-term contracts and who has been more interested in long versus short-term contracts.

I think in that case what we've seen is a shift that has maybe caused some of that confusion. Historically when we offered long-term contracts to the mills there was an attractive element to that contract because it secured opportunity for sales and it secured price and the mills were not confident in the forward forecast of the market so there was an inherent value in that stability.

In more recent years what we've found is the mills are clearly confident in the forward market because there is not the same inherent value in those contracts. So when we have asked for longer-term contracts instead of receiving a potentially lower price for the contract or maybe even a declining price in a share to market forecast for a pricing curve that was declining over time, what we have seen is contracts with, as a minimum, equal prices for a short-term contract and in come cases price premiums.

That suggests that the mill is very confident in the market, but what it also means for us is we may indeed approach a mill about the longer term contract, and then faced with the offer in hand, ratchet back to something shorter term because the longer term contract, the commitment of that tonnage to the mill for the longer term is not getting us any benefit in the marketplace, so both of us mutually agree that there's not the same advantage to the contract.

COMMISSIONER LANE: Thank you.

Did anyone else want to make a comment?

Ms. DeSandre, in your testimony you talked about an internal analysis that you did saying that the profit per ton was $120, I believe. And that the operating income of the industry was 15 percent. Is it possible for you to provide post-hearing that study for us?

MS. DeSANDRE: Yes, I offered to do that and we would be happy to.

COMMISSIONER LANE: Thank you.

If I understand your testimony, it's not that you want to go source your steel from someone other than the domestic industry. It is your testimony that the effect of these orders is making the cost of the steel too high. Is that correct?

MR. McCONNELL: I would actually say, our view is that these orders are no longer needed given the condition of the steel industry. It's less the effect of the orders than it is that the steel industry has recovered, which of course is the focus of the Commission's analysis.

We would benefit greatly from having suppliers who have a real competitive incentive to continue their partnership with us.

COMMISSIONER LANE: Maybe I won't be able to get this in this round, but I'll ask it the next round.

Have you quantified what the cost of these orders are on a ton of steel?

MR. McCONNELL: We have not. We've --

COMMISSIONER LANE: Or on a car?

MR. McCONNELL: Should we start that one with the yellow light?

(Laughter).

I think the short answer on the cost of the car, and let me give you the short answer and then if we need to come back to it. We haven't seen the calculation that the steel industry was putting out there. We would be delighted if the Commission would request that they put it on the public record, in detail, so that we can have a good look at it and comment on it.

I think different companies may have slightly different takes on it. At least one company has told me that they do not agree with the assumption of steel per car that Mr. Lighthizer said was generally accepted, so I think it's the sort of thing where we'd probably be best off in the post-hearing, if that's acceptable.

COMMISSIONER LANE: Okay, thank you.

CHAIRMAN PEARSON: Let me follow up on Commissioner Lane's question and ask specifically, to what degree have your perceptions of supply tightness for corrosion resistant steel been related to the unwillingness of U.S. producers to provide above contract quantities at contract prices. I think that's basically what I heard the domestic industry saying a little while ago.

That would be a question basically for the auto industry.

MR. KELLY: Dan Kelly from Daimler Chrysler.

We have had, we at the Chrysler group have had consistent and increasing shortages recently of products for, actually for committed tons. I get calls every Saturday, that famous Friday night call or Saturday morning call, the plant's running and we don't have our steel here. It happens throughout the week more frequently than we would like to have to deal with.

What happens consistently to us, we are forced into the spot market because we have to keep, consistent with what the other folks have said, we have to keep our lines running. That's sort of one of the unwritten rules in the automotive industry. You just do not shut down production at any cost. So we have to go out on the spot market.

Invariably we find on the spot market the exact product that we're looking for, either from that supplier that's short on it, or from one of the other suppliers. So that product was probably available to us directly but it went out onto the spot market.

I don't know if that specifically answers your question but we do have these instances and they happen quite frequently to us right now, and it's especially disturbing in light of, regrettably, the fact that our volumes are down.

CHAIRMAN PEARSON: Could you please clarify on how long the condition you describe has been present in the marketplace? Is this something that you've seen develop within the past six months, the past year --

MR. KELLY: I'm going to say it started in earnest about a year ago and it's gotten progressively worse. One example a year ago we had to make, in that case we had to make a significant substitution which required us to go into the body shop at our Jefferson plant that builds our Grand Cherokee and we had to recertify everything. I got really tired of getting up at 4:30 in the morning and making sure we were ready to go at 6:00 in the morning for about a week or so. That was the one glaring incident that happened about a year ago.

While the shortages have not been as drastic as that one, they've been more frequent over the last year and especially I would say over the last, maybe the last four or five months. They haven't been as damaging, but they've been more frequent.

CHAIRMAN PEARSON: And you're also indicating this is a significant change from what had prevailed in the marketplace prior --

MR. KELLY: absolutely. It is a significant change.

CHAIRMAN PEARSON: Okay. Comments from other auto manufacturers?

Mr. Vickers?

MR. VICKERS: Cal Vickers with Nissan.

During some part of the discussion earlier today it may have been implied that there simply were not shortages, or if there were shortages it's because we were exceeding the contract quantity. We're not in that condition ourselves, however we do manage the inventory level of the steel basically on a weekly basis at the part number level. The reason we're doing that is we don't have the inventory that we desire. And as several people have alluded to, we cannot afford to shut down a vehicle assembly plant.

So we're managing in a rather precarious situation. And technically it may not be a shortage because we stopped the plant, but our job in purchasing is to make sure that does not happen.

CHAIRMAN PEARSON: Ms. King?

MS. KING: Thank you.

I would also say that the condition you described is certainly there. We have approached mills and asked them to take additional tonnage at contract prices and been told politely, thanks but no thanks.

But I think that joins a number of other conditions around tightness of supply that are maybe not traditional shortages, but cumulate up to give the impression that there is tightness of supply or certainly supply available to us, maybe not even available at contract pricing but of anything other than just a pure spot price.

I think we've seen situations where mills have asked us to take tonnage back that they currently support, and they've asked if we can please resource it.

We've seen situations where we have approached mills for fairly significant incremental tonnages and even if there is a preparedness to talk about unique pricing they have declined. So there are different conditions.

I think what we're seeing is the feeling of shortage and the feeling that we can't get access to supply is that when you cumulate these things up and yo look across what we're trying to do.

The process of trying to source steel has become much more difficult than it traditionally was.

CHAIRMAN PEARSON: Purchasing managers are earning their keep, I can see.

Mr. Cover?

MR. COVER: Yes, if I may.

There were references this morning from more than one steel executive, including Dan DiMicco, CEO of Nucor, that as Lisa pointed out, that the reports of shortages were cooked up and not real because we changed schedules, we don't know what we want, and we changed specifications.

Of course we can change specifications if we want to improve our vehicle, and we do.

If we have remarkable success int he marketplace with our vehicles we do ask our suppliers for more volume. If one supplier fails in any way -- quality, service, technology, delivery, inventory -- we may ask another supplier to either supplement or replace that volume. We're not bashful about asking. We need what we need.

However, if the request that we make is clearly outside the intent of the contract, the supplier is the other party. They have a choice. What we've been observing is they're exercising that choice and declining the opportunity.

It wasn't very long ago, I'm going to say as recently as 2003, late in the year, that given the opportunity to capture new volume with one of these six companies, which despite what we heard today, all six of these companies are considered premier accounts for these companies to have, any incremental volume was considered a win and they couldn't wait to get back to their offices and report to their bosses the win that they had acquired from one of us on one of those days.

I would just add finally that a shortage is a shortage. I talked about our release schedules previously. If we increase our schedule within that

12 week lead time and we know we need it, we don't hold that supplier accountable.  If they are unable to respond we go get the steel somewhere else and whatever the requirements are in terms of costs or logistics to acquire what we need, we take that responsibility ourself and don't try to push those costs or the responsibility onto the supplier.

CHAIRMAN PEARSON:  Could you clarify a little more precisely when you sensed that the market was tightening?  We had Mr. Kelly indicate about a year ago, and you've mentioned maybe since 2003.

MR. COVER:  In 2003 the steel companies were begging for all the volume that they could get from us, but the shortages, and in fact in the case of General Motors we had to assemble a team and a crisis center, subject matter experts from manufacturing, purchasing and engineering, so that we could find anywhere in the world the steel we needed to cover the shortages.

We do have shortages that we make for ourselves.  We don't take those to the suppliers.  We just deal with them.

The ones that the suppliers are responsible for, we reported in our questionnaire and also in my affidavit that was submitted confidentially.  We observed these shortages, became sufficiently critical around the third quarter of '05 that we had to assemble a crisis center.

CHAIRMAN PEARSON: Any further comments?

MR. NIELSEN: Chris Nielsen from Toyota.

Our experience has been about the last 12 months we've seen a significant tightening in the market. The last 12 months. And have experienced similar supply issues that the other automakers have described.

CHAIRMAN PEARSON: Okay. Thank you very much.

It's interesting to get two different views -- the blind man touching the same elephant.

I think both sides have a sense that the market has tightened and yet from the producer's standpoint there's a long overdue process of taking some of the slack out of the market has gotten underway, and from the user's point of view, my gosh, how am I going to run the plant?

Thank you very much for all those comments.

Madame Vice Chairman?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman, and welcome to this evening's panel.

I'm going to do what I did a little bit

during the first panel and ask questions of people who are hiding in the back.

I want to start all the way out in right field with Mr. Shambon. You're back there.

MR. SHAMBON: I was trying to play the John Bates role throughout the whole hearing.

(Laughter)

VICE CHAIRMAN ARANOFF: All right.

Your client, Blue Scope, has reported their capacity and production to be equal, and some questions were raised in the domestic industry's brief, and I think legitimate questions about the credibility of those numbers being equal every year, despite the fact that they're not the same every year.

Is there an explanation that you or your client can provide for that? Or in the alternative, can you get your client to work with our staff to work on those numbers?

MR. SHAMBON: We plan on doing that. We had an issue with the bracketing that occurred in the domestic's pre-hearing brief where virtually the whole argument was in square brackets including the references to CRU. We've clarified with the Secretary that we can share that confidential material with the client so the client can now be in a position to respond, and we will do it in our post-hearing brief.

VICE CHAIRMAN ARANOFF: Okay, we'll look forward to your response. I'm not entirely clear on why your client needs to look at CRU to know how much they produced, but --

MR. SHAMBON: Part of the argument was based on CRU's estimate of our capacity.

VICE CHAIRMAN ARANOFF: All right. I appreciate any clarification that you can give because we'd obviously like to have capacity and production numbers that we can be confident of.

MR. SHAMBON: Certainly.

VICE CHAIRMAN ARANOFF: Thank you.

A question, still continuing to focus towards the periphery of the room. This is for the European producer, Thyssen, and the French producers.

In the first review the Commission rejected the idea that sales by European producers outside the home country but within the European Union, should be considered tantamount to home market sales.

I note that in different ways all of you make that argument anew in your brief. So I want to ask you, is that something we should be reconsidering when we consider the question of the export orientation of a European producer? And if it is, are your clients able to provide for us specific breakouts that would show their exports within the European Union to countries that are scheduled to join the European Union within the next two years, and then to other countries on a country by country basis?

I don't know if Ms. Cumins or Mr. LaRussa you want to start.

MR. LaRUSSA: This is Bob LaRussa for Shearman & Sterling. Certainly we can give you that breakout.

I think our argument, the cumulation argument's a little more complicated than that. We not only have a focus on Europe, an exclusive focus on Europe, but we're also affiliated with a major U.S. supplier. So it's a very simple equation. We have no reason to ever ship here and therefore no likelihood of future injuries.

So we will definitely get you the data, but it's not as simple as focusing on Europe. It's also now Arcelor and Mittal are one company, and Mittal is a large U.S. company.

VICE CHAIRMAN ARANOFF: Okay, I appreciate that and I actually am going to have a question coming up about transplant production. But let me give, who is that all the way in the back there?

MR. GRUENHAGE: It's Stefan Gruenhage from ThyssenKrup Steel, Germany.

I just want to say that we always say that we don't only use Germany as our home market, but we treat the whole European Union as our home market. To understand this, that is not a secret. Sixty percent of our shipments go to the German market and more than another 30 percent, between 30 and 35 percent, goes to the other EU countries and leaves only approximately five percent for exports to countries outside the EU.

The reason is, as you mentioned before, a similar currency, even if not every country, is the euro right now, but our pricing and invoicing is done in euro, so there are no risks from currencies and all of this, and there are no trade barriers at all within the European Union.

What our customers, especially for example, in the wide goods sector are moving their production facilities, for example, from Germany to the new member states, and we are just simply following them and it's still our home market. I think that should be considered in your decision as well, yes.

VICE CHAIRMAN ARANOFF: Okay, I appreciate that. that's why I asked as specifically as possible if you can break out on a country by country basis your exports.

MR. GRUENHAGE: We will do this, yes.

VICE CHAIRMAN ARANOFF: Thank you very much.

Turning to the question that Mr. LaRussa raised, in the first review the Commission rejected the idea that because they all had U.S. production affiliates, Japanese producers were unlikely to send injurious volumes of imports to the United States in the event of revocation. In that first review the Commission reasoned that Japanese producers could, and in fact did rationalize their product lines between the U.S. and Japan and said that even if one particular producer had arranged its imports so as not to injure its domestic operation, such imports could still injure domestic operations of other domestic producers.

So I ask the question as there are still Japanese transport operations in the U.S. and also now Thyssen and perhaps there are others as well. Has anything changed in terms of the extent of investment by subject producers in the U.S. that should cause the Commission to reconsider the way it viewed transplant production in the first review?

Mr. Wood, do you want to respond to that?

MR. WOOD: Yes, Commissioner Aranoff, I

apologize. I didn't know if that was directed to ThyssenKrup in the first instance or to us.

But yes, I think what we'd like to ask you to do is to consider the role of the Japanese joint ventures and other alliances which are mostly directed towards the production of steels for the automotive industry, in the context of what we've tried to explain in our brief, which is that as the automobile industry moves toward increased global sourcing, that doesn't mean that they want to bring steel all the way over the ocean from Japan to supply plants in Indiana or Ohio. It means they want to have those products available wherever they operate so that they can source them locally from nearby suppliers. That has been the consistent strategy of the Japanese producers really since around the time of the original investigation. We tried to lay that out in the first review and it still remains true today.

VICE CHAIRMAN ARANOFF: Mr. LaRussa, did you want to add anything?

MR. LaRUSSA: I think that the Arcelor/Mittal situation is not the same. It's very unique. Mittal USA is a major U.S. producer of this product. France was never involved in this U.S. market to any great extent. And if you take a look at the numbers in the staff report you'll see that basically everything goes to Europe. So it's not really the same argument. It's basically the argument if you have a huge U.S. producer you've got a bigger company that has a European presence that focuses on Europe. There's no economic sense in starting to shift a whole bunch of French material with the freight costs and euro-dollar exchange and everything else involved in it to the United States.

VICE CHAIRMAN ARANOFF: Okay.

I invite all of the subject producers to whom it's relevant as well as the domestic industry to please take a look at the Commission's recent sunset review determination in the Forklift Trucks case which dealt with this issue of transplant operations in the U.S. and see if there's anything there that should inform the way we look at the issue here.

And because my light has now turned yellow, I will wait until the next round.

Thank you.

CHAIRMAN PEARSON: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, and I too would join my colleagues in welcoming all of you here. We very much appreciate your perseverance through a long day already.

Let me try to make sure I'm understanding exactly this testimony in terms of this issue of the tightening of the market and potential short supplies for you. If I look at the data, clearly we did see, particularly at the end of the period, a significant increase in the volume of both subject and non-subject imports. I just want to make sure I understand, would that not be something that the auto industry looked to in terms of leading any of these short supply problems that you're describing?

Did any of your turn to either subject or non-subject imports as a way of meeting these shortages that you're describing?

MS. KING: Lisa King from Ford. I would say actually somewhat the reverse. In our experience we had a number of where we had specialty products being produced by international mills. We had a number of them come to us and actually ask if we could take those back because their home markets were so strong that they preferred to use the capacity for their home market. So somewhat the reverse in our case.

COMMISSIONER HILLMAN: Mr. Cover?

MR. COVER: In our experience we neither sought significant quantities, nor when we did we receive significant responses from offshore.

COMMISSIONER HILLMAN: Okay.

Any of the others? Mr. Nielsen?

MR. NIELSEN: Chris Nielsen from Toyota. During that period, one example is we shifted production of one of our vehicles, the Solara, from our plant in Canada to our plant in Kentucky. That caused some movement of the Canadian sourced deal into our U.S. operation.

COMMISSIONER HILLMAN: Mr. Kelly?

MR. KELLY: Yes. We didn't have maybe as drastic a situation as some of my peers here, but we never even sought any foreign steel as a remedy to these shortages and did some unconventional things to alleviate short term situations by going to some other suppliers and substituting sort of equivalent products. I can reinforce Mr. Cover's comments that you cannot compromise certain things when you do this, but there were some ways in a short term situation that we could do some things that we hadn't done in the past, but it was always with domestic folks, and it was under short term situations.

