UNITED STATES
INTERNATIONAL TRADE COMMISSION

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| In the Matter of: | ) | |
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| SUPERALLOY DEGASSED CHROMIUM | ) | Investigation No.: |
| FROM JAPAN | ) | 731-TA-1090 (Final) |

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Thursday,
November 3, 2005

Room 101
U.S. International
Trade Commission
500 E Street, SW
Washington, D.C.

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

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

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

APPEARANCES (continued):

Staff:

MARILYN R. ABBOTT, SECRETARY TO THE COMMISSION
WILLIAM R. BISHOP, HEARINGS AND MEETINGS COORDINATOR
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GERALD HOUCK, INDUSTRY ANALYST
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KARL VON SCHRILTZ, ATTORNEY
GEORGE DEYMAN, SUPERVISORY INVESTIGATOR

APPEARANCES (continued):

In Support of the Imposition of the Antidumping Duties:

On behalf of Eramet Marietta, Inc. ("Eramet"); The Paper, Allied-Industrial, Chemical and Energy Workers International Union ("PACE"), Local 5-0639:

GREGORY L. NOLAND, Department Manager, Vacuum Products and Briquetting, Eramet
JOHN W. VORBERGER, Sales and Marketing Manager, Special Products, Eramet North America, Inc.
KENNETH R. BUTTON, Senior Vice President, Economic Consulting Services, LLC
JIM DOUGAN, Senior Economist, Economic Consulting Services, LLC

Of Counsel:

WILLIAM D. KRAMER, Esquire
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Washington, D.C.

# I N D E X

P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN KOPLAN: Good morning. On behalf of the United States International Trade Commission, I welcome you to this hearing on Investigation No. 731-TA-1090 (Final) involving Superalloy Degassed Chromium from Japan.

The purpose of this investigation is to determine whether an industry in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of less-than-fair-value imports of subject merchandise.

Schedules setting forth the presentation of this hearing, notice of investigation, and transcript order forms are available at the secretary's desk. All prepared testimony should be given to the secretary. Do not place testimony directly on the public distribution table.

As all written material will be entered in full into the record, it need not be read to us at this time. All witnesses must be sworn in by the secretary before presenting testimony.

I understand the parties are aware of the time allocations. Any questions regarding the time

allocations should be directed to the secretary.

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

Madam Secretary, are there any preliminary matters?

MS. ABBOTT: Yes, Mr. Chairman. With your permission, we will add Jim Dougan, senior economist, Economic Consulting Services, to the witness list.

CHAIRMAN KOPLAN: Without objection. Very well. Let us proceed, then, with the opening remarks.

MS. ABBOTT: Opening remarks by the Petitioners in support of imposition of antidumping duties will be by William D. Kramer, DLA Piper Rudnick Gray Cary.

CHAIRMAN KOPLAN: Good morning, Mr. Kramer.

OPENING REMARKS BY WILLIAM D. KRAMER

MR. KRAMER: This case is a classic case of injury by reason of unfairly traded imports, but it occurred in a somewhat different context than the Commission normally encounters. If anything, because of these differences, the basis for an affirmative finding is even clearer than it otherwise would be.

The domestic industry is composed of a

single company, Petitioner Eramet Marietta. Before the dumped imports entered the U.S. market, there was only one other competing supplier, French producer Delachaux. There are fewer than 20 customers in the market, just three of which account for about 70 percent of consumption. Sales generally are made in large increments so that a loss of just one or two major customers can have a devastating impact.

The Japanese producer, JFE Material, began producing this product in 2000 and immediately announced its intention eventually to produce at a level 50 percent higher than current total global consumption. The U.S. market is by far the most important market for this product globally. JFE entered the U.S. market in 2001, offering high-quality product at very low, dumped prices, undercutting Eramet.

In 2002 and 2003, the Japanese imports increased substantially in volume and market share. These increases occurred when the domestic industry was extremely vulnerable due to a sharp falloff in demand in 2002 and continued weak demand in 2003 caused by the impact of September 11 and the collapse of artificially high power prices on the aerospace and power-generation end-use markets for this product.

In entering the market, JFE targeted top customers critical to Eramet's survival. By means of price undercutting, JFE took large volumes of sales from Eramet and forced Eramet to reduce its prices to these customers.