COMMISSIONER HILLMAN: Others?

MR. LUTHER: Randy Luther with Honda.

Very similar to Toyota's situation. We had a business strategy where we changed our production location for the Odyssey and the Pilot and we shifted some of that production from our facility in Alliston, Ontario to Lincoln, Alabama.

COMMISSIONER HILLMAN: So that is the source of the Canadian product coming in?

MR. LUTHER: Yes, that's correct.

COMMISSIONER HILLMAN: Part of the reason I asked is I have to say in listening to the response that you all gave to Commissioner Okun in terms of okay, if these orders were lifted what change do you think you would see in terms of where you would source your product, I have to say with the exception of a couple of specialty products the gist of at least what I heard was you're not necessarily going to buy a lot more imports. That's pretty much what I heard.

I'm struggling with then, if you're not going to buy any imports, how is it that not buying imports is going to somehow make the domestic industry, if the goal that you're telling me is that you want the domestic industry to be more competitive and you think the way to make them more competitive is to have more competition but you're not actually going to buy anything, I'm struggling with how is it that you think more competition is going to come into the market?

First I want to make sure I heard these answers correctly. I did not hear anybody saying if you lift these orders we will in fact buy more. It's just the mere presence of the potential, I suppose, that you're saying it's going to change prices? Change what?

MR. COVER: I think our answers are consistent, but I think your question points out something that we really need to explain better.

In terms of shortages, it's difficult to get steel from far away across the ocean in a short time. When we're facing a shortage it's typically a 72 hour issue or less.

Secondly, I think it's consistent that if a supplier is not already validated, technically it takes us a fair amount of time to be sure that they can make the qualities and structural requirements that we need. However, we can overcome those constraints given time, number one.

Secondly, contrary to the testimony earlier today, we can't make a supplier do anything that they don't want to do. Only competition or competitive pressure can do that.

So revocation of the orders would allow us to invite proposals from the subject countries. It would allow us to start the validation process. It would allow us and the domestic industry to observe the level of interest and energy that those countries would put into winning our business.

I think for those reasons the appearance and the reality of competitive pressure would create more flexibility for us in the domestic supply base and make it a more balanced engagement when we do negotiate each year price and volume.

MR. VICKERS: Cal Vickers with Nissan.

I think it's probably very clear that we're all steel consumers, but we may be consuming different types of steel for different applications. In our case we're using more and more high strength steel and ultra high strength steel, some of the advanced products.

The thing we'd be looking for is availability. So if there was some motivation to the domestic industry to develop those products and to have a greater application, that would be of benefit to us.

COMMISSIONER HILLMAN: I appreciate those responses.

Another one of the issues that I think at least I heard some differences in terms of your testimony and that that we heard this morning concerns basic demand.  As I look at the data that you've presented, you're in essence suggesting that you think there will continue to be a significant growth in demand, and particularly with looking at your chart on North American production of vehicles.  I guess I have two questions.

One, if I look at it, I actually personally think it looks like a relatively flat line of production.  We had a downturn in 2006 and then it really doesn't start to go up until 2008 or 2009.  My question is, again, therefore to me it looks like reasonably flat demand for what we would normally in a case like this consider to be the reasonably foreseeable future, is not what I would describe as a robust increase in demand.

So I just wanted to make sure I understand that notwithstanding this, and then let me add into it the argument being made that at least in North America we're going to move from everybody driving an SUV to everybody driving a Preus or something smaller, a Focus, some much smaller car that would in theory have less steel in it.

My question is if you put all of that together, really do you think there is going to be a significant increase in the demand for this subject product to go into vehicles produced in North America?

MR. MOHATASEM: I think the way to look at it is first auto sales in the U.S. have been running at historical highs, much higher than would have been projected even in the '90s. In the '90s we used to talk about a 15 million vehicle market as being a good market. Now we've been running at a steady state of about 17 million vehicle market in the U.S..

So you're talking about auto sales being at a very high level. On top of that you're talking about a lot of the foreign countries shifting production from the home market to the U.S.. So you get a production boost in the U.S. from just a shift from imports to domestic production.

Being a GM exec I also believe that our problems are temporary. That we are making the adjustments and that we will be back very strongly.

Finally, I think it has been really overstated the shift from large vehicles to small vehicles. In fact we just introduced new versions of our full size SUVs and now are getting ready to introduce full size pickups. Both are doing exceptionally well.

So you don't see the shift in vehicle sales from large to small as has been talked about a lot. There clearly is a modest shift but it is not a very significant shift. You're talking about shifting production from abroad to the U.S. and Canada and Mexico, all of which are served by the U.S. steel market, and then just the normal recovery from a temporary slowdown in the market.

MR. McCONNELL: I'm going to just leave a marker, if I can, on the assumption that we're running out of time on this question which is you probably will want to hear from some of our witnesses as well about another kind of shift which is an increase in the incorporation of corrosion resistant steel into each vehicle. So it's not simply a question of the size of the vehicle as to how much steel is going in it, but there is a trend toward getting away from some other steels and using more corrosion resistant steel on a per vehicle basis.

COMMISSIONER HILLMAN: I appreciate that. I agree with you, the light is on so I will come back to this on the next round.

Thank you, Mr. McConnell.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman. I want to thank the witnesses for their testimony thus far.

Mr. Mohatasem, I'd like to stay with you if I could because I'm struggling with regard to these charts a bit so I'd like to follow up with Commissioner Hillman's line of questioning.

The first question I have is with respect to the three charts that you have provided to us, what are the sources for the information on these charts? Where are your inputs coming from and could you provide that detail for us post-hearing? Or you can tell me now.

MR. MOHATASEM: We can certainly give you the underlying data. Up to 2005 it's history. That is from GM's internal sources that we compiled. But the same data is available in Automotive News or Ward.

COMMISSIONER KOPLAN: Let me stay with this chart that you have, North American Light Duty Vehicle Production. First of all, is your starting point on this chart 2005? Because the first year on the bottom is 2006. Is the trial line to the left of that chart, is that 2005?

MR. MOHATASEM: Yes, it is.

COMMISSIONER KOPLAN: Your range is between 15 to 16 and then 16 to 17 million. What is the number you were using for your starting point in 2005?

Where within the range of 15 to 16 million are you?

MR. MOHATASEM: Just eyeballing it since I don't have the data in front of me, it looks like about 15.5.

COMMISSIONER KOPLAN: Okay. If you could confirm these things for me post-hearing I'd appreciate it.

MR. MOHATASEM: Certainly.

COMMISSIONER KOPLAN: Where are you in 2006? Am I looking at the beginning of 2006 where that dip is, or the end or in that 12 month period with the decline that you're showing here, what's the number, and at what point in time in that year are you talking about?

MR. MOHATASEM: The dip is in second and third quarter.

COMMISSIONER KOPLAN: The dip runs from what to what? What's the number of vehicles you're talking about?

MR. MOHATASEM: Commissioner, I'll have to look more carefully at the underlying data. I gave it to the law firm, but again eyeballing it it looks like we're dropping down to about 15.3.

COMMISSIONER KOPLAN: Okay. And now in 2007, my question is the same. What does it look like to you, eyeballing it?

MR. MOHATASEM: We believe it will be back up in the 15.5 range.

COMMISSIONER KOPLAN: Then in 2008?

MR. MOHATASEM: Essentially the projection between 2006 and 2009 --

COMMISSIONER KOPLAN: No, 2007 to 2008.

MR. MOHATASEM: It's roughly a one percent per year growth.

COMMISSIONER KOPLAN: One percent. So what would your number be for 2008?

MR. MOHATASEM: If you looked at it, 15.5, going to 15.65, 15.8.

COMMISSIONER KOPLAN: I appreciate that. So those are your numbers. And if you could, as I say, provide the basis for this from the input you used I'd appreciate it post-hearing.

MR. MOHATASEM: These are the numbers that were also cited by the U.S. Field Representative this morning and they're from the Ward's, which is sort of the industry bible on production forecasts.

COMMISSIONER KOPLAN: I guess what I'm trying to understand is this. To me it looks like what you've described is a decline in the first year, and I'm particularly interested in the period through

'08. A decline in the first year, and I understand where you are in '08. The reason I'm struggling is because in your Joint Respondents brief you are predicting robust demand growth, as I think Commissioner Hillman touched on. I don't see how this is consistent with that prediction in the Joint Respondents' brief. I'm struggling with that.

MR. MOHATASEM: I think the global demand growth is very robust. We're forecasting --

COMMISSIONER KOPLAN: I'm talking about in the United States.

MR. MOHATASEM: I don't think we describe as robust demand growth. We describe it as robust demand.

COMMISSIONER KOPLAN: Robust demand in, you're discussing robust demand globally, not --

MR. MOHATASEM: No, no. Robust demand growth globally. Robust demand in the U.S..

COMMISSIONER KOPLAN: As well.

MR. MOHATASEM: Right, but not growth. The U.S. is a relatively mature market that has been at a very high level.

COMMISSIONER KOPLAN: Let me ask you to factor this in because I'm struggling with that.

The staff report says that the auto sector was 47.6 percent of corrosion resistant steel shipments in 2005. The construction sector was 18.8 percent. That's in chapter 2, part 2 of our public staff report.

However, recently each of the Big 3 automakers announced very significant production cuts for the last quarter of 2006 through 2008.

In light of the plans by GM, Ford and Daimler Chrysler to cut output while demand is shifting from SUVs to lighter, more fuel-efficient vehicles with substantially less core content, I'm wondering whether you're factoring into your prediction that U.S. demand for corrosion resistant steel for the remainder of 2006 through 2008 is going to be robust. I can't reconcile that prediction with what I'm seeing in this table.

MR. McCONNELL: I do have to clarify. The robust prediction was not in our brief, sir. You're talking about the Joint Respondents' brief. That was not submitted by the auto companies and you should address that to the --

COMMISSIONER KOPLAN: I'm sorry. It was ThyssenKrup and Union Steel Manufacturing Limited, for example, and it's in the brief beginning at page 12 and the header on that is, "Demand has been and will continue to be robust for domestic CORE." And you disagree with that?

MR. McCONNELL: No. I'm not saying I disagree with it at all. I'm just saying that the reason we're kind of scrambling around here is that isn't our brief.

COMMISSIONER KOPLAN: But you're familiar with what it says.

MR. McCONNELL: Well, I think you should direct it to the people who wrote it who are sitting right behind us.

COMMISSIONER KOPLAN: I'm happy to hear from them. Maybe they can reconcile it for me because I'm having a bit of a problem.

MR. McCONNELL: I also should apologize for the data issue. I actually have all the data behind Mustafa's chart in an e-mail from Mustafa on my laptop and it's my fault for not having it right here. My apologies. We will submit that post-hearing.

COMMISSIONER KOPLAN: Okay.

I appreciate what you're saying. Why don't I give Mr. Kinney, Mr. Gruenhage, and because I haven't heard from Mr. Cameron or Ms. Mendoza yet, I don't want to leave them out. If each of them could address this for me.

The question is basically, were you all factoring in the plans for the Big 3 to cut output when this prediction was made for robust domestic CORE demand?

I realize these announcements were very recent and I'm wondering whether you took it into account in what I'm reading in the brief.

MR. GRUENHAGE: I can tell you for ThyssenKrup here, the tonnages which we are shipping to the automotive industry in the U.S. is mainly to one of the big automotive industry and there we are for certain sure and even some production cuts will not affect really our shipments to the U.S., due to the low volumes which we are shipping.

MR. MALASHEVICH: This is Bruce Malashevich, Commissioner.

I don't know exactly what pages in the joint brief you're referring to, but I --

COMMISSIONER KOPLAN: It begins at page 12.

MR. MALASHEVICH: Okay.

COMMISSIONER KOPLAN: I see a few of you have that with you.

MR. MALASHEVICH: We'll be there in a second.

MS. DeSANDRE: This is Susan DeSandre from

Ford.

I don't have the specific data in front of me, for example, about the Ford production cuts but maybe I could try and clarify a little bit of what I do know and can circle back with data if it helps.

The fourth quarter production cuts that you're referencing have been announced for the fourth quarter only.

The 2006 to 2008 timeframe I think that you're talking about is actually an alignment of Ford's capacity with the current output. So for example, we have lost significant market share over the last several years. We're not anticipating a further slide.

COMMISSIONER KOPLAN: I appreciate that and I'll come back to you.

MS. DeSANDRE: I don't know if that helps.

COMMISSIONER KOPLAN: My light's about to go out and I'd like to get the answer to the main question, if I could.

MR. MALASHEVICH: I think I can give you the answer, Commissioner.

First of all, we distinguish between what the Canadian producer Dofasco has in mind sending to the United States as per Ms. Towers' testimony earlier. That explicitly did take into account in their business plan the production cuts, as she testified.

On pages 12 and 13 we tried to glean measures both of retail sales of automotives and also U.S. production of automotives. Taken into context of both the retail sales and production which as the economist from GM testified, our definition of robust in the context of autos was sustained production at a very historically high level.

We also believe that expanding the numbers to which the term robust applied have to include the non-residential segment. It's obviously very important to discuss automotive production and we have the right people do that here, but we can't forget about the other half of the market.

COMMISSIONER KOPLAN: My light's on. I ran over this morning. I would simply ask you if you can expand on this for me post-hearing and clear it up for me because I'm struggling with it. I would welcome the domestics doing the same on this point for me.

I see Mr. Hecht nodding in the affirmative that he will do that.

With that, Mr. Chairman, I'll turn the questioning back.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you. One follow-up on the same chart and we'll appreciate looking at the information behind it but I understand that it sounds consistent to me with what we heard this morning on the 1.1 percent from '07 to '08 and I think the difference is what you're looking at from '08 on. That's the bigger thing.

But you said something also in response to one of the questions, Mr. Mohatasem, and I wanted to go back to it, which is if you could also document for us any industry publications or any information from GM or others on what I think I heard you say which is you think the shift to the lighter cars and away from SUVs has been modest. And I think Mr. McConnell had added that he also, you added something about the actual CORE being used in automobiles may be increasing.

So if there's any industry documents that you could provide for the record on those particular points I'd appreciate seeing that as well.

MR. MOHATASEM: We can certainly do that.

COMMISSIONER OKUN: That would be great.

Let me now turn back to the Japanese respondents.

Further on this question about what volume from Japan is likely if the orders are revoked.  One of the points that the domestic producers made this morning, or this afternoon, whenever it was, in response to my question, was that with service centers and the fact that the Japanese companies have relationships in the United States.  But the just in time issue isn't such a big deal because if you work with the auto producers and have apart that you can manufacturer, that you'll be able to manage the time differences and the transportation differences, et cetera.

I wanted to hear your response to that from whoever wants to start.

MR. MIKI:  My name is Heiki Miki, JFB Steel.

There are many service centers established by, for example, Japanese companies in the United States.  However, their main objective is to have separate chain with the steel made by U.S. mills, not from global supplier like us.

In our case it is true that they have warehouse, they have supply service center to establish JIT operation for automotive companies, but that's all using steel from U.S. mills.

For example, if they would like to have for example, steel from JFB, at least it usually takes two months or three months to produce material after receiving an order. Then there is another 30 to 40 days for just transportation. Then you need to add inland transportation from the port to manufacturing plant in United States. So physically do you think you can do that, you can do that. But economically, I don't think that's a feasible plan to do it.

COMMISSIONER OKUN: Mr. Cameron?

MR. CAMERON: Just very briefly.

This really is a false comparison. They're trying to make the time period and the expense of maintaining that inventory automatically disappear. The reason the proximity is important is because the steelmaker makes the steel and sends it to the automobile company and they're doing this calibrated to when these guys are manufacturing the steel.

When you're ordering it from Korea and Japan to bring it to this country, you've got at least a three month supply chain plus a little bit extra because you have the order time, then you have to stick it into production, then you've got to get it off of the production, onto the ship, from the ship onto the dock, off the dock onto the truck, from the truck to the plant, and guess what? That's not just in time and that's the problem here. So --

COMMISSIONER OKUN: Mr. Cameron, you've had caffeine and food too, so you're ready to go.

(Laughter).

MR. CAMERON: Commissioner, I have not had any caffeine since this morning but I'm thinking about getting some more because it's time we liven this place up.

(Laughter).

Anyway, that's all I'm suggesting to you, is that either A, there is a time lag here that nobody is taking into account and they're suggesting well hell, they can just put it into a service center. Well, exactly who is going to pay the cost to maintain that inventory? Which again, you're either going to be talking somebody pays to maintain the inventory on the yard, and that increases the cost; or they're going to be doing just in time from a four month timeframe, and that's a problem and that's the reason that this just in time explanation that you got from them this morning doesn't work.

I'd be more than happy to ask my friends at Ford in the front row to ask whether they agree with that.

(Laughter).

COMMISSIONER OKUN: I think I'll follow up, Mr. Cameron, since we got you going, why not keep with it. Actually this will be broader, not just to the companies you represent today but to the other subject producers as well.

that is to the extent you could discuss it on the public record, if not for post-hearing, one of the other arguments made with regard to whether there will be significant volume from the subject countries is that to the extent there are shipments to the North American market already, it is a sign that the subject producers, notwithstanding what you just said about the shipment, or that's not just in time, but there may be shipments. Is there anything you can say in this session about that?

I'll start with you, Mr. Cameron.

MR. CAMERON: Thank you very much, Commissioner. I appreciate your indulgence.

There are two things I can say. First of all, is the question directed solely about autos or is it about all corrosion resistance?

COMMISSIONER OKUN: You might help me break that down.

MR. CAMERON: The reason I ask is that the Korean suppliers, as you know, have been in this market from the beginning and yes, you're correct. Korean suppliers have not been prevented from importing because of the antidumping and CVD orders. That, of course, is because they don't really have any duties that go along with them.

The antidumping orders have not been a significant barrier, but as you heard from the testimony from POSCO, and this is actually quite significant because it gets into the issue of, one of the things that you're looking at is what is different about the trade today from the trade in 1993, which I would like to remind the Commission was 15 years ago, and in 2000 when you last looked at this in terms of sunset.

One of the differences is that in 1993 all of the corrosion resistance that came from Korea, which was not all that significant, but it came, was really commercial grade, galvanized steel.

Now all of a sudden we're in 2006. POSCO is supplying automotive grade to Hyundai Motors in Alabama. Well, prior to their supply in 2004, POSCO didn't supply anything there. Why is this different from what we just talked about in terms of just in time? It's because the Hyundai plant was just established.

In order for them to get off the ground they calibrate those machines based upon the steel that they have bought and Hyundai has been making in Korea for the last 10 to 15 years. They are making it based upon that steel. That's the way that they get the efficiencies necessary in order to get the plant going.

As the plant gets going what you find in these transplants, and I would ask the automobile transplants to substantiate this, is that gradually they move away from the steel that they started with because they then qualify the U.S. suppliers. Why do they qualify the U.S. suppliers? Exactly the reasons we've been talking about, because they want to have the proximity, they want to have them there, they want to be able to have that steel. That's the reason you have that gradual shift.

But it's important to understand, if they couldn't get POSCO steel, Hyundai in Alabama would not have been a successful company. They needed to have the steel that their machines were calibrated with and then as they adjust they can go and develop additional sources here. And guess what? When they do that, they're going to phase POSCO out. We understand that. That's what's going to happen.

COMMISSIONER OKUN: Producers from the other countries?

MR. DAVEY: Mr. Davey from Dofasco.

The main reason, again --

COMMISSIONER OKUN: I'm sorry, I will come back to you. I view you a little bit differently and I've heard your testimony. I'm now looking for the Asian importers who are sending to the American -- Asian or European producers that send to the Americas and what that means for volume if the order is lifted. Anybody else?

MR. WOOD: Chris Wood --

COMMISSIONER OKUN: And I do have the yellow light, just to let you know.

MR. WOOD: I'll try to keep this brief then, Commissioner.

Basically I agree with what Mr. Cameron has said. The Japanese producers are farther along that line than POSCO and Hyundai are right now. Nobody's going to sit here and tell you that sure, Nippon Steel has never heard of Toyota, or that Honda doesn't buy from these companies in Japan. But I think if you listen to the testimony from the transplants and look at the actual patterns of trade over the last 10 to 15 years, you see that what they want from the Japanese producers is to supply them in Japan, supply their transplant operations in China, and not just in China but in Asia as well. That's the most efficient supply chain for them and they have the U.S. suppliers here, as they told you, that they can get their steel from today for their U.S. operation.

COMMISSIONER OKUN: Okay, thank you. I'll return to this with the other producers.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: I'm going to start with a question for Ms. DeSandre.

Mr. Cameron, I don't have a question for you but if there's anything you want to answer please do, because you're livening this up and I need a jolt to wake me up here.

MR. CAMERON: Thank you, Commissioner.

COMMISSIONER LANE: Ms. DeSandre, in reference to Commissioner Koplan's questions you began to explain Ford's situation. Were you saying that Ford was not cutting production in the fourth quarter of 2006, but it was cutting capacity to match current production levels? I thought that's what I heard, but I'm not sure that's exactly what you were saying.

MS. DeSANDRE: Let me try and clarify again.

I think there were two things that I thought maybe were running around because we talked about 2006 fourth quarter production cuts and then what is happening in 2006 to 2008. Ford had recently made some announcements around our capacity.

In 2006 we have announced production cuts for the fourth quarter. We have not made any production cut announcements beyond that.

In the similar timeframe, just very recently, on September 15th I think it was, there were some announcements about additional plant idling through the 2008 timeframe. What basically that is is that, and I can check on these numbers, but directionally I think they're right. Ford's installed capacity right now is 3.5 million units a year in North America, and our market share is 3 million units. So what we are doing is right-sizing our capacity to match the current market share. The anticipation is that that market share will continue.

So I think maybe sometimes those things get confused. I hope that helps.

COMMISSIONER LANE: Thank you.

Mr. Cover and Mohatasem. You said that GM did not really see any shift to smaller vehicles. I believe that's what you said. So I wanted to ask

Honda, Nissan and Toyota if you are also not seeing a shift from larger vehicles to smaller vehicles.

MR. MOHATASEM: Let me clarify before we move. I said the shift has been very modest, and in fact the shift you have seen is more in the middle of the market. We're moving from the traditional sport utilities, truck vehicles to passenger car vehicles are roughly equal size. That's where the big shift is taking place in the U.S. market. The amount of corrosion resistant steel in those two types of vehicles is not that different.

MR. COVER: If I may, Ms. Lane, I'd like to also expand on a point that was made many times today and also referred to by Mr. Koplan. That is if there is a shift in mix in the marketplace from large SUVs to smaller vehicles, namely smaller passenger car vehicles, that it would decrease the demand for CORE products. To analyze that and answer it correctly requires just a sentence or two about vehicle design.

Large pickup trucks and large SUVs, the ones that get all the ink about being gas guzzlers, are called body on frames, meaning there is a cab and a body assembled, of sheet metal. It's almost all CORE products, and it is attached to a hot-rolled metal frame. Most of the difference in weight between a large pickup or a large SUV and a passenger vehicle is represented by that hot-rolled frame, not by a significant difference in the number of pounds of CORE products in the two vehicles.

The latest trend which is another aspect of vehicle design which will affect the demand for CORE products is that those large SUVs, yes, they will continue to sell. But for those customers who don't want that large SUV, cross-over vehicles or CUVs as they're called, are becoming more popular and all of the companies --

COMMISSIONER LANE: Would you tell me what a CUV is?

MR. COVER: A cross-over utility vehicle. An example would be the Chrysler Pacifica. Or the Lexus 330. They're cross-over vehicles.

Those kind of vehicles are large, they're not as large as the big SUVs. They carry a lot of passengers. They're convenient and they ride like a car.

They are not body on frame. They do not have a heavy hot-rolled frame to which a sheet metal body is attached. They're built like a passenger car meaning that it's unibody construction. All of the frame and the vehicle body are welded together as one unit and those frame components are also CORE products.

Therefore, the cross-over utility vehicles will most likely use more CORE products than the heavy sport utilities that they replace because they have more sheet galvanized and do not have a heavy hot-rolled frame.

Make sense?

COMMISSIONER LANE: Yes. So you are saying that if the U.S. industry, auto industry, determines that the public wants smaller vehicles and not big SUVs, that it will probably have no real affect upon the corrosion resistant steel market.

MR. COVER: Yes. I would conclude that with you, and also depending on what consumers choose long term, that creates these mix effects, could actually create a small increase in the use of CORE products.

COMMISSIONER LANE: Do Honda, Nissan and Toyota have the same answers?

MR. JUTTE: This is Larry Jutte from Honda. No, we don't have the same answers.

All of our products are unibody so we don't have the same situation that GM or Ford may have with their shifting of production from one to another.

But our light truck vehicle sales have been relatively steady. We are seeing an increased demand for our lighter, smaller cars, mainly the L4 version engine versus a V6 engine. So as an example, our Civic sales are very hot right now. We see that continuing into the near future.

COMMISSIONER LANE: So you are responding then to the market by producing smaller vehicles?

MR. JUTTE: We are not decreasing our overall vehicles. The increases in our incremental sales and production will be in whatever the market demands. Right now it happens to be in the smaller vehicle area.

COMMISSIONER LANE: Anybody else?

MR. NIELSEN: Chris Nielsen from Toyota. We'll be starting production next month at a new full-sized pickup truck in San Antonio, Texas, so we're hopeful and optimistic that a full-sized pickup truck market will continue to be a growing one in North America.

In addition we have two other plants that are presently under construction that will produce mid-sized vehicles, the Camry and the Rav4, so over the next several years we'll be opening three new plants, all producing mid-sized passenger cars or full-sized pickup trucks.

MR. VICKERS: Cal Vickers from Nissan.

Our newest assembly plant in Mississippi builds a wide range of full size trucks, a mini van and the Altima, a large passenger sedan, mirroring somewhat what we do in Tennessee with the exception of the large trucks. They're more mid-sized.

The new, smaller vehicles that we're launching, the Versa and the new Centra coming out are coming from our Mexico facilities, so they're not going to be a degradation to what we do in the U.S. market.

COMMISSIONER LANE: Thank you.

MR. KELLY: Excuse me. There's one more point that might either confuse you or clarify something.

If the subject here is about the increase or decreased demand in these products there's another thing that is happening at least at our company and probably across the industry, feeding on Rich Cover's comments. We are all, because of fed regs and because of fuel economy requirements, we are all tasked with light-weighting of vehicles. What comes into that is in order to light-weight vehicles, particularly bodies and frames, you have to increase the strength, take the gage down, the thickness down, and increase the strength.

Products that presently are not CORE products, they're so thick, the gage is so heavy that they don't need to have corrosion protection. We are right now for new models in the '09-'10 timeframe, if we take enough gage out, we go over a certain threshold where those are going, they are not now CORE products but they have to be CORE products.

So the tonnage may not be significant, but I think it possibly could be because those frames are pretty good users of steel. That will increase the demand for CORE product that is not there right now. I don't know if that confuses or clarifies some things for you.

COMMISSIONER LANE: That's very helpful. Thank you.

Mr. Chairman?

CHAIRMAN PEARSON: I would just mention that some of us on the dais have noted that it's getting a little bit warm. I don't know what it's like down there. We have asked the secretary to determine whether the building ventilation might have shifted to a night-time schedule.

(Laughter).

We're trying to rectify this, so if you get warm take off your jackets.  We'll not enforce any dress code at this hour.

(Laughter).

Including for the secretary.

I also would note that Commissioner Okun who I hope is listening in the anteroom, I think she's just recently purchased one of those cross-over vehicles that use all that corrosion resistant steel. It seems to me to be a great mom car.  She'll probably comment on that when she returns.

MR. McCONNELL:  Mr. Chairman, could I just point out that in the hot-rolled hearing she pointed out she had a dying Ford Explorer and was looking to replace it, and Ford was more than willing to talk to her about that.

(Laughter).

CHAIRMAN PEARSON:  Earlier today I asked the domestic industry about the point raised in your auto industry brief that steel, the percentage of steel traded in global markets had fallen from 2000 to 2005, and this had to do with the issue of whether the global steel industry is becoming more regional and local and less of a trading industry.

Welcome Commissioner Okun.

COMMISSIONER KOPLAN:  Did you miss what he said?

(Laughter).

COMMISSIONER OKUN: I'm back. I'm defending my honor.

CHAIRMAN PEARSON: I was complimenting you on your choice of a car with so much corrosion resistant steel in it.

COMMISSIONER OKUN: But it's a cool car as opposed to a mom car.

CHAIRMAN PEARSON: Sorry. I'm glad to drive a dad car. I thought it was cool. The kids I bet think it's cool.

In the mean time, back at global demand.

We had a different opinion, if I understood the response of the domestic industry. They see the global industry as becoming relatively more involved in trading and less local industry. Could anyone comment on that?

MR. MOHATASEM: Can I start with sort of a macroeconomic answer, and then we can get specific.

CHAIRMAN PEARSON: Please.

MR. MOHATASEM: Essentially what we've seen in the last five years is economies strengthened around the globe, so you've seen a significant strengthening of the Asian market, you've seen a significant strengthening in Europe, and obviously North America has remained strong, as has Latin America.

So what you're seeing is mills trying to satisfy demand close to home. That's the pure economic explanation for the trends that we've seen. It's a number for the commodities that we buy.

CHAIRMAN PEARSON: Was there any specific analysis that went into the comments that were int eh brief?

MR. McCONNELL: I think I can speak to that.

If you look at the brief we've actually got some data in there sort of projecting and examining growth and total consumption contrasted to a decline in trade. So sort of the trend is clearly established. Then the question is what is driving the trend? I think one factor, and I would defer again to the steel industry experts here, one factor clearly is the merger trend in the industry with the assembly of global steel companies who are very focused on efficiencies region by region and establishing strategic partnerships across regions and so on, eliminating, from their perspective at least, the need to trade.

CHAIRMAN PEARSON: Mr. Malashevich? You are often the knower of all knowledge. I realize you didn't do this particular analysis. But is this an issue about which you have any knowledge, or could you provide any follow-up clarification? I'm just trying to understand. If indeed the steel industry globally is becoming more focused on local and regional markets and less on moving steel long distances, that's something that would be good to take into account as a condition of competition.

MR. MALASHEVICH: As I think you correctly pointed out, Mr. Chairman, that certainly appears to be the vision, as it were, of Mr. Mittal in assembling and organizing the operations that he's acquired over the years. That appears to be the philosophy at least that he espouses.

My perception from the trade press is that other companies, as they increase acquisitions or green field facilities, are trying to emulate that same philosophy.

The thing we want to emphasize on a global basis, which my colleague, the economist from GM, touched on just a moment ago is the historically, very unusual confluence of simultaneous, significant, in some cases very significant, as in the emerging nations, rates of growth in GDP, in consumption of autos, in consumption of steel. That just has not happened together with a very firm rebound of non-residential construction, throughout the world.

Generally speaking, if you go back in time the two were out of synch. Now they're all in synch. I think that is a contributing factor to the decline in world trade relative to consumption.

MR. KENNY: Don Kenny from Dofasco. And my hearing is still recovering, so if I didn't hear your question correctly, please excuse me.

(Laughter).

Of course as we pointed out earlier, the trade between the United States and Canada in corrosion resistant steel is up substantially. In particular, from the United States into Canada.

MR. FURUTA: I'm Yoichi Furuta, Nippon Steel.

The tendency here is that, the kind of semi-localization has been introduced. After those probably, three years after we saw a huge increase in the ocean freight and we saw the shortage of the ships and everything. That's part of the reason that the global players are now setting much more example. In our case int he Asian market, the American continent players, setting in

American continent and European markets are sitting in European market.

We have been clearly seeing that kind of trend for these couple of years. That's true to the steel products in general, but that should be true to corrosion resistant steel as well.

CHAIRMAN PEARSON: Mr. Leibowitz?

MR. LEIBOWITZ: Lewis Leibowitz for the six automotive producers.

I just wanted to cite a little precedent from last year. This is not unique to corrosion resistant steel, but other kinds of steel that have been before the Commission. This issue came up in stainless steel.

I think you have a combination that all have mentioned and the trend I think is irrefutable, that you have global players in the steel market who can produce in various regions, and you also have a vast increase in the demand for these products in those regions which you didn't use to have.

Those two things coupled with a trend toward increasing ocean freight rates have driven all intelligent business people in these industries to regionalize their production because it maximizes their returns.

So I think that's what's happening and I think that's what was documented in our brief.

CHAIRMAN PEARSON: For purposes of the post-hearing, if possible maybe we could shed a little more light on this issue. Take a look at to what extent is this, what you I think have characterized as a global phenomenon, to what extent is it just a function of what's going on in China, India, maybe the European Union with the expansion, kind of absorbing more of the European production.

Maybe that's enough, if that's what's going on, but if that's only one part of it, please talk about it in its totality.

Mr. McConnell?

MR. McCONNELL: We'd be happy to follow up in the post-hearing brief. I just would add as we will state there, that you've also touched on I think sort of the quiet fear of some of our clients.

The steel industry this morning was talking about their fears of over-capacity and shipping and so on into the U.S. market. I think the fear that our clients have is that this regionalization, if it is accompanied by increased concentration in those regions of the steel industry, will severely limit their options in terms of working with suppliers.

That is part of the reason you're seeing us all here day.

CHAIRMAN PEARSON: Let me shift gears then and ask a somewhat related question.

The domestic industry has the opinion that the United States generally has the highest prices for corrosion resistant steel of any country. Is that how your companies see the market? many of your companies operate in multiple geographies. Do you see any consistent pricing patterns that would either support or differ from what the domestic industry has indicated?

Unfortunately my yellow light just came on so perhaps a couple of quick responses.