In 2004, when demand began to improve, the Japanese imports surged to their highest level and captured even more market share. Despite the improving market conditions, Eramet's shipments and market share declined due to the dumped imports from Japan. Because of the small number of customers and the fact that most business in this industry is done in large blocks, the domestic industry could not replace the sales volume lost to the dumped imports. Eramet was forced to cut back production, which increased its per-unit costs.

The Department of Commerce has found that the Japanese imports were dumped at a high margin, over 129 percent. The staff report shows that the imports undersold the domestic product in all comparisons, at margins ranging from 27.5 to 46 percent. The very low dumped prices of the Japanese imports suppressed prices broadly in the U.S. market. Moreover, this price suppression occurred as Eramet's raw material and other input costs rose. The result

has been severe injury to Eramet's superalloy degassed chromium operations, with declines in shipments, market share, production, capacity utilization, employment, and financial performance.

After the petition was filed, JFE stopped shipping to the United States and withdrew from the U.S. market, even at customers where it had supply contracts. In the first half of 2005, with the dumped imports abandoning the market and demand improvement continuing, Eramet was able to increase its production and sales volumes and raise its prices. The sales volume and price increases, in combination with lower per-unit costs resulting from the increased production, allowed Eramet to improve its financial performance in the part-year period after experiencing very poor operating results when the dumped imports were present in the market.

This recovery will be short lived without final relief from the dumped imports. Since leaving the market, JFE has simply shifted to making sales in Europe at prices even lower than its dumped prices to the United States. Absent final relief, JFE will resume making sales to the United States at low dumped prices, causing severe injury to Eramet. Thank you.

CHAIRMAN KOPLAN: Thank you.

Madam Secretary?

MS. ABBOTT: The first panel, in support of the imposition of antidumping duties, please come forward and be seated.

The witnesses have been sworn, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you, Madam Secretary.

(Pause.)

CHAIRMAN KOPLAN: You may proceed.

MR. KRAMER: Our first witness is Greg Noland of Eramet.

CHAIRMAN KOPLAN: Good morning, Mr. Noland.

MR. NOLAND: Good morning. My name is Greg Noland. I'm the department manager of the vacuum products and briquetting operations at the Eramet facility at Marietta, Ohio. I've been involved in the production of superalloy degassed chromium at Eramet Marietta for over the past 17 years or more. I'm the manager responsible for the production of this product at the plant. I have extensive knowledge regarding superalloy degassed chromium and its production process.

I am here to testify today about the nature of the product, how the dumped imports from Japan have hurt the operations, and what we expect will happen if

the Japanese producer, JFE Materials, is allowed to continue undercutting us with below-cost prices at key customers.

Superalloy degassed chromium is a high-purity form of chrome metal containing very low levels of certain impurities, most important, nitrogen, oxygen, and sulfur, but also aluminum and silicon. This product is principally used as an alloying addition in the production of high-end superalloys that are used to make the most critical components of jet aircraft engines and power generation gas turbines.

These are the engine parts that experience the highest temperatures and greatest physical stresses. The presence of chromium in superalloys allows these engine components to operate at very high temperatures without oxidizing or burning up, resulting in an engine failure. At the same time, in adding the chromium, the superalloy producer must avoid adding elemental impurities, particularly nitrogen, sulfur, and oxygen. These impurities can introduce particles into the superalloy that, over time, can cause catastrophic structural failure in the engine part.

Superalloy degassed chromium is produced by

manufacturing chrome metal and then further refining or degassing the metal in a vacuum furnace to reduce the level of critical impurities. There are no industry-wide standard specifications for superalloy degassed chromium. Producers typically sell a regular grade, as well as grades containing lower nitrogen or lower sulfur than the regular grade. However, one producer's regular grade does not have the same exact chemical composition as other producers' regular grade.

Customers' specifications are not exactly the same. Customers often have unique requirements with respect to maximum levels of certain impurities. We tailor our production of superalloy degassed chromium to meet customers' requirements.