MR. COVER: Rich Cover.

We're seeing that prices that off-shore companies offer within their home regions are different than the prices they offer us. All steel companies in the world calibrate on the market conditions in the destinations that they want to ship to.

So we observe that when they do make a proposal for us in the United States it's aligned with the market levels in the United States.

CHAIRMAN PEARSON: Ms. King?

MS. KING: In general I would say yes, the trend shows that on a prolonged basis the U.S. tends to be a higher priced market.

CHAIRMAN PEARSON: Thank you.

MR. GRUENHAGE: I can also support this. The Americans and Europe has the highest prices in the world, and in Asia it's traditionally a bit below of this, and sometimes even Europe has the highest prices in the world sa we have seen also during last, a couple of months during the last year.

So yes, both regions are the highest price regions in the world.

CHAIRMAN PEARSON: Thank you. My red light having now come on I will turn to you, Commissioner Aranoff.

VICE CHAIRMAN ARANOFF: Thank yo, Mr. Chairman, and I will note that when you were talking about the colleague with the mom car you were looking to the wrong side of you, which you should know since you park next to me every day and see my ancient mini van with 96,000 miles on it.

(Laughter).

MR. COVER: It was built for 200,000.

(Laughter).

MR. McCONNELL: But we've got a lot of

people who would like to talk to you after the hearing.

VICE CHAIRMAN ARANOFF: I was going to say, Commissioner Okun has already bought her new car, so there's no need to influence her. I'm the one who's going to be in the market at some point.

In any event, both in the Joint Respondents' brief and I believe also in the automakers' brief, the argument was made that the domestic industry is currently not vulnerable and is better off than it was during the prior review or the original period of investigation and I wanted to ask how you can reconcile that with the fact that the industry's average operating margin over this review period is actually quite a bit lower than it was during the first period of review as are capacity utilization and market share. I don't know who wants to take the first stab at that.

MR. McCONNELL: I'd like to take a shot at it, if I can.

Our argument is based, as the Commission's decision is, on a forward looking analysis. The issue of how the industry is doing needs to be based on how it's doing now looking forward. The comments this morning about returns on capital of 2.95 percent industry average over five years during which time any number of the manufacturers went through bankruptcy, is hardly a good basis on which to judge the likely returns going forward, which is really what you have to do.

From that standpoint, we just think that looking backward at an industry average is the wrong way to do it. I probably should maybe defer to Bruce Malashevich as the economist to talk a little bit more about the details of it.

MR. MALASHEVICH: Thank you, Bruce Malashevich.

The testimony this morning was very revealing in part because it confirmed some theses we had about the factors shaping the domestic industry's reported profitability and also made them public. So I can address, there are at least five factors that have been mentioned during the course of today that would act as a drag on the domestic industry's reported profitability as the Commission typically requires them to report it during the POR and they have nothing to do with the behavior past, present or future of subject imports.

One, you heard about the redundant electrogalvanized capacity, the facilities in some places are idle, in other cases are working at what I heard to be only 15 percent of the capacity of the relevant line but the companies are carrying these costs on their books and they would naturally, presumably, enter into the calculations what's reported to the Commission.

Similarly, there's a whole discussion of long term contracts and the timing of those relative to spot prices and commitments over the POR, certainly for the last several years. You heard earlier today about the disparity between the contract price and the spot price, so that's another drag on profitability.

Third, if you pick up almost any 10K for the public trade for U.S. producers, you will see very substantial non-recurring expenses. It is a mystery how these expenses were allocated as charges against operating income or charges against net income. It's just a mystery. That's one of the things we asked staff to investigate in our letter back in September.

It is unclear how the industry is accounting for internal transfers of the substrate. They should be valued at cost and output value to market. It's simply unclear. That was another topic we addressed in our September letter.

Also you heard Mr. Silverman's opening

statement, it's all over the trade press. A very important producer, AK, is suffering an eight month lock-out. There is nothing that could persuade me that that had a favorable impact on the bottom line, assuming they reported a questionnaire to the Commission and entered into the calculation.

Also there is a lot of new investment that is going on. There are startup costs associated with new investment to enter into the calculations in a way that we find obscure. So there are at least the five factors I mentioned that all have acted on a drag and the domestic industry's reported profitability during the last several years of the POR which I think are most relevant to your evaluation in a forward-looking exercise.

VICE CHAIRMAN ARANOFF: Okay. Well, that would go to two of the three factors that I raised. It would go to profitability and it would go to capacity utilization, not to market share. Do you want to comment on that?

MR. McCONNELL: I would love to comment on market share, and with your indulgence, I'd like to put a couple of slides up that will point that out if we can.

MR. MOHATASEM: While you're doing that, can

I make a financial economist comment there?

For an industry in a precarious condition it's somewhat surprising that the market cap for the four largest firms in the industry has gone from seven billion in 2000 to a little over 48 billion in 2006. That seven-fold increase in the market cap certainly is not indicative of an industry in a precarious condition. So I think I'll go back to the comment Bruce made which is it would be useful for the staff to investigate how the steel industry reported some of the numbers, financial numbers.

VICE CHAIRMAN ARANOFF: Okay, but what I'm hearing you telling me is these things, the fact that the industry's market share has gone down a little bit in the most recent period is irrelevant.

MR. MALASHEVICH: It's too small to matter, especially in a forward looking exercise. I would say it would arguably be relevant if the domestic industry was down to a 25 percent share of demand as the Commission sometimes sees in these investigations. But one of the Commissioners this morning talked about pretty much a consistent 90 percent share of the market. So that's a pretty large share to me.

A marginal decline in net market share, especially if it's in products the domestic industry for whatever reason does not choose or cannot produce, I don't see how that can rise to the level of being material.

MR. McCONNELL: If I can just supplement that with these slides, it will go exactly to the point --

VICE CHAIRMAN ARANOFF: I do want to get another question in.

MR. McCONNELL: I'll hustle.

This is a presentation that Lashby Metal gave in May at a Merrill Lynch conference involving the Arcelor acquisition. I've taken three slides out of that.

You will see here his first point -- these three slides were together in his presentation -- is a consolidation of the industry from 2000 to 2005. That's internationally, but I would point out if you look at our confidential brief you'll see much much greater consolidation in the U.S. CORE market, particularly automotive segment. So he's saying we've accelerated consolidation.

Next slide.

That has given them the ability to engage in a new market behavior. What he has going on here is a decline in 2005, you heard about 2005 this morning, a decline in industrial production in the G7. What did Mittal do? Mittal reduced its production. If you look at the darker line there, that's Mittal's America. They were capable of bringing their production down. What was the result of that?

Next slide.

A new pricing dynamic. This slide on the right hand side is North America. Now it's a hot-rolled slide so it's not the same product but you'll see exactly the same pattern in corrosion resistant in our brief. What you see is that in 2004 prices peaked. There's a price decline. That's when they were rolling back production. They held a price floor that was above the average price prior to that time. So that is a lot of why we're saying these guys have a lot less vulnerability. They are capable of modulating their production in a way that they couldn't do when they were fragmented, and that permits them to do exactly what Mr. Mittal is saying his combinations can do, produce a new price dynamic in steel that will trade at a higher range.

VICE CHAIRMAN ARANOFF: Okay. See, that did last until the light turned yellow.

MR. McCONNELL: I tried.

VICE CHAIRMAN ARANOFF: You're now all

sentenced to another round of questions from me.

(Laughter).

CHAIRMAN PEARSON: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you. I hope to turn to a couple of the questions with respect to the foreign side of it. If I can start first on the Canadian side, Mr. Silverman.

I wanted to make sure I understood your take on the issue of the staff report showing a very significant difference between total U.S. imports from Canada as opposed to what the Canadian producers are reporting in terms of their exports to the United States. It's enough of a difference that it makes me wonder if there is an explanation that the industry has, or that those of you that have looked at the data can help us with.

MR. WEGIEL: Commissioner Hillman, Henry Wegiel from Dofasco. I think I can answer that question.

You're right. This morning we heard from the domestic industry who stated that they believe that total Canadian exports to the U.S. were at a level where the service center numbers were quite significant. We've actually looked at those numbers and we believe that the total exports from Canada to the U.S. are significantly overstated in the numbers. To the effect of in 2005 the --

COMMISSIONER HILLMAN: When you say they're overstated, by the questionnaire responses or they're overstated in the official statistics?

MR. WEGIEL: In the official statistics. And to the effect in 2005 there's approximately over 80,000 tons that were reported as being exported from Canada to the U.S. which are really non-subject goods. We'll put in our post-hearing brief, because this pattern has continued since the year 2000, what the numbers are that we believe the overstatement has been from 2000 to 2005.

As a result of that the statement by U.S. Steel that the service center volumes are significant more or less makes it a moot point because when you take those numbers out, the numbers that Canada is shipping to the U.S. are more or less the producers' exports to the United States.

MR. HEFFNER: Doug Heffner from Hunton & Williams.

Also I'd like to add that we've talked to Customs about this, and we will provide that explanation to you.

COMMISSIONER HILLMAN: Okay, and if you can provide the data as well so I make sure I understand exactly how much we're talking about and how close then those numbers get to each other.

MR. HEFFNER: We have the numbers from 2000 on.

COMMISSIONER HILLMAN: Thank you.

Another question on the Canadian side, in 2004 Canada revoked its antidumping orders on corrosion resistant steel from Brazil, Germany, Japan and Korea. I wondered if you can tell me what happened then in the Canadian market in terms of imports from any of these previously subject countries in terms of both import volumes and any price development.

MR. WEGIEL: In 2004 Canada did rescind the corrosion resistant finding against the countries that you've indicated. I'd like to look at two different aspects here.

First of all, the imports from the United States; and second of all the imports from the rest of the world.

While the finding was in place up to 2004, the U.S. had approximately 20 percent market share in Canada. When the finding was revoked in '04 that number went up to approximately 20 percent. However, it was because of factors independent of the order.

The reason that the numbers went up is really because of the integrated North American market. At that time demand in Canada was fairly high. We also saw these factors that the automobile companies have been talking about, about the customer pull and the switching of one country to another. So the U.S. numbers went up, however factors independent of the order, and there were not injurious imports into Canada.

With respect to the rest of the world or the other subject countries in particular, their numbers were very low during the order and they continued to be low after the order was rescinded. They were not a big part of the Canadian market before and they are not a big part of the Canadian market today.

If I may, I would also like to add about non-subject imports because we've had a lot of discussion here today about China, India, et cetera. Imports from those countries into Canada have been very low also, to the extent that China and India are less than one percent of Canadian market share each. We don't believe at this current time that they are a threat to the Canadian market.

COMMISSIONER HILLMAN: Would you say there were any price effects from any of these changes in import volumes? U.S. import volumes or otherwise?

MR. WEGIEL: No.

COMMISSIONER HILLMAN: I appreciate that.

If I could turn, and if there's any way you can provide any of this data in a post-hearing brief, just so we see the actual numbers that you've just described, I think that would be very useful. I appreciate that.

On the Korean side, Mr. Chun from POSCO. You indicated that Hyundai's U.S. facilities intend to switch their sourcing from Korean product to domestic suppliers. Two things. One, I wonder if you have any documents or any evidence of this? And more importantly, if you have a timeframe. When is this switch likely to occur?

MR. CHUN: Unfortunately I don't have any evidence that they're going to change their material to the United States. But I think the first year they established a facility in Alabama. They asked us for supplies and materials almost 80 percent of their using the material. Now it has become declined. Is almost 50 percent of their using --

COMMISSIONER HILLMAN: So you're saying they're already switching to using domestic product?

Am I hearing that correctly?

MR. CHUN: Yes.

MR. CAMERON: Don Cameron. There's a limited amount of documents that we have available because it really is POSCO, but we do have some things that we can point out in our post-hearing brief and we'll be glad to do so, and gather as much evidence as we can for you.

COMMISSIONER HILLMAN: I'd appreciate that. Thank you.

Mr. Shambon, on the Australian side, the staff reports notes that Blue Scope has developed new plants in, among other places, China, Indonesia, Thailand and Vietnam. Can you tell us, do these plants make corrosion resistant steel? And if so, has any been exported to the United States?

MR. SHAMBON: I'm at a bit of a loss here because I don't have any company representative with me. Those plants do make corrosion resistant steel. The markets they're serving I believe are almost exclusively the Asian markets. We'll have to answer it in the post-hearing brief. The fact that I have no witness here is an example of not only their neglig -- their negligible participation in this market over the last 13 years, but also the interest they have in expanding rapidly into this market.

COMMISSIONER HILLMAN: I'm not sure we'll tell them about your first comment there.

(Laughter).

COMMISSIONER HILLMAN: I will look forward to --

MR. SHAMBON: I didn't finish the word. I said negligible.

COMMISSIONER HILLMAN: All right. I heard it a little differently, but I won't tell.

On the German side, there was a claim in the brief in terms of describing your reason for why you should not be cumulated, that recent exports from Germany to the United States are focused largely on certain very specialized automotive end uses. Yet if I look at the data in our staff report it would indicate that the majority of total shipments by the German industry are directed to non-automotive uses. I'm just trying to make sure I understand whether that's a correct reading of both your testimony and the data and how I would square those, and then if that's the case, why wouldn't the Germany industry ship more than just automotive product if the order were revoked?

MR. GRUENHAGE: To the first part, there

must be a mistake. We definitely ship nearly all material to the automotive end users. We have submitted our business plan to you which clearly shows our intention for the next year, what we would ship to the United States. We have no specific business plan if the orders were revoked because we simply have no more material available. We at the moment don't even have enough material to supply our traditional home market customers, so no matter what will happen with the orders if they are revoked, sorry for the guys in the first row, if they think they could get more quantity from ThyssenKrup, we would have to refuse it, at least for the foreseeable future.

COMMISSIONER HILLMAN: Okay. I appreciate that answer.

MS. CUMINS: There is one explanation of the staff report. In answering the questionnaire the U.S. companies distinguished between deliveries direct to automotive end users and other end users. The other end users being producers of automotive parts for the automobile companies.

So from a German perspective it is 100 percent automotive. In reality, all of the steel or virtually all of the steel is going to an automotive end user. but just like you heard from the service center witness this afternoon, sometimes there is an intermediate step whereby steel will go to an end users who processes it into a part for the automotive.

COMMISSIONER HILLMAN: I appreciate that answer.

Given that the yellow light is on I'll come back on the next round.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman.

Mr. Crandall, I thought I'd start with you. According to domestic producers is the condition of the approval of the 2006 merger in the EU between Mittal Steel Company and Vian Arcelor, Mittal made a commitment that, and I'm quoting, "There will be no restructuring planned, collective layoffs or other employee reduction plans within Arcelor in the EU as a result of the integration of the Mittal and Arcelor groups." That's at the new CORE SDI brief at page 17.

My question is, was a similar commitment made regarding their operations in the U.S.? Does Arcelor/Mittal aim to serve the U.S. market with corrosion resistant steel to the producers in the U.S. or instead favor its European operations?

So I've got a two-part question there.

MR. LaRUSSA: Robert LaRussa here.

Dr. Crandall is not here, but we will have Dr. Crandall answer that in the post-hearing brief.

COMMISSIONER KOPLAN: Is there anything you can provide now? I'm happy to take it post-hearing, but I just wondered.

MR. LaRUSSA: We don't have that information right now.

COMMISSIONER KOPLAN: That's fine. Thank you.

Mr. Kenny of Dofasco. Your brief argues at page four that Canadian imports should not be cumulated with the other subject countries because current U.S.-Canada "trade patterns in automotive steel are driven by sourcing decisions with multi-year consequences and are dictated by shifts in production of particular automobile models from one side of the border to another, not by decisions of steel producers."

Yet Canada joined in the Joint Responders' brief that argues consolidation of U.S. corrosion resistant steel producers has resulted in an industry with significantly greater market power than in either the initial investigation or the first administrative review. That's at page three of their brief.

How do you reconcile on one hand claims that corrosion resistant steel producers follow market conditions? And on the other hand, that they lead them?

MR. KENNY: I think the two concepts are consistent.

COMMISSIONER KOPLAN: Help me out with that.

MR. KENNY: If you look at our expectation, for example, of pricing. And again, I do know the folks in the first two rows pretty well, so maybe to their chagrin our expectation is that pricing will go up in the corrosion resistant steel. A variety of factors, but certainly one of which is consolidation and market power that's currently in place in the North American steel industry.

COMMISSIONER KOPLAN: What would the other factors be?

MR. KENNY: I think it may have been Commissioner Hillman, although I was right at the back of the room and I wasn't quite sure, picked up this morning that product eight hadn't quite demonstrated the same sharp increases in pricing that some of the other products had, and product eight, which is a bake hardenable product, is a typical contractual priced product. Therefore, contract pricing in our judgment is still catching up to market pricing.

Thirdly, raw material costs, in particular zinc, has tripled this year. It's adding probably about $25 to $30 a ton just in cost.

Then as you probably heard, Dofasco not only operates in the corrosion resistant market but we operate at the top end of the corrosion resistant market and as Brad Davey volunteered earlier, we do have feedback from our OEM customers with respect to quality delivery service and generally speaking we either rank number one or number two in North America, so we believe that we do indeed get a premium.

So for all of those reasons, prices in our judgment are going up.

COMMISSIONER KOPLAN: Thank you for that, and if there's anything you want to add to that post-hearing I'd appreciate it.

MR. KENNY: Will do.

I'd also just like, if I could, to make one additional comment on pricing. You will notice that we did file a detailed business plan. Contained within that business plan is a decrease in our shipments of corrosion resistant steel to the United States. Dofasco has actually lost a major piece of corrosion resistant steel business at an OEM location in the United States due to a lower priced product from a U.S. mill displacing Dofasco.

We were offered that business because of our quality, delivery and service. We were offered to maintain that business a number of times, but the pricing that was being offered by the U.S. mill was substantially below the market. It just did not make economic sense to continue.

Now I can only assume, because I don't know for sure, that the U.S. mill was caught in with one of these long-term contracts that we've all talked about and had this distressed pricing, at least distressed in our judgment.

So there was earlier discussion about pricing expectations and certainly in Canada pricing is at or above the United States.

COMMISSIONER KOPLAN: Thank you.

This is for the auto producers. At page 31 of your prehearing brief you state that in recent contracts the auto producers have had to accept volume limitations, and we talked about this today, and in each of these instances if the auto producer requires additional steel beyond the contract volumes the contract price does not apply to those additional volumes, and the corrosion-resistant producer does not guarantee that the volumes will be supplied.

I'm wondering. Is this alleged market power that you're talking about there in your brief regarding negotiation of the terms of the original contract or regarding the volume requested above and beyond the amount agreed to in the original contract?

MR. COVER: Mr. Koplan, this is Rich Cover. I could respond to that.

COMMISSIONER KOPLAN: Thank you.

MR. COVER: Both cases have occurred. In one case we experienced that in mid-contract a request for additional volume was declined except at a different price than the contract price, and we also had the experience that in expiration of contracts when parts were moved from one supplier to another that the incumbent supplier would not support transition volume while the business was being moved.

It's very common I think. Certainly it's very common for us year-to-year, contract-to-contract, that a small portion of parts may move from one supplier to another for various reasons that could be related to quality or logistics costs.

COMMISSIONER KOPLAN: Thank you for that, Mr. Cover. I wonder if you could document those instances for me for purposes of the posthearing?

MR. COVER: Yes, I will.

COMMISSIONER KOPLAN: Thank you. Let me stay with you on this.

Have you agreed to contracts with provisions to adjust for increases in raw material costs as well?

MR. COVER: I think what we would like to do, Commissioner, is provide those details for you posthearing. We can give you the details of various contract structures that we have. Would that be satisfactory?

COMMISSIONER KOPLAN: It certainly would be. If you could document that posthearing, I certainly would appreciate it.

MR. MCCONNELL: Just to clarify if I can, Mr. Commissioner?

COMMISSIONER KOPLAN: Yes.

MR. MCCONNELL: Would you like other companies beyond GM to comment on that?

I mean, different companies have had different experiences. It all, by the way, is very confidential to the individual company, which is why I think no one will want to talk about it here at the hearing.

COMMISSIONER KOPLAN: Right. I addressed

the question to the auto producers generally.

MR. MCCONNELL: Generally. Okay. Fine.

COMMISSIONER KOPLAN: So the answer to that is yes.

MR. MCCONNELL: Yes. Okay.

COMMISSIONER KOPLAN: I would welcome that from both Ford and GM as well.

Mr. Kenny, your brief claims that U.S. and Canadian corrosion-resistant steel producers are facing similar business conditions regarding the auto makers. Could you please discuss the likely impact on demand for corrosion-resistant steel in Canada from the restructuring and downsizing of the North American operations at Ford, GM and DaimlerChrysler?

Are Nucor and SDI correct, and I want to put this quote on the record, when they say that, "The growth of the transplants has resulted in a shift of automobile production away from its former locus in the U.S. midwest and Ontario, Canada, and thus significant quantities of Canadian subject merchandise may need to find a new home with the U.S. the most likely target." That's at page 47 of Nucor/SDI brief.

CHAIRMAN PEARSON: Commissioner Koplan, we're in a red light situation here at the moment.

COMMISSIONER KOPLAN: I didn't see that. I saw it blinking when you pointed that out to me. I'll wait for the next round for that answer.

CHAIRMAN PEARSON: Thank you.

Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman. I want to clarify. I wasn't running away from the mom label, which I happily wear. It was the mom car, which those of us in the divide between mini vans and SUVs, it's a different world. Anyway, I've now put my kids to bed, so I can stay here for as long as we need to.

Let's see. Mr. LaRussa, I think I'm going to start with you. I believe you did get some further questions about the relationship for the Arcelor Mittal merger and what it means in our analysis. I would note that in some of the more recent sunset reviews, as you're probably aware, I have decumulated certain countries or chosen not to use my discretion to cumulate certain countries because of the regional focus or because they export a specialized product.

I'm trying to get some more information from you on how we should evaluate the Arcelor Mittal situation. Obviously we had a chance to talk to Mittal USA here this morning. Is there anything else you can provide with regard to production between the companies?

In other words, the products that are being produced in the United States by Mittal USA versus what's being produced in Arcelor and whether that helps in how I look at what might be exported to the United States if the order were lifted.

MR. LARUSSA: Sure. My understanding at this point is that Arcelor Mittal plans to provide the full range of products in the U.S. market from its U.S. plants and that Arcelor Mittal in Europe plans to provide the full range of products to the European market from Europe.

That is something that I've discussed with the company. I think that's the goal.

COMMISSIONER OKUN: Okay. I guess for Mr. Stewart -- I assume he's still out there in the audience -- if I didn't clearly put that question to your client this morning, if you can make sure that you comment on that as well for posthearing? I'd appreciate that.

MR. HECHT: We will.

COMMISSIONER OKUN: Thanks, Mr. Hecht.

Then if you could, Mr. LaRussa, the other point made this morning by the domestic Mittal witness was that of course Arcelor Mittal is not the only producer in France, and I wanted to have your comments on how we should evaluate the availability of product from the other French producer.

MR. LARUSSA: Yes, Commissioner Okun. I think that you should look at the staff report, and obviously I don't want to talk about any numbers, but you can see that by far Arcelor Mittal is the dominant producer in France; that the other producer, Duferco is a minor producer.

I think you should look at the history or lack of history, since I don't want to get into any numbers, of Duferco's activity in the U.S. market. I think you'll be able to tell from that that there's no threat there.

COMMISSIONER OKUN: Okay. And then I'll put this question both to you and to the representatives from ThyssenKrupp, which is I ended I think in my last round with regard to if there's any production moving from European companies to the Americas whether that should change how I evaluate the likelihood of volume of subject import product coming from the European producers, notwithstanding what you've said about the home market, including the EU.

Mr. LaRussa, I'll start with you.

MR. LARUSSA: Sure. I know you don't have much time here. Could you just say that again?

COMMISSIONER OKUN: Okay. I guess so. I know. I'm getting tired too.

MR. LARUSSA: Will you just say the first part of it again?

COMMISSIONER OKUN: I'm trying to avoid confidential information, which is why they always sound convoluted.

MR. LARUSSA: Right.

COMMISSIONER OKUN: To the extent the European producers have argued that all your product is going to stay in Europe because it's your home market and it's the European market, to the extent if there are exports to the rest of the Americas how I should evaluate that in terms of whether volume would be likely to come into the United States market that might otherwise be going to other markets further away than the European Union.

MR. LARUSSA: All right.

COMMISSIONER OKUN: Is that better?

MR. LARUSSA: Right. Much better.

COMMISSIONER OKUN: Thank you.

MR. LARUSSA: In fact, it was not convoluted to begin with.

I think the first point is, as we noted in our brief, Arcelor, before the Mittal Arcelor merger, had taken this regional approach and in fact had substantial investments in the other parts in the Americas, as you know. That's I think a very important point.

The second point is that Arcelor as a larger company post their original merger and before the Mittal merger had a number of countries in Europe that had the capacity to ship corrosion-resistant steel that were not subject countries and did not ship it, so I think it clearly shows that there was a lack of desire to get to the U.S. market from a nonsubject or from a subject Arcelor country.

COMMISSIONER OKUN: Okay. I appreciate those comments.

MR. LARUSSA: Thank you.

COMMISSIONER OKUN: Could I turn to the representatives from ThyssenKrupp?

MR. GRUENHAGE: Well, I'll try to comment on this, yes. We have discussed this several times today that if you want to be a global player you have to be local present to follow your customers and that is one reason why ThyssenKrupp also has the strategy to be present on the NAFTA market.

At the moment, it's a period of uncertainty.

Everyone knows that serious negotiations are underway. If we will possibly be linked with Dofasco, which would be the best perfect fit for us from our point of view, but we are also at the moment approving some other options, for example, a so-called brownfield option and a greenfield option.

That means either building a new plant somewhere in the NAFTA market or possibly take over some facilities, at least improve them that they could follow our high quality requirements and to be present with this on the NAFTA market.

That definitely means that we will ship less from Germany at ThyssenKrupp to the United States and to NAFTA because that is the one reason that we need more of our material in our traditional home market because customers are demanding more.

It might be that some special qualities are still shipped from Germany. I will not deny this, but definitely it would reduce our shipments to the United States.

For the other German producers I can say due to my knowledge because we have tried keeping track of the export statistics, and we know that we are nearly accounting for 100 percent of all exports from Germany, that Mittal never had shipments to the United

States so I think there would be no intention if the orders would be revoked for them to ship it.

As for my colleagues from Arcelor Mittal, if they would have the intention to flood the American market they could have done this in the past from other countries besides from France and Germany because they have production facilities in several other countries in Europe where it would be easy for them to ship to the States.

Besides this, ThyssenKrupp could also have shipped more to the United States because we have also a production facility in Spain, but that is again used for the local Spanish market.

COMMISSIONER OKUN: Thank you. I appreciate those further comments. It is helpful.

I know you've had an opportunity to talk about parts of it, and I think part of my trying to understand how ThyssenKrupp is looking at how it's going to regionalize and some of the information I understand there is uncertainty, but that's helpful, your further points on that. Thank you very much.

Mr. Cover, if I can just come up to you with really a request for posthearing, because I do understand that I think in response to the question from the Chairman with regard to unibody vehicles and crossovers that it may be about the same amount of CORE being used.

I think this might follow up on an earlier request I had to Mr. McConnell, which is to the extent you can provide backup documents posthearing on those forecasts it would be extremely helpful.

MR. COVER: Okay. We'll do that for you.

COMMISSIONER OKUN: Okay. Yes. As my staff starts pointing out at this point when I forget, if there are other producers out there who would have anything similar to what Mr. Cover testified or other projections for the amount of CORE to be used in the future line of your cars, that would be helpful as well, not just specific to GM.

The other follow-up for posthearing, Mr. Nielsen, I think it was you, and I know my yellow light is on so I will make this posthearing. You had I think a couple of times had a chance to talk about trying to source material globally when there were these problems with getting it domestically and that you were turned down.

To the extent there were other references from producers to that, if there's any documentation with respect to that other than what's already on the record -- I know on the record there's information about when you believe there were shortages in the market, but to the extent you have anything with regard to being turned down by global producers and other global suppliers, that would be helpful. The same would go to all the auto producers.

MR. NIELSEN: Yes. We'll share that in the posthearing.

COMMISSIONER OKUN: That would be great.

Mr. Chairman, since my yellow light is on I won't start another question. Thank you.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Thank you.

Several of the Respondent parties have stressed the benefits of consolidation in the domestic corrosion-resistant steel industry suggesting that such an industry should not be considered to be vulnerable.

However, doesn't the experience of the so-called Big Three domestic auto producers suggest the opposite; that concentration alone does not impart invulnerability?

Mr. McConnell, would you like to take a stab at that?

MR. MCCONNELL: Maybe I could start just by asking you to expand that a little bit. I mean, what in the experience of the Big Three are you referring to?

COMMISSIONER LANE: Well, I think that we were talking about that Ford, DaimlerChrysler and GM are the three big auto makers and that they are big and that the experience of those three has not kept them from being invulnerable or kept market forces at bay.

So I'm asking you do you see the argument that you all are making that the consolidation in the steel industry should make them invulnerable, and how would you reconcile that with what has happened with the domestic auto industry?

MR. MCCONNELL: Let me sort of speak to the argument, but then I should let the Big Three speak for the Big Three I think on an issue like this.

The argument is that as power gets concentrated in the hands of just a few producers, they have the ability to reduce their production and thereby support a higher price than if they had to keep running at higher rates.

We've seen very clear evidence of that in 2005, and we've seen steel executives say that's exactly what they were doing in 2005, so I think that what we're saying is that they have that ability that

that's a pretty good sign that they're ready for a little more competition, so that is the gist of our argument on that.

I think that what you're talking about with respect to the experience of the Big Three is a much longer term phenomenon, if I understand what you're talking about, and since I'm representing all six companies here I don't think I want to wade into what happened over the long term in the U.S. auto market, but I would be happy if some of the clients would bail me out.

COMMISSIONER LANE: Mr. Cameron?

MR. MCCONNELL: I said clients.

COMMISSIONER LANE: I know, but he raised his hand, and I just want to give him the opportunity.

MR. CAMERON: Mark, it's any port in the storm.

Look, Commissioner, we have not been arguing the issue of consolidation per se. What we've been dealing with, and this goes to the question that Commissioner Okun raised and the question that Commissioner Aranoff raised concerning the question of well, so what's so different? Why are you saying that this industry today is either A, better off than it was in 2000, or B, better able to withstand what's going on?

It gets to the issue of how the consolidation occurred.  The consolidation occurred because you had a number of companies that were burdened with incredible legacy costs that were a huge drag on this industry, and those legacy costs were not a constant global cost that every other steel producer in this room had to deal with.

Indeed, the legacy cost problem of this industry was borne by this industry, and that problem got resolved in the period of 2002 to 2004, and that's why even though we had 30 percent safeguard tariffs on steel this industry was not really successful in raising prices nor was it highly profitable during a period of 30 percent tariffs and during a period of antidumping relief.

Well, when did they become successful?  They became successful when, number one, yes, they consolidated.  There was greater consolidation or concentration, but what happened?  At the same time the consolidated entities shed those legacy costs.  They reduced their labor costs.  You can see it in your data.

When you compare the percentage of fixed costs to total sales value in 2000 to the percentage of fixed costs to total sales value in 2005, it's remarkably different. That's why this industry today is indeed globally competitive.

They have the same cost structure as the other steel companies in the world. They're not bearing something different. That's when the issues that Mark is bringing up about market power also start to come to bear because now the industry itself is competitive.

If you will remember back in the days of the 201 case, part of the issue in this industry was the competition between the mini mills who had no legacy costs and had as a result an incredibly big advantage in terms of a cost structure compared to the integrated mill. Then after 2000 that disappeared, that built-in advantage. Why? Because again these guys weren't carrying the legacy costs.

Part of what we're talking about when we're talking about the concentration and consolidation is that issue. Frankly, the legacy cost issue is something that the Big Three automobile producers do still bear, but the steel producers in this country do not, and that is one reason that the U.S. steel producers and this industry is far more competitive than it was.

COMMISSIONER LANE: Now, Mr. McConnell, do you want some of your clients to answer the question?

MR. MCCONNELL: Well, I'm tempted to say I think Don just said it all.

The only thing I would add to Don's point, which is the concept, and then your comparison of the Big Three I'll leave to the clients, is that the cost reduction in that restructuring has enabled this industry to do something that it didn't used to be able to do, which is cut back its production given that it's a fairly high fixed cost industry, but still operate profitably.

They've gotten their fixed costs down low enough that this is actually a realistic option for them. They're not in the situation that was described earlier where they had to pump out steel just to get cash to cover their fixed costs.

If you combine the market power, sort of the ability to reduce production without a concern that someone else is going to come in and take it all away with you, with the lower fixed costs that permit them to operate at lower capacity rates profitably, you then have a situation where they can do exactly what they did in 2005 -- hold the bottom of the market to a price that's above the market and go forward from there.

I'll leave the Big Three to the Big Three.

MR. MOHATAREM: I don't think anywhere we've argued that just simple fact of concentration makes you invulnerable. In fact, if we had a truly open market in steel that concentration may actually, if you behaved in an uncompetitive manner, would make you more vulnerable.

That's why we've emphasized that what we're looking for is the potential competition so that the domestic suppliers who are now in a much stronger position will continue to behave as if they face serious competition.

COMMISSIONER LANE: Okay. Let me ask you this. I'm puzzled because when I asked about the contract issue if the steelmakers were confronted with the auto industry saying we don't want to take the amount of steel under these terms and the steelmakers said then the auto industry would go elsewhere and I said where would they go, to another domestic producer or would they go to a subject country or nonsubject country, and I was told that the auto industry would look at all three options.