Notwithstanding the lack of standard specifications for superalloy degassed chromium, there are recognized levels of particular impurities that define this product. As explained in the petition, superalloy degassed chromium contains no more than 50 parts per million, or PPM, of nitrogen and no more than 50 PPM of sulfur. Fifty PPM is five-thousandths of one percent by weight. Superalloy degassed chromium also contains no more than 500 PPM of oxygen. Aluminum and silicon typically do not exceed 100 PPM

and 500 PPM, respectively.

As the Commission knows, the petition does not cover electronics-grade chromium and VMG chromium. I understand that in the preliminary determination, the Commission found that the different physical characteristics and price of electronics-grade chromium results in different end uses, channels of distribution, and customer and producer perceptions, as compared to superalloy degassed chromium, and that is correct. Electronics-grade chromium has a higher chromium content and a much lower iron content, and it is used in applications such as the production of LCDs where very low iron is required.

Superalloy degassed chromium cannot be used in applications requiring electronics-grade chromium because its iron level is too high. While electronics grade can be used in superalloy applications, it is not feasible to do so because its costs are over four times as much as superalloy degassed chromium.

I also understand that the Commission decided to collect additional information about whether to expand the definition of the like product to include VMG chromium, and for that reason, I will address this product in more detail.

The bottom line is that VMG chromium and

superalloy degassed chromium are distinct products. They have different physical characteristics and end uses. We and other producers perceive the superalloy degassed product to be different, and as John Vorberger will discuss more fully, so do consumers.

As you found in your preliminary determination, VMG chromium contains higher levels of critical impurities than superalloy degassed chromium. The very low level of these impurities in superalloy degassed chromium, which is achieved by vacuum degassing the chrome metal, is what really defines the product. Because of the major differences in the level of key impurities, superalloy degassed chromium and VMG chromium are not interchangeable and have different uses.

VMG chromium has two primary uses. First, it is used to make lower-end superalloys that are used in the production of engine components that are subjected to lower physical stresses and temperatures. These parts are generally wrought rather than cast, and for these applications, higher levels of the key impurities may be acceptable.

Second, a very large portion of the VMG chromium sold in the United States, maybe 50 percent or more, is used to produce superalloys destined for

other low-end applications, mainly the production of corrosion-resistant metal piping and other product forms such as plate and sheet. These corrosion-resistant items are used in a wide variety of industrial applications like oil and gas drilling and processing, industrial flue gas desulfurization, and marine applications. Because VMG chromium contains higher levels of key impurities, it cannot be substituted for superalloy degassed chromium in the production of the high-end superalloys used in producing certain engine parts that must withstand high temperatures and physical stresses.

I understand that the Commission staff report states that Eramet uses the same manufacturing facilities to produce superalloy degassed chromium and VMG chromium. However, as explained on pages 6 and 7 of the proprietary version of Eramet's prehearing brief, important parts of Eramet's production equipment used to make superalloy degassed chromium, including two of its three vacuum degassing furnaces and associated equipment and the building housing one of those furnaces, are not used to make VMG chromium.

A final point about VMG chromium: We produce a relatively small volume of VMG chromium, and we only participate in the market for this product to

a very limited degree. This is not an important product for us. By contrast, superalloy degassed chromium is an important product and is critical to the specialty metal operations and the overall operations at the Marietta plant.

The petition covers superalloy degassed chromium and not VMG because it is imports of superalloy degassed chromium from Japan that are being sold in the United States at below-cost prices, displacing us at major customers, injuring our superalloy degassed chromium operations, and threatening the continued viability of those operations.

Eramet is an efficient producer of high-quality, superalloy degassed chromium. We continually strive to improve the production process and the quality of this product. In September 2001, Eramet management approved an investment plan to purchase and install a new pilot degassing furnace. The furnace is designed to use new technology patented by Eramet involving hydrogen and vacuum refining of chrome metal. The patented technology was the result of several years of technical work that began in 1994, using both internal and external technical resources.

Fully implementing this new process would

allow us to produce the highest-quality, superalloy degassed chromium in the world. We also have continuously improved our existing process.

JFE is not a more efficient, low-cost producer. As we showed in the petition, JFE is simply selling at prices below its cost of production. This is a classic case of selling at very low, below-cost prices to gain market share.