What I'm trying to figure out is why would taking off these orders make the industry more competitive so that it would be to your advantage?

MR. MOHATAREM: As I stated earlier, potential competition does wonders in terms of competitive behavior.

If the steel industry knew that the dumping orders were gone, that we had the option long term working with foreign suppliers to develop alternatives if they behaved in an uncompetitive manner, their behavior would be very different.

COMMISSIONER LANE: Okay. Now, are you assuming that the foreign product would be coming into this country at fair prices and not dumped prices?

MR. MOHATAREM: I think at this point, and I'll ask Richard to add to that, as we have done our global sourcing on steel for the coming year there's such a tremendous supply constraint in the different markets the likelihood that even trying to find somebody who would be willing to sell at a lower price in the U.S. than they can get in the home market is nil.

Richard, you can describe the current round.

MR. COVER: Yes. We of course build vehicles in all of the global regions -- Asia Pacific, Europe, Latin America and North America.

MR. MOHATAREM: And Australia.

MR. COVER: As well as Australia. Of course, the major volume is in North America, the biggest market, but we find exactly the contrary of what was reported this morning.

We find that when we attempt to acquire volume from other regions and move it from region to region, particularly in this case from any other region to the United States, that we are offered neither volume nor price, which makes that an easy decision.

We will do it if we have to because we have to run our business and we have to build the vehicles that we need to build, but as a strategy for radical displacement of domestic suppliers it would not work for many reasons that we've discussed today.

The inference or the leap of logic that the experience of dumping in '90 to '92 would be repeated and become an experience that we see again '07 through '09 is not borne out by the actual observations and experiences that we have.

We don't see the offers coming, and I actually don't see any evidence in any of the testimony that the behaviors of offshore suppliers would lead to any dumping actions. It's the opposite. They are not offering steel at dumped or unfair prices. They are expected to get a premium from us for that precious little incremental volume that they may have to offer.

COMMISSIONER LANE: Okay. Thank you, Mr. Cover.

Thank you, Mr. Chairman. I think that that was the only time I've gone over today. To make up for it, I'll waive my next round.

CHAIRMAN PEARSON: Okay. Thank you, I think.

There's good news and bad news. The good news is we have a fan back here that's now helping a great deal. The bad news is it may rejuvenate us and allow us to continue until midnight.

MR. MOHATAREM: We've already changed our flights.

CHAIRMAN PEARSON: A wise decision.

Okay. Earlier today we had some discussion about a shift in the consumption pattern from electrogalvanized corrosion-resistant steel to hot-dipped galvanized; that there's been a trend in that direction for auto use.

Either now or in the posthearing could the individual companies that would have some knowledge of this issue provide us information in a way that would help us understand this issue?  How big a factor has it been in the marketplace?

Mr. Cover?

MR. COVER:  Yes, Mr. Pearson.  If I may, we will be happy to provide you with hard data posthearing, but if I could provide a thought starter for what we think is the technical situation?

There was a lot of discussion about a mixed shift from electrogalvanized to hot-dipped steel in the United States.  There is no swing in mix from electrogalvanized to hot-dipped, and the reason is a technical reason.

GM is the largest consumer of electrogalvanized steel in the country, and the design specifications for our use of that product are stable. There are four other companies in the United States that also produce their vehicles with electrogalvanized steel.  Those are Ford, Chrysler, BMW and Mercedes Benz.

EG is used by each of those companies on a specification basis.  Those designs and specifications are stable.  Hot-dipped steel is used by Toyota, Honda, Nissan and also by Chrysler, which has already been testified.

To move from one product to another is

technically infeasible in a short time for lots of manufactureability and product validation reasons, so to my knowledge, and it's certainly true of GM, there is no intentional design shift to move the materials of construction from electrogalvanized to galvaneal.

There could be a smaller effect in that those producers who use hot-dipped galvaneal are enjoying increasing market share perhaps at the expense of those companies who are using electrogalvanized.

I don't think those market trends and the sales success of the six companies and what those mix effects might be would significantly affect the mix of electrogalvanized to hot-dipped usage in the United States, at least not in the short term.

CHAIRMAN PEARSON: Ms. King?

MS. KING: As another EG user, we would be glad to provide some data outside of this forum through posthearing.

CHAIRMAN PEARSON: Okay. Other comments from manufacturers?

MR. LUTHER: Randy Luther with Honda. From our perspective, the Japanese transplants, we all produce vehicles with galvaneal.

It's important to understand that galvaneal and hot-dipped galvanized are produced on the same type of equipment, while electrogalvanized is produced on completely different equipment. There's no back and forth. It's very capital intensive changes, as Mittal explained to you earlier today, to make those switches.

From our experience, we're not able to switch to electrogalvanized. It would have a big impact on our pretreatment and paint lines. It would affect our corrosion-resistance, overall corrosion performance. It would have an impact on our welding lines, on our stamping set-ups, so it's not an easy change just to apply electrogalvanized.

We have a strategy globally to apply galvaneal, and that's the product of choice that we use to produce vehicles.

CHAIRMAN PEARSON: Any other comments by automobile manufacturers?

MR. KELLY: Dan Kelly from DaimlerChrysler. Historically years ago when we went to corrosion-resistant products, and this is a little bit convoluted technically, but in the early '80s most, if not all, of the product that we developed our processes with was a hot-dipped product, so we migrated to it.

Then there's the issue of galvaneal, of free zinc coatings versus these galvaneal coatings, which is not insignificant. That is a very significant difference. They're used in the same phrase often, but those are significant different products.

To further support the position of these changes being interchangeable and these products being interchangeable, there was in the late -- what year was that, Lisa? We were talking what year that was. 2002 when we had the perfect storm?

We had to move from our desired products to some electrogalvanized products with an incredible amount of pain. That just reinforced the fact that that is not a transparent change to us. We were very happy to get back to ultimately the products that we had been using. I guess my final conclusion is that those products are not transparent to us.

The pain was and some of my colleagues have mentioned that while these products are used -- the product is perceived potentially as a commodity -- our processes are pretty sophisticated. Welding processes, particularly forming processes, are pretty sophisticated to make those fancy SUVs -- excuse me; those crossover vehicles -- that some of you drive.

CHAIRMAN PEARSON: Those very cool crossover vehicles.

MR. KELLY: Those very cool for cool moms, yes. Probably cooler now because she's got the fan up there.

Our vast experience has been with hot-dipped galvanized -- hot-dipped galvaneal in our case, almost exclusively hot-dipped galvaneal products. The pain that we went through were significant productivity issues because we couldn't make the stampings to the quality levels without a lot of rework and experienced some welding issues, again tearing up body shops and all of that to make sure that you're at the levels you need to do from a product integrity standpoint.

That pain was real extensive, and it was just an incompatibility with what our experience was and what our processes were with those new products that we had to put in on an emergency basis.

I guess I just want to reinforce what my colleagues have said. Those changes are not easy ones to make, and we have no plans to make them unless we absolutely have to. Hopefully we don't have to.

CHAIRMAN PEARSON: Okay. Perhaps the best thing for me to do is to turn to counsel for the auto industry and ask that in the posthearing could you please amalgamate the comments that have been made by the individual member companies to the extent you can quantify what's been going on, if there indeed has been a shift, what would amount to a shift in aggregate consumption of one type of galvanized steel versus another and help us understand what is going on?

My sense was this morning's panel was telling us that there was this shift, and so any light you could shed would be very welcome.

MR. MCCONNELL: We'd be happy to do so.

CHAIRMAN PEARSON: Thank you.

Let me turn to what may be my last question. Have any companies subject to the orders put in place accounting systems that would enable them to anticipate whether any given export to the United States might be priced at a level that would be considered to be dumped?

That was a long, convoluted way to say it, but basically what I want to know is if any companies have adopted accounting systems that would enable them to measure closely what their pricing is on sales to the United States so that you would have a good idea in advance whether you would trigger the formula that would call the sale dumped versus nondumped?

MR. DAVEY: Yes. Brad Davey from Dofasco.

Yes, we do that kind of calculation when we look at business.

We don't just look at it on corrosion-resistant products as well, even though that's the only one we're in a case, because again we know what trade is about, and we believe strongly in fair trade, so we look at it on any product -- hot-rolled, cold-rolled and corrosion-resistant.

CHAIRMAN PEARSON: Okay. Thank you. Any comments from the other firms?

MR. CAMERON: Commissioner?

CHAIRMAN PEARSON: Mr. Cameron?

MR. CAMERON: I think there are two things. First of all, trying to divine what the Commerce Department is going to do with that dumping calculation is another matter entirely, but, putting that aside, I think in general people try to do that.

By definition, the formulas are not as precise as one would want. I think they're general in nature. You know, they have a pretty good idea, but that's about it. I mean, there's no bright line test.

CHAIRMAN PEARSON: I understand. I realize there's a certain amount of art, as well as science, in this process.

MR. CAMERON: I'd say a little bit more than that, but that's fair enough.

CHAIRMAN PEARSON: My red light is on now, but I think if firms are making this effort it could indicate that conditions of competition in the marketplace are changing, and to the extent that is happening it could be important for us to know it.

In the posthearing, could I ask each of the Respondent firms to please address this issue?

Madam Vice Chairman?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman. A few data requests to follow up on some questions that have been asked.

A number of my colleagues asked the question to the various subject producers who are represented here. Well, if the order were revoked what, if anything, would it occur to you to send here?

There were a number of answers given, but occasionally a few of you said there may be some grades that aren't available in the U.S. that we might send, or maybe it was some of the auto makers who said maybe there were some grades we might purchase that we can't get here.

I wanted to ask. I believe I heard that from Mr. Miki from JFE, and one of the witnesses from Thyssen also said something about grades not available in the U.S., so I'd like to ask you. Could you please submit any grades that you make in your home market that you think you might send to the U.S. that are not made here?

If it's possible, submit them in advance of your posthearing brief so that we could give the domestic industry an opportunity to comment on that.

MR. MIKI: Yes, Commissioner. We will do that.

VICE CHAIRMAN ARANOFF: Thank you.

MR. GRUENHAGE: We will do so as well for ThyssenKrupp.

VICE CHAIRMAN ARANOFF: Thank you. Okay. Another data request.

I believe it was Mr. Kim from Union Steel I think testified that his company's exports to China actually have increased in the most recent period, and I know that the domestic industry argued at considerable length this morning that Asian producers in particular are losing their China market, that that's going to displace volume that's going to need a place to go and it might come here.

I wanted to ask if each of the Korean, Japanese and Australian producers who are represented here could please indicate whether your company's exports to China have gone up or down in the last few years and whether imports from China have had any significant penetration in your home market in areas where you compete.

That would be very helpful on a company-by-company basis in having us tease out what's going on with the China displacement issue.

MR. CAMERON: Commissioner, on behalf of the Korean producers, we'll be glad to get that data for you. Thank you very much.

VICE CHAIRMAN ARANOFF: Thank you.

MR. WOOD: Commissioner Aranoff, this is Chris Wood for Gibson Dunn. On behalf of the Japanese producers, we will also do that.

I would actually though, if I may take just one moment, point you to pages 37 and 38 of our prehearing brief where we've given you a good bit of that information for each of the Japanese producers and total exports to China in general.

I mean, I think you've clearly gotten two very different perspectives on China between this morning and this evening's panel, but the one thing I would ask you to keep in mind is that the fundamental difference in perspective that you're getting there is that we're there selling in that market every day.

Our business actually rests on being able to predict what's going to happen in China accurately, which is not the case for the domestic industry in this case.

I think that if you even go back to the record of the first sunset review, we told you six years ago, told the Commission, that this is exactly what was going to happen, that growth in China and Asia was going to boom, that that was going to be the principal market for Japanese exports, and that's exactly what has happened. We think that's going to continue for the future.

VICE CHAIRMAN ARANOFF: Okay. No, I appreciate that.

I think it will be really helpful if we can go company-by-company and say this is what they send and this is what the Chinese are sending back. That will allow us to really just get right to the bottom of that. I appreciate all those answers and the willingness to provide data.

MR. CAMERON: Commissioner, if I may just comment for one second?

VICE CHAIRMAN ARANOFF: Sure.

MR. BISHOP: Your mic is not on.

VICE CHAIRMAN ARANOFF: He doesn't need his mic.

MR. CAMERON: I thought you guys didn't want it on.

Look, we will get the answer, as I said, but if you will refer to Table IV-4-45 I believe that that does help illuminate the answer to that question with respect to the Korean producers, but we will get you the company-by-company data.

VICE CHAIRMAN ARANOFF: Okay. Thank you very much.

I'm not sure actually whether my colleagues got around to asking this question, but in the event that they haven't for the posthearing, because otherwise this will invite a long, philosophical conversation which will keep us here into the wee hours.

One of the arguments that the domestic producers make is that those domestic companies that sell principally to the auto makers are performing worse in terms of the profitability than the domestic industry as a whole and that that is inconsistent with the argument that the domestic industry is highly concentrated and has market power.

To the extent that that hasn't already been answered, I'd like to ask if you can all just respond to that in your posthearing brief in terms of whether you agree with those differences in performance and whether it in fact is inconsistent with market power.

MR. MCCONNELL: I'd like to just point out one handicap we have in addressing that as the auto producers, which is that company specific data to which we do not have access, so if we had the APO data on the issue that we can answer that would be great, but it's not like we can sit and look at those data and say well, here's why this is this and this is that because we can't see the data.

VICE CHAIRMAN ARANOFF: Okay. Well, that is fair enough. I'll see what I can do with the question, and meanwhile I'll ask the joint Respondents who can take a look at the data to see if there's anything that they can do to respond to that question.

With that, I want to thank all of the witnesses for your great forbearance. I don't have any more questions.

CHAIRMAN PEARSON: Commissioner Hillman?

COMMISSIONER HILLMAN: I hope just a couple quick follow-ups.

I am hopeful, Mr. McConnell, that this is not going to put you in exactly the same position in the sense that you don't get the APO data, but I wanted to follow up a little bit on this issue of what's going on in the price as the issue of the specific products that I understand are more likely to be sold into the auto industry.

I mean, Mr. Kenny commented on my reaction to looking at this data. I understand that we priced eight products and that some of them are clearly more directed to the auto industry, but what my question goes to is this issue of your purchases of spot product versus contract products because for each of these products that we priced we got both contract price data and spot data.

If I look at it in general, and again I realize it's small coverage, but what it would show you is that for the beginning of our period of review from 2000 through 2003, maybe even 2004, contract prices were up here.

Spot prices were below it, which suggests to me no wonder if you all went to the domestic industry and said gee, would you sell us more tons at the contract price and they know that the spot price is quite a bit below it they'd be delighted to sell you more tons at the contract price because that's the best price out there in the market.

Then you see in the latter part -- 2004 for some of the products, 2005 -- a change where the spot price goes above the contract price. I'm trying to understand what that should say to me about your testimony that you've been forced into the spot market of late.

Again, my reaction to it is it probably didn't matter to you whether you were or were not in the spot market before so long as the price was the best price you could get, so I'm trying to understand whether that's how you perceived the market, those of you that are out there in the market.

Would you agree with that sense that there was for a long period of time contract prices generally above spot prices and that it's only been of late that that relationship has reversed itself?

MR. MCCONNELL: Let me just take a conceptual shot at that if I can and then let the specifics be done by the steel buyers on the panel.

Spot prices and contract prices have had a relationship like this over the years, and the industries, meaning the steel industry and the auto industry, have lived together on both sides of that cycle for quite a while.

There have been times when spot was low and the auto industries have refrained from going into the spot market. They've stuck with it. There have been times when spot was high and the steel industry has kept its commitment to do those volumes.

What we're seeing is that starting just in the last couple years the willingness of the steel industry to be involved in that kind of a relationship has changed, and I think the sense around the table is that it is a more fundamental change than simply the last flip in spot versus contract.

With that concept, maybe I should ask the buyers.

MR. COVER: Commissioner, this is Rich Cover.

COMMISSIONER HILLMAN: Mr. Cover?

MR. COVER: There were periods, as Mr. McConnell said, when the relationships changed.

During the period 2000 through the beginning of 2004, spot market prices were generally low, and they were low because demand was low. Therefore, capacity utilization was not at its maximum. The economists here could school me to know that when supply exceeds demand, prices are lower.

As the consolidation occurred, global demand heated up. The North American and U.S. economies heated up, and that supply/demand relationship changed and spot market prices went up significantly above contracts. Since the contracts had varying durations, they were lowered to levels that produced a lot of good net income for the steel producers.

We, and I don't think any large manufacturing company represented here or even in other industries, go in and out of the spot market depending on those dynamics. To run our businesses, we need stable, long-term pricing, and I think Lisa King pointed out earlier today, as did Sandra, that our model cycles go over multiple years.

As a business, for SEC and business planning and lots of disciplined reasons, we need to be able to forecast revenue and earnings, and we need to have some sense of what our costs are going to be. That's why we prefer long-term contracts.

COMMISSIONER HILLMAN: Any others want to comment on this?

MR. KELLY: The only comment I guess I can make --

COMMISSIONER HILLMAN: Mr. Kelly?

MR. KELLY: I'm Dan Kelly from DaimlerChrysler.

We have never sought to take advantage of an advantageous spot market for all the reasons we discussed earlier. There are contractual obligations. There is a willingness on our part to live up to those contractual obligations.

Product gets out on the spot market for a couple of reasons. There's excess prime they call it, and then there's oops steel. We can't use the oops steel effectively, so there was no reason to do it. There was risk in doing it, and we never sought to take advantage of it.

Our concern right now or our problem right now is that we are forced into it for these shortages that I mentioned earlier at the last minute, and we can't get any relief from our mills now so we are forced into the spot market and forced into paying those higher prices.

COMMISSIONER HILLMAN: Ms. King?

MS. KING: The relationship that Mark referred to is one that you contract over time. The one that he so eloquently called this we refer to as nested sign waves where you've got the up and down. There is a lag between spot and contract prices, but clearly a relationship between the curve.

Over time, typically what we've seen is at the top and the bottom of the market there's been about an 11 percent gap. None of these numbers are exact. They're trend numbers, but broadly they're correct.

At the top of the market you would expect contracts to be about 11 percent lower than the spot market. When the market is low you'd expect contracts to be about 11 percent higher.

One of the things that I think we have seen is that that gap appears to be narrowing between a typical contract price and a typical spot price. It might be a little early to be able to say that's true on a trend basis, but as you look at the data it appears that that gap is narrowing.

One of the things I think when we talk about spot and contract, one of the issues is the delta that we've historically seen, whether it be at the peak or the low of the market, is smaller.

Then I think just to reinforce some of the points, I don't think many of the automotive companies, certainly we don't generally jump in and out of the spot market. It's more an issue of if you need incremental terms or you're having a new contract discussion what does your contract reflect versus, if you like, the going market rate.

COMMISSIONER HILLMAN: And where would you describe yourself now on this sign wave in terms of at a peak?  In the middle?

MS. KING:  I'd probably like to answer that privately if I could.

COMMISSIONER HILLMAN:  Fair enough.  Fair enough.  Okay.  No, I appreciate those answers.

Help me understand again.  Over this period of review that we've been talking about, I can see in our data the relationship where again, as I see it, you had contract prices exceeding spot prices by I'll have to check whether your 11 percent looks correct for our numbers, but clearly a gap there that has then reversed itself.

During that period, you're describing that you all have had to go into the spot market very recently.  Just so I understand it, were there spot purchases made at any other points during our period of review?

In other words, did you make any spot purchases in 2000, 2001, 2002?  Again, if it's confidential data, fair enough to put it in a posthearing brief.

MS. KING:  For us in general, unless there's a reason causing us to go to the spot market, which is typically an emergency of some sort, a supply shortage, we don't generally go to the spot market for any other purchases.

COMMISSIONER HILLMAN: Again, I understand everybody doesn't want to go to the spot market. I'm just trying to understand where it actually happened other than during this time period where the prices inverted.

MR. MCCONNELL: In other words, was supply so tight or difficulties arose on a contract that companies were forced into the spot market, and when did that happen?

COMMISSIONER HILLMAN: At any other point other than this recent --

MR. MCCONNELL: Yes.

COMMISSIONER HILLMAN: Again, I'm trying to decide whether it actually happened during the time period in which the contract price was here and the spot price was lower.

MR. COVER: May I? This is Rich Cover. There's two aspects of the spot purchases that a car company typically will have to make.

One is if you have special items or low volume items that are difficult to put on contract with a big mill you might have a contract with a service center or a processor whose business model is the spot market. That's when you get the price that you could also find published in the *American Metal Market* every day.

That's a very, very small part of our business. The pricing when there's a shortage that has been referred to by many of us frequently through the day is not that price that's in the *American Metal Market* every day. It's the "gotcha" price.

Its relationship to the dynamics of what's going on in the marketplace are not predictable. It's the price that you pay to the butcher who has the steak, not the guy who's out of steak.

COMMISSIONER HILLMAN: Okay. No, I appreciate that. Thank you very much.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Thank you, Mr. Chairman.

Let me come back, if I could, Mr. Kenny, to what I closed with, but I didn't get an answer from you, and so the transcript is not broken up I'll come back to the basis of my question of you.

I was quoting from the Nucor brief, and it states that, "The growth of the transplants has resulted in a shift of automobile production away from its former locus in the U.S. midwest and Ontario, Canada."

The basis for that statement is an exhibit to the brief that's entitled The New Geography of the U.S. Auto Industry, the Supplier Industry and Transition that was in April of this year. It was jointly presented by Thomas Klier, Senior Economist with Federal Reserve Bank of Chicago, and James Rubenstein, Professor, Miami University of Ohio.

On the basis of that statement then the Nucor brief states, "Thus, significant quantities of Canadian subject merchandise may need to find a new home with the U.S. the most likely target."

I'd like you to respond to that statement.

MR. KENNY: Brad Davey will respond on our behalf.

MR. DAVEY: Yes.

COMMISSIONER KOPLAN: Yes, Mr. Davey.

MR. DAVEY: Okay. Commissioner Koplan, that assertion is absolutely incorrect. We have submitted the numbers. In our brief, the Canadian brief, on page 27 we've submitted auto production forecasts from Ward's and CSM.

Earlier in my testimony I mentioned that the Canadian market is growing. Both of those forecasters have the Canadian market growing for automotive production by at least 100,000 units, which, by the way, again there is a new plant going in, Toyota, that's about 40 minutes from our door in Ontario which we expect to be a main supplier of, so the Canadian automotive market is growing.

I think as we mentioned, the Canadian nonresidential construction market is growing significantly in Canada. That's another reason why we are focusing on Canada. In fact, during this whole period we've seen the U.S. shipments of CORE product grow into Canada at a faster rate. Obviously the U.S. producers are recognizing the attractiveness of the Canadian market as well.

A lot of it is driven by, as we mentioned before, this auto production and the demands of key suppliers, so we've got a different set of competition going on there.

We do not expect at all to be shipping additional product to the U.S. There really isn't an incentive for us there. We're focused on the Canadian market, and the Canadian market is clearly growing.

COMMISSIONER KOPLAN: I appreciate your response.

Yes? Do you need to add to that?

MR. HEFFNER: Yes. Doug Heffner from Hunton

& Williams.  Just one other thought about that.

We submitted a three year business plan that actually goes through that in detail.

COMMISSIONER KOPLAN:  Okay.

MR. HEFFNER:  It shows that we are going to be operating at a very high capacity utilization rate.

COMMISSIONER KOPLAN:  Thank you for that.

MR. HEFFNER:  Thank you.

COMMISSIONER KOPLAN:  I appreciate your response.

Mr. Shambon, has BlueScope Steel added or have plans to add corrosion-resistant steel capacity? Do the additions to capacity at the BlueScope Steel Springhill and Western Port facilities completed in 2005 as noted in its 2004 and 2005 annual report involve additions to its corrosion-resistant capacity?

MR. SHAMBON:  We'll be happy to answer that in the posthearing brief.

COMMISSIONER KOPLAN:  Okay.  My question is based on discussion at pages 18 and 19 of the Nucor/SDI brief, just to point you in that direction.

MR. SHAMBON:  I'm aware of it.

COMMISSIONER KOPLAN:  Thank you.

Mr. Cameron, Ms. Ross, Mr. Shambon and Mr. Wood, if any of the Australian, Korean or Japanese producers have long-term commitments to supply corrosion-resistant steel to the Asian market, will counsel for each of such subject countries obtain the necessary documentation and submit it with your posthearing submission?

MR. CAMERON: Mr. Chairman? I mean -- sorry -- Commissioner Koplan.

COMMISSIONER KOPLAN: No, not anymore.

MR. CAMERON: Sorry. It's late. We'll be glad to do so.

COMMISSIONER KOPLAN: Thank you, Mr. Cameron.

MS. ROSS: We will as well.

MR. SHAMBON: Commissioner, could you just clarify what you mean by documentation?

COMMISSIONER KOPLAN: Any internal records that would reflect this.

MR. SHAMBON: Okay.

COMMISSIONER KOPLAN: I mean, that would be submitted obviously as BPI, but that's what I'm looking for.

MR. SHAMBON: I understand.

COMMISSIONER KOPLAN: Thank you, Mr. Shambon.

Mr. Wood? Ms. Ross?

MR. WOOD: Chris Wood for Gibson Dunn. Yes, Commissioner Koplan. We'll get whatever we can for the posthearing.

COMMISSIONER KOPLAN: Thanks.

I'm asking this because Nucor/SDI's brief at page 20 is predicting likely displacement of those three subject countries from China. That's the reason that I'm asking for any documentation, understood?

MALE VOICE: Yes, sir.

COMMISSIONER KOPLAN: Thank you.

Mr. Gruenhage, U.S. producers' Nucor/SDI brief at 16 and 21-23 refers to corrosion-resistant steel capacity increases planned in some of the principal export markets for German producers and allege that this could result in the diversion of German imports to the U.S. if the order on Germany is revoked. Could you please respond?

MR. GRUENHAGE: Could you repeat the question? I was absent for it. 4:30 in Germany. Normally I'm sleeping since 7:00. I try to stay awake. Sorry.

COMMISSIONER KOPLAN: I know I might be putting you to sleep. Let me give it another shot. okay. U.S. producers' Nucor SDI brief at page 16 and pages 21 to 23 refer to corrosion resistant steel capacity increase is planned in some of the principal export markets for German producers and allege that this could result in the diversion of German imports to the United States if the order on Germany is revoked.

MR. GRUENHAGE: Well, I can first refer to our own expungence and that this more or less reduction because we have to fire off the electrogalvanizing line, which will be rebuilt, but with a reduced capacity because we also know that electrogalvanized is not really a product of the future for 10, 20, 30 years and beside of this I have no knowledge of all of our competition as what expungent plans they have.

For the European market at least I see no substantial increases. We know that there are increases for example in Turkey or other countries, but that are not markets where we are present at all.

COMMISSIONER KOPLAN: Thank you.

Counsel, could you also assist in the post-hearing on this and taking into account the discussion on those pages of the Nucor brief that I've cited? I can't hear you.

MS. CUMINS: Most certainly, but one comment. The capacity increases that were referred to in the brief refer to countries where we will demonstrate as part of our earlier promise to give you export statistics by country that we have no shipments and have never had any shipments to those countries, so whether they increase their capacity or not will have no affect on Germany.

COMMISSIONER KOPLAN: Thank you. I appreciate that.

This is for the auto producers, Mr. Kelly, Mr. Hinckley and Mr. Cover. The domestic industry contends that demand for corrosion resistant steel will be reduced as a result of the shift by auto makers from SUVs and trucks to smaller, more fuel efficient autos that use less corrosion resistant steel. That's at page 24 of the Nucor SDI brief.

You can do this post-hearing. First, I would like to know if you agree with that assessment and then at page 24 and at Exhibit No. 14, specifically in Exhibit No. 2 to Exhibit No. 14, there are estimates that the average of corrosion resistant steel as a share of total steel in light vehicles is 60 percent which amounts to 1,339.8 pounds.

What do you estimate the percent of corrosion resistant steel to be in an SUV compared to the smaller, more fuel efficient light vehicles? If you can give me any of that now I'll take it.

MR. COVER: This is Rich Cover.

COMMISSIONER KOPLAN: Mr. Cover. Yes.

MR. COVER: We'll make sure that we have accurate data for you through our engineering staff and provide that post-hearing.

COMMISSIONER KOPLAN: That would be great.

Mr. Kelly and Mr. Hinckley?

MR. KELLY: Dan Kelly. I think we can supply that most accurately in a post-hearing brief.

COMMISSIONER KOPLAN: I'd appreciate that.

MS. DESANDRE: This is Susan DeSandre. I'm Mr. Hinckley tonight. We will submit that post-briefing as well.

COMMISSIONER KOPLAN: Thank you very much. With that I have no further questions. My red light did not come on.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Let's see. I know there have been several requests for post-hearing more information with regard to the Asian market in particular and for those in particular for Japan and Korea your exports to China and how any increases in exports from China to your home market has affected production.

I just want, Mr. Cameron, to also ask you or to give you an opportunity to comment on the POSCO document that was in the U.S. Steel brief and which Mr. Lighthizer referred to today as his Chart 6 with respect to demand and capacity projections in China.

MR. CAMERON: Sure. Actually, the first time we saw that was in Mr. Lighthizer's brief. We are trying to get the information on it. We don't agree with the study. It's one more study by an independent researcher, and we will get the information and we will give you our take on it in the post-hearing brief.

I have talked to two steel makers and neither of them have agreed with it.

COMMISSIONER OKUN: Okay. To the extent this request was not incorporated in my colleagues questions to the extent that you and the Japanese producers have talked about long-term contracts otherwise limiting the ability to shift exports if there's any other documentation that could be put on the record with respect to that I'd appreciate seeing that as well.

That request may have already been made to you, Mr. Wood.

MR. WOOD: Yes. We'll take care of that in our post-hearing, Commissioner, although I would just make one point, Commissioner Okun, very briefly is that we're not talking so much about long-term contract in the sense that we have a five or 10 year agreement with someone, but what we're trying to get across is that we have long-term relationships with major customers in Japan and Asia to where a key part of our business model is supporting those people both inside Japan and in their transplant operations in Asia, but we'll do the best we can.

COMMISSIONER OKUN: Okay. I appreciate that.

MR. CAMERON: Commissioner?

COMMISSIONER OKUN: Yes, Mr. Cameron?

MR. CAMERON: We would agree with that statement. It's the same thing. We have not discussed long-term contracts either.

COMMISSIONER OKUN: Okay. Appreciate that clarification.

Then, Mr. Wood, I also wanted to have the Japanese producers comment if they could on the discussion about the electrogalvanized versus hot-dipped.

I know the Chairman had an opportunity to go over in the U.S. market with the auto producers and that was very helpful for me to understand what the different producers are doing, but I had thought in reading the Japanese producers' brief that the focus there was the Japanese Respondents saying that their shipments to the automotive and home appliance customers required electrogalvanized products and when I look in our staff report at Table CORE 4-42 it still shows a lot of Japanese production is hot-dipped galvanized, so I'm just trying to make sure I understand what your argument is with regard to hot-dipped versus galvanized and what that means for exports to the United States.

MR. WOOD: Chris Wood from Gibson Dunn. Thank you, Commissioner Okun.

I'm delighted you asked that question, and we will certainly address it in the post-hearing brief, but I also just want to clarify that when we are talking about the electrogalvanized shipments by the Japanese Respondents to China, and we've put the numbers in our brief, it's a very significant number, those are predominantly to an end use segment for things like plasma and LCD monitors, DVD players, hard disc drives, things where the manufacturing does not take place in the United States.

It's a completely different use from the electrogalvanized shift that you've been hearing about today in the United States. Yes, we certainly have production of both types, electrogalvanized and galvannealed, and we can try to sort that out for you to make it clearer in the post-hearing.

COMMISSIONER OKUN: Okay. Appreciate that. Then let's see. Last two things for post-hearing.

For counsel if you would for me address with respect to nonsubject imports in this market the question I put to domestic industry counsel this morning regarding what the Federal Circuit's decision in Bratsk might mean in terms of how the Commission should take into account nonsubject imports when doing a sunset analysis? I'd ask all counsel to brief that.

They're nodding their heads, so I won't ask for more than that.

MR. MCCONNELL: We would be delighted to.

COMMISSIONER OKUN: Okay. Then finally for you, Mr. McConnell, expect a post-hearing question from me with regard to your calculation of the HHI index. It's come up a number of times in recent cases, so I do have some additional questions on how it was calculated and what it means.

MR. MCCONNELL: Just to make sure I understand. When you say expect it will be --

COMMISSIONER OKUN: Probably by the morning if I've got something that I think I can submit.

MR. MCCONNELL: Okay. So it will be in writing?

COMMISSIONER OKUN: Yes. It will be in writing.

MR. MCCONNELL: Okay.

COMMISSIONER OKUN: I want to refer to some specific DOJ/FTC merger guidelines and I want to make sure I have those accurate. With that while I have other questions I could ask I think I've covered enough, Mr. Chairman, although I may be in the market for another car because while my car is wonderful I did back out of my driveway and hit my husband's car. There you go. It might be corrosion resistant, but it's not crunch resistant.

CHAIRMAN PEARSON: I think I'll just stay out of that one other than to offer condolences to Bob the next time I see him. Well, you're giving up a little early here, but I would just express thanks to Boston Properties. The air conditioning did come back on at 10:25. Boston Properties are our landlord here. They're very good to work with, but we didn't quite coordinate this one with them in advance.

Commissioner Lane?

COMMISSIONER LANE: I said I would waive my fourth round of questioning, but I just want Mr. McConnell to do that hand motion again to explain the relationship between the long-term contracts and the spot market. I was very fascinated with that. No. The hand motions. That's all I want.