As John Vorberger will explain in his testimony, JFE has aggressively undersold Eramet in its contract negotiations with top customers, taken major sales volume from us, and forced us to reduce prices in an effort to stem loss of sales at these customers. Because the number of customers consuming the vast majority of this product is very small, we cannot replace large sales volume lost to dumped imports on the basis of price.

Even though demand for superalloy degassed chromium began to improve noticeably in 2004, our sales volume and market share for this product fell that year, while the imports from Japan reached their highest volume and market share. The resulting impact on Eramet's superalloy degassed chromium operations has been very damaging. As the dumped imports took sales volume from us at critical customers, we were

forced to cut back production. The production of superalloy degassed chromium involves high fixed costs. Thus, as we lost sales to dumped imports and cut back production, our fixed costs per unit increased significantly.

Economies of scale are very important to the production of superalloy degassed chromium. That is the key reason why losing sales volume to JFE at large, irreplaceable customers is so damaging to Eramet. In addition, during the last several years, our production costs have also been increasing due to rising costs of raw materials and other inputs. For example, between 2001 and 2005, the cost of high-carbon ferrochrome and ammonia has increased greatly. Over these years, the cost of steam and sulfuric acid has increased significantly. At the same time, the dumped imports from Japan have held down our prices and prevented price increases that would otherwise have occurred.

Prior to the filing of the petition, the combination of JFE's low prices in the market, increases in the cost of our raw materials and other inputs, and increase in our per-unit fixed costs due to cutbacks of production put us in a position of having to sell at prices below our cost of production.

The result was a major adverse impact on the profitability of our superalloy degassed chromium operation.

As a result of JFE's dumped imports, Eramet has also been unable to make necessary research and development expenditures and capital investments. Most importantly, we have halted implementation of the investment plan that I have described earlier. As I explained, we have installed one small pilot furnace using the new, patented technology. We also constructed a new building to house this furnace and related equipment. Eramet has intended to continue to develop the technology and eventually replace the existing degassing furnaces at the Marietta plant. Continuing poor financial performance due to the dumped imports from Japan prevented us from implementing these investment plans.

With the decline in production, the number of workers involved in producing superalloy degassed chromium at the Marietta plant has fallen dramatically. The hours worked and the wages paid to those workers have fallen substantially. Eramet's plant is one of the largest employers of the Marietta, Ohio, and Parkersburg, West Virginia area, and the health of our superalloy degassed chromium operations

and other operations at the plant is an important part of the community.

In summary, we have been severely injured by the dumped exports from Japan. These imports are sold at very low dumped prices to key customers, resulting in major lost sales, lost revenues, and lower market prices at a time when our input costs are rising.

As John Vorberger will describe in more detail, after Eramet filed the antidumping petition, JFE abruptly exited the U.S. market and shifted to shipping its product to Europe. As a result, Eramet has been able to take advantage of improving demand and increase its volume of sales and obtain necessary price increases.

On the production side, with JFE out of the market, we have been confident enough about our sales prospects to increase our production volume significantly. The increased production means we can spread fixed costs over a larger volume and reduce per-unit fixed costs. In combination with larger sales revenues, the reduction of per-unit fixed costs has allowed our superalloy degassed chromium operations to experience a significant improvement in financial performance.

Even with improving demand, these gains

would not have been achievable without the filing of the petition. Increases in demand will not help Eramet if JFE is allowed to take its critical customers by offering them dumped product. Price increases sufficient to offset our increased input costs are not possible when JFE is offering dumped, below-cost product in the market.

Further, as I mentioned, the demand improvement began in 2004, but we still experienced declines in our sales and market share and worsened financial performance that year as JFE increased its sales volume and market share.

For all of these reasons, we respectfully request that the Commission make an affirmative injury finding. We are sure that without final relief, JFE will resume shipping to the U.S. market in large volumes and at very low, below-cost prices and continue its penetration of the major customers on which we depend for our continued viability. We do not believe it would take very long for this to happen, as JFE already has established itself at two of the largest consumers.

In short, if JFE is allowed to resume dumping, Eramet could be forced to shut down its superalloy degassed chromium operations completely.

Thank you.

MR. VORBERGER: Good morning. My name is John Vorberger. I am sales and marketing manager for special products at Eramet North America. For more than seven years, I have been involved in the marketing and sale of superalloy degassed chromium. Through my regular contacts with customers and my years of experience, I have become very knowledgeable about the U.S. market for this product.

I am here today mainly to describe how the Japanese supplier, JFE Material, captured critical U.S. customers by undercutting our prices and then abruptly pulled out of the market as soon as the dumping case was filed. Before doing that, however, I would like to address briefly the differences between superalloy degassed chromium and VMG chromium in terms of customer specifications, pricing, and customer perceptions.

Customers generally have their own specifications for the types of chromium they purchase. These specifications and the customers themselves typically do not use the terms "superalloy degassed chromium" or "VMG chromium." Instead, the customer specifications identify maximum permissible levels of impurities, including the critical ones that

distinguish superalloy degassed chromium from VMG chromium.

Customers that buy superalloy degassed chromium have specifications that can only be met by superalloy degassed chromium. They cannot be met by VMG chromium because it contains too much of one or more of the critical impurities, the most important of which are nitrogen, sulfur, and oxygen. If the customer also buys VMG chromium, it will have a separate specification for that product with less-restrictive impurities limits. Because of the differences in the levels of key impurities, superalloy degassed chromium and VMG chromium are not interchangeable, and as Greg Noland has explained, have different uses. VMG chromium cannot be used for SD chromium applications. While SD chromium could technically be substituted for VMG chromium, VMG chromium is priced significantly lower than SD chromium. Because superalloy producers are under enormous competitive pressures, they do not substitute the higher-priced, superalloy degassed chromium for VMG chromium in applications where the lower-priced VMG chromium is sufficient.

In summary, customers perceive superalloy degassed chromium and VMG chromium to be two different

products. They perceive VMG chromium to be a product containing higher levels of impurities that is less expensive but not usable in the applications requiring the very low, critical impurity levels of superalloy degassed chromium.

I would like now to turn to the U.S. market and the circumstances in which JFE entered the market. For many years, there were only two suppliers of superalloy degassed chromium in the market: Eramet and French producer Delachaux. JFE entered the market as a third supplier in 2001. In addition to the small number of suppliers, there are fewer than 20 superalloy degassed chromium customers in the U.S. market, three of which account for about 70 percent of consumption.

Superalloy degassed chromium is a specialized, high-quality product; however, once a supplier is qualified, customers generally make purchasing decisions among competing suppliers based almost entirely on price. In addition, customers buy almost all of their requirements in large blocks, using annual contracts under which sales are made on a consignment basis. As a result, a supplier can go from having 50 percent of the business at a customer to virtually none overnight.

As Greg Noland has explained, JFE came into the market just as the downturn in the aerospace and power-generation markets was occurring. Demand contracted sharply due to the 9/11 attacks and the resulting financial difficulties for commercial airlines. In addition, the collapse of artificially high electricity prices caused a falloff in power plant construction, reducing demand for the power-generation applications of superalloy degassed chromium.

The decline in demand put Eramet's operations producing superalloy degassed chromium into a very vulnerable position. Moreover, not only was Eramet very vulnerable due to the downturn, but our customers were even more price conscious because of the enormous competitive pressures on their businesses.

As I will describe, it was in this difficult environment that JFE came in and targeted two of the three customers at the top of the market by offering extremely low, dumped prices. I understand that in many of the cases the Commission sees, foreign producers entering the U.S. market first target the lower-end applications with less-stringent specifications in order to gain a foothold. After

capturing sales of commodity-type products, they move up the chain to higher value-added forms of the subject merchandise.

This case, however, is very different. JFE came into the market with a high-quality product and targeted the most important customers at the top end of the market. These critical customers, which are investment casters, are the main producers of the high-end superalloys used to make the most critical components in jet aircraft engines and gas turbines for power generation.

How did JFE and the trading company selling its product, Mitsui, penetrate the U.S. market? By selling every grade of product needed by the customer at extremely low prices. Before the petition was filed, JFE made such sales at two of the three big investment casters, which account for about 70 percent of U.S. consumption.

In 2003, JFE targeted the first of these two companies. To preserve confidentiality, I will refer to this company as "Company A." For many years, Eramet had been the primary supplier of superalloy degassed chromium to this company. Despite this longstanding relationship, as a sole result of JFE's dumped prices, Eramet lost virtually all of Company

A's business.

In 2003, Eramet learned from Company A that JFE had appeared as a new bidder, offering to meet customers' requirements at a much lower price and on a consignment basis with more liberal terms than ours. In response to this new competitor, Eramet lowered its price. We believe that JFE received a small portion of Company A's business for its 2003 contract requirements.

Later, in 2003, JFE then captured a large portion of Company A's requirements for a period of three years, 2004 through 2006. They did so by submitting a low bid at prices that actually declined each year. This lost sale covered all three grades of superalloy degassed chromium purchased by Company A, regular grade and two premium grades, low nitrogen and low sulfur.

After this sale, Company A subsequently awarded to JFE virtually all of its projected requirements for these grades for the three years at the same low, dumped prices. The customer did so without even informing Eramet, despite Eramet's continued expressions of interest in supplying those volumes, its longstanding relationship with the customer, and its consistent history of meeting the

customer's quality and delivery requirements. We were told by the customer that it did not inform us because it was sure that Eramet could not, and would not, meet the low price being offered by JFE.

At the second large investment caster targeted by JFE, the same process began in late 2004. I will refer to this consumer as "Company B." Eramet and French producer Delachaux historically had split the business at Company B. Company B sought bids for its 2005 requirements for both regular and low-sulfur grade, superalloy degassed chromium. Again, JFE aggressively underbid us. The biggest portion of Eramet's lost sales at this customer consisted of regular grade product. We also lost a significant volume of low-sulfur grades. In the petition, we provided an estimate of the volume of sales that Eramet lost for both grades.

JFE has been extraordinarily aggressive in its efforts to displace Eramet at its largest U.S. customers. Based on what happened at Customer A, where JFE's share grew from a small amount in 2003 to virtually all of the customer's requirements for 2004 and the following years, I firmly believe that that same pattern of events was going to repeat itself at Company B if Eramet had not filed the petition. I

believe that we would have lost virtually all of our business at this customer during the contract negotiations for 2006 deliveries, as had occurred at Customer A.

I would like to make one more point about sales to Customers A and B. I understand that for purposes of its underselling analysis, the Commission collected quarterly pricing data for four grades of superalloy degassed chromium: regular, low nitrogen, low sulfur, and low nitrogen and low sulfur. The public staff report states that "Mitsui reported price data for only Product 3 and 4 since it does not sell SD chromium fitting the description of Products 1 and 2."

This statement is very surprising because Mitsui most certainly did compete and undercut Eramet for sales of Products 1 and 2, regular and low-nitrogen grade. As I just described at Company A, Eramet and JFE bid on this customer's 2004 requirements for regular grade, low-nitrogen, and low-sulfur grade. JFE underbid Eramet on all three grades and won virtually all of the customer's requirements for those three years.

Similarly, as I stated, Company B purchases both regular grade and low-sulfur grades. Again, as I

described, JFE underbid us for both grades for 2005 deliveries. Either Mitsui is misreporting its sales to the Commission or it sold low-sulfur grade and low-nitrogen and low-sulfur grade product, which should be more expensive, to supply these customers' requirements for regular grade and low-nitrogen grade. Because of the importance of this question to the underselling analysis, we respectfully request that the Commission determine why Mitsui is reporting no sales of Products 1 and 2.

In addition, because of the importance of the lost sales at these two customers, we respectfully request that the Commission fully investigate our lost-sales allegations for these two grades at these customers and take this information into account when making its final determination.

By offering extremely low prices in the U.S. market, JFE has held market prices down more broadly. As I mentioned, there are only a few players in this market, and it doesn't take long for the price information to get around. Further, because of competitive pressures on superalloy producers, they cannot afford to pay significantly more for raw materials, including superalloy degassed chromium, than their competitors. For example, Eramet attempted

to implement a modest price increase at a third customer, Customer C, between 2003 and 2004.

As described in our prehearing brief, at pages 52 to 53, due to JFE's very low prices in the market, we were unsuccessful in this attempt and had to settle for a smaller increase that did not offset the increase in our raw materials and energy costs, which Greg Noland has described.

I would now like to turn to what happened after Eramet filed the antidumping petition. Soon after the petition was filed, JFE completely stopped shipping superalloy degassed chromium