MR. MCCONNELL: Well, I have to describe where it comes from. I don't know if you remember the swim back in the 1960s?

COMMISSIONER LANE: Okay. Thank you, and thank you all for being here today to answer all of our questions. Thank you.

CHAIRMAN PEARSON: I will pass this round of questions.

Vice Chairman Aranoff?

(No response.)

CHAIRMAN PEARSON: Commissioner Hillman?

(No response.)

CHAIRMAN PEARSON: Commissioner Koplan?

COMMISSIONER KOPLAN: Not a question, just an observation. I think that this has set a new record for endurance as far as hearings are concerned at least since I've been here.

CHAIRMAN PEARSON: Well, we have been scrambling around the last few minutes as you may have guessed trying to figure out if the Office of the Secretary could advise us of what the latest hearing has been in recent Commission history.

MR. BISHOP: Really, really late.

CHAIRMAN PEARSON: We'll probably have to get that in the post-hearing because we don't have a definitive answer now, but the Commissioners who were here during the time of the 2001 steel hearings believe that this hearing was later. I have no reason to disagree with them.

So no further questions from the dias?

(No response.)

CHAIRMAN PEARSON: Okay. Mr. Corkran, do staff members have any questions for this panel?

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Chairman Pearson. The staff has no further questions.

CHAIRMAN PEARSON: Your mic was on there?

MR. CORKRAN: I hope so.

CHAIRMAN PEARSON: Okay. Well, you had no questions, right?

MR. CORKRAN: Douglas Corkran. No. The staff has no further questions. Thank you.

CHAIRMAN PEARSON: Okay. Thanks. Let's see. The domestic parties have no time for questioning those who oppose continuation, okay? So let me review the time as it stands. The domestic industry has five minutes for closing, the parties now on the panel in opposition to continuation have nine minutes for rebuttal and five minutes for closing, so given that you have time for rebuttal do you wish to use it or would you prefer to go straight to closing?

MR. MCCONNELL: I have two I think reasonably short points on rebuttal. I look to the others.

MR. CAMERON: We have short rebuttal.

CHAIRMAN PEARSON: Okay. Then what we should do at this point is to excuse the panel, but before I do that and have all that commotion let me express my sincere thanks to all of you for the effort that you've put into this hearing. That's to the parties, and to the Commission staff and my fellow Commissioners as well.

We approached today I think with a great deal of patience, goodwill and occasional touch of humor. I've learned a great deal and am pleased to have set a record for length and still come out of it smiling. So with that the panel is excused, and please prepare for your rebuttal.

Maybe you should stay where you are.

Pardon? Am I too late? I may have created more confusion than I should have. Okay. Would those who will be involved in the rebuttal please come to the front table and if the rest of you can stay put if you would?

While they're getting ready I could point out that if you had a good time today and would like to try it again I invite you back on Thursday for the related hearing on cut-to-length plate.

Are you prepared to proceed, Mr. McConnell?

MR. MCCONNELL: Thank you very much, Mr. Chairman. I shutter to be next to Don, so I'm going to do my two points and go from there. The two I'd like to talk about briefly are capacity utilization and some of the comments made this morning, and also the issue of China. On capacity utilization I actually was surprised a bit by some of the frank admissions by the U.S. industry members that the capacity numbers are probably overstated and I welcome those.

I also was struck by what appeared to be a general acknowledgement that 2004 was probably the tightest market in memory for corrosion resistant steel. I can certainly add to that that the price spike in 2004 created an incentive to pump out every ton of corrosion resistant steel that could be sold. That year they reported capacity utilization of 84.7 percent.

That then dropped off in 2005 as did price and I walked you through how they reduced production and successfully held a very high price floor in 2005. Then they ramped back up again in 2006, again, with very, very high price levels in the spot market and in the first half of 2006 your staff report has the capacity utilization based on their numbers at 85 percent.

I would like to propose that the Commission might consider a real short cut to understanding capacity utilization and consider that given the admissions regarding the potential for obsolete plants to be in there and so on that the reported number of 85 percent is somewhere around full capacity for this industry.

That would certainly be consistent with some of the descriptions of market tightness that you've heard from our panel this afternoon and this evening. The second point is China. You recall the exchange this morning based on Lakshmi Mittal's point that China was not a significant threat because of its lack of raw materials and high energy costs.

Those things have certainly leveled the playing field and have eliminated much of what might otherwise be a Chinese advantage. I was struck by Mr. DiMicco's comment that he agreed with that provided that the Chinese obeyed the rules. My response to that is we welcome his agreement that China is not a threat if China obeys the rules, and I would point out that the law does not provide that we impose duties in advance of some action because we think somebody might violate the rules in the future.

I would urge the industry if they are concerned about China that they wait and see what China does and bring a case at that time. I also would point out finally with respect to China that I think some of the allegations regarding threats from China go to the Commission's standard of foreseeability. At the current time looking now at the automotive market less than five percent of Chinese steel production goes into automotive consumption.

If a Chinese steel producer announced today the decision to build corrosion resistant capacity they would have to get the plant up and running, they would have to get it to meet automotive standards and they would have to get through very demanding qualification requirements the length of which we have spelled out at some length in our brief, 12 to 18 months is very common, after they had the product.

We're talking now maybe three or four years out. So if the question is that China might start producing more corrosion resistant in the automotive sector and push out those more developed steel qualities that are already in the Chinese market I would suggest that it would be a significant question as to whether the Commission could call that foreseeable within the standard as it has defined it. Thank you.

MR. CAMERON: Mr. Chairman, members of the Commission, first of all thank you very much for your patience tonight. I'll try not to indulge it. It was rather incredible today to hear not only Nucor, but every one of the other U.S. producers actually say to this Commission under oath that they premised their investments in corrosion resistant on these orders and the continuation of these orders.

I mean, this is taking hyperbole to another level. What do you think the investment analysts thought of that method of analyzing? Say I've got an antidumping order that's in place, every five years it's subject to a vote by a very distinguished and yet unpredictable Commission. Now, I grant you that it's been in place for 15 years, but we're going to make our investment based upon the premise that these orders are going to continue in existence.

Now, either they're (a) assuming that these orders are permanent, which I would suggest to you is not consistent with the law; or (b) what they're saying isn't really credible. What is credible is this industry (a) is investing; and (b) they're either betting on themselves or they're betting on this Commission.

We believe that the answer to that is self-evident. They're betting on themselves. Quite frankly they've been very good. That's not really a slam at them, just to suggest that they're basing these decisions on the orders is ridiculous. These orders by the way are not a recent occurrence.

I realize that this sometimes gets lost, but I would like to re-emphasize that these orders have been in effect for 15 years and according to the domestic industry that's not quite long enough. They want it to last for 20 years. Now, I don't want to test the law because I realize I can't sustain this argument, but you're starting to get close to permanent relief.

I grant you 20 years is not defined as permanent in the law so you've got me there, but I think it's starting to get pretty close. It was very interesting to hear the discussion from the industry this morning because when they were discussing their condition it was as if we were back in 1993. Nothing has changed. These arguments have not changed.

It's the same arguments in 1993 and like Bob I was here, too. Same arguments in 2000 and the same arguments have been repeated. The world hasn't changed between 1993 and/or 2000 and 2006? I beg to differ. In 1993 China was not a global factor in steel demand. The U.S. industry frankly was uncompetitive. Look at it today.

With the maturation of the steel markets in places like China and India you have growing consumption of CORE globally. The U.S. industry has shed its legacy costs and the significance of this cannot be overstated. They are now globally competitive. Again, I mentioned this in the testimony earlier in response to questions, but it is important to look at it.

Look at the experience under the 30 percent safeguard. It's very interesting. There was a 30 percent tariff combined with antidumping and CVD against all of these producers, right? Yet the industry was not profitable and prices didn't increase. Was this because of imports? No. In fact imports weren't the problem then and they don't drive the costs or the prices in this industry.

During this same period the industry restructured and they shed their legacy costs. In 2004 a 30 percent tariff was eliminated, and what happened? Did prices collapse? Did profits collapse? No. Raw material prices went up, prices went up, profits went up. Why? Because this industry is globally competitive.

In answer to your question, Commissioner Okun, yes, they are now better able to withstand global competition. That is exactly the point that you have heard as a constant theme all day today. I thank you very much for your patience today. I know it's been a long day. We do sincerely appreciate it. Thank you.

CHAIRMAN PEARSON: Thank you. Let's see. We must be ready now to move to closing.

Mr. Hecht and Mr. Price? Mr. Hecht is doing it? Okay. Great. Thank you.

MR. HECHT: Good evening, and thank you for your patience through the day. I will try to hit as many issues as I can here in the time we've got left. Shortages. Talked about a little bit this morning. We hope you will really take a close look at the record and what it shows in this regard. As we talked about before 2004 was a very unique circumstance in the world as you well know from prior cases.

Look closely at what they're saying in terms of 2006. I think the staff report correctly says you have fewer instances of that and we think if you look closely at them you may see that they're made up a lot more of sort of these goofball claims about the type of contract they describe on page 31 of their brief.

Now, Mr. McConnell referenced that as a run of the mill sort of requirements type contract that he saw in law school. We will address that in our post-hearing brief, but the notion that type of contract suggests a shortage is just absolutely ridiculous.

If I could just give you a slight preview, two law professors from the University of Michigan which is a pretty good law school wrote a paper this year on boilerplate and economic power in auto manufacturing contracts. Let me just read a section of that to you. The termination term may also create a problem under the statute of frauds.

Courts that have adjudicated similar

provisions in lower tier cases have held contracts to be enforceable. They cite a couple of cases one of which holding that a price quote in which a seller promises to supply buyers steel requirements for the next three years does not satisfy the quantity provision of the statute of frauds.

They cite the SDI case for similar reasons. Mr. Lighthizer was not off on a lark here. This is a pretty clear well-established thing. This is not evidence of a shortage of people are not trying to abide by that type of contract. EGL versus hot-dipped. This notion that somehow we have obsolete capacity, we will give you the data on that.

You're going to see up and downs obviously in terms of what demand is out there, but we're a little confused because I understand that there was a press call yesterday that the auto guys did in which the gentleman from GM was complaining that the industry had market power because it shut down an EGL line, so we're confused about whether we're bad because we're shutting down EGL lines or whether we're misrepresenting data because we have capacity on EGL lines.

It seems inconsistent to me and hopefully we'll get some clarification on that. Hipocracy.

I've got to say something about this. The auto panel said, "that they think the steel industry is ready for competition", by which of course they meant unfair competition.

That's a pretty insulting statement frankly when you see the steel workers back here and what they've gone through and particularly ironic coming from an industry that benefits from that chicken tax that Mr. Gerard talked about which I know some of you worked on the Hill and may know about this. That's the 25 percent tariff we have on light trucks that we've had for 40 years and that they're still fighting for today.

It has nothing to do with unfair trade, it had to do with a chicken dispute with the EU. It means you'll pay $6,000 to $8,000 in duties if you want to bring a light truck into this country. They don't come before agencies like this to show unfair trade to justify that, they do it behind the scenes and then come in here and complain because the steel industry has gotten itself in a position to earn $19 on the corrosion resistant steel in a car.

In terms of controlling production this notion that there's something nefarious about not producing when you don't have demand, I think Mr.

Schorsch made a good point. Isn't that what the auto companies are doing today? Is that evidence of market power that they're not spewing out cars that the market doesn't want? POSCO.

We cite in our brief an article where POSCO announced this new 400,000 ton line which they said in part was looking for the high end automotive uses in the U.S. I just think it's not plausible to suggest that they're interested in just participating in calibration of steel mills over here.

It's our understanding that Hyundai plant was calibrated using domestic steel. We'll look into that, but sort of interesting. The POSCO study on China. Please take a look at that. This notion that we're talking in the distant future of problems with China, nobody believes it. The stuff is coming online right now, we showed you the data of what's happening right now and POSCO's own internal document shows that these guys are scared to death about it.

It undermines the entire case theory for Korea, Japan and the rest of these guys. Contracts. Who wanted short-term contracts? I'm sorry to rush through this, but I've got a lot. Daimler and GM have recently been quoted in the press as being the ones who wanted shorter term contracts. We can cite that.

Whatever the case the contracts are short-term, and so I think it's clear they're not going to provide any insulation or protection if you allow unfair trade back into this market.

We'll walk through some of the other provisions that show that as well. Market concentration. The HHI index that Commissioner Okun asked about. The section of their brief where they describe that in the auto makers' brief is ridiculous. The source that they quote gives you an HHI calculation for the domestic corrosion resistant industry.

It shows the lowest concentration of any of the flat-rolled steel industry and is completely inconsistent with their claim. I won't try anymore. Thank you for your patience.

CHAIRMAN PEARSON: Thank you, Mr. Hecht.

Mr. McConnell?

MR. MCCONNELL: I'd like to start by thanking this panel for the distinct privilege of letting me be the last speaker at this hearing, and I also want to thank each of you for all the time that you've spent. I think I can say without fear of any contradiction this has been a very long day and we're grateful for the attention that you've given to our case.

CHAIRMAN PEARSON: I'll stipulate to that.

MR. MCCONNELL: I see that we've just returned to some of the tone of the morning, so unfortunately I'm going to have to take my game up a notch, too. I was going to have a little bit different close. This case really matters to the auto producers and the auto workers.

You didn't see much of us in 1993 or 2000 when these were up before and we're not asking you to weight the affects on us and our employees as part of your formal legal standard, although we do think that would be a good idea, but that affect is relevant. Unfair trade orders are not permanent. The law requires that they be sunset when they are no longer needed and that's because they restrict competition and because they can hurt industries like ours.

The auto industry buys somewhere around $6 billion worth of steel a year. Toss a 15 percent price increase on that if we've got market power and lack of competition. I'm just making that up. That gets you to about $1 billion. Ford and GM right now are going through some very painful reductions in force. Every auto worker that they cut costs about $100,000 in salary and current benefits.

$1 billion that they've got to pay more for steel is 10,000 auto workers' jobs. I think we've got to keep that in mind when we start talking about all the problems of employment. What does that mean for you in reviewing this case? It means that we are depending on each of you to really grapple with the new realities in this market.

The steel industry is urging you just to ignore things. Just pretend it's 1993 or 2000 all over again. We're urging you to ask some tough questions. Ask yourself if the steel industry has really given you the justification to extend 13 years of protection to 18 years of protection.

Just to give you one example you heard a lot today about the profit amount that they've allocated to their corrosion resistant operations in their reports to you. They want you to conclude that it's low and it's a sign of vulnerability. At times it seemed like there wasn't much else to their case to be honest with you.

We urge you not to settle for that, but to go deeper. Given all the accounting allocations that go into a figure like that, and every one of those allocations were made by the steel industry itself before they gave you the number, ask yourself if it's really a good indicator. Does it really tell you what's happening in the marketplace? Does it really tell you much about the future?

Ask yourself would the board of directors of Nucor or Mittal approve multi-million dollar investments in additional capacity if they really didn't expect to earn back their cost of capital? Can Mittal really be having trouble raising capital when the market capitalization of its current assets went from below $700 million at the beginning of the POR to nearly $22 billion now?

If the steel producers were really worried about excess demand or excess capacity would they be putting limits on the volumes that they are willing to sell to us? Would they be turning away orders from some of the largest producers on the continent? Are there conditions in which the steel industry would ever say that they wouldn't be injured?

We've done our best to get before you facts about what's really happening in the marketplace. Facts about market power, volume limitations, cost reductions, pass-throughs of raw material costs and about global demand. Those are the facts that make this case different. Our hope is that you're going to really grapple with those facts and look at all that's changed.

We appreciate the effort you've put into this. I can tell by the questions that you asked them and that you asked us that you are digging in. All we ask is that you come fully to terms with the transformation of this industry since you last looked at it. We're confident that if you do so you'll find and agree with us that the revocation of the orders will not likely lead to recurrence of injury to these transformed companies. Thank you.

CHAIRMAN PEARSON: Thank you, Mr. McConnell. Post-hearing briefs, statements to responses to questions and requests of the Commission and corrections to the transcript must be filed by October 30, 2006. Closing of the record and final release of data to parties December 5. Final comments December 8.

Before you go I would just encourage you to drive safely. Make sure that you get your corrosion resistant steel home safely so that it's still smooth and shiny. Let the record show that this hearing stands adjourned at 10:58 p.m.

(Whereupon, at 10:58 p.m., the hearing in the above-entitled matter was concluded.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Certain Stainless Steel Products from Australia, Belgium, Brazil, Canada, Finland, France, Germany, Japan, Korea, Mexico, Poland, Romania, Spain, Sweden, Taiwan and the United Kingdom (Corrosion-Resistant Steel)

**INVESTIGATION NO.:** AA1921-197; 701-TA-319, 320, 325-327, 348 and 350; and 731-TA-573, 574, 576, 578, 582-587, 612 and 614-618 (Second Review)

**HEARING DATE:** October 17, 2006

**LOCATION:** Washington, D.C.

**NATURE OF HEARING:** Second Review

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: 10/17/06

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 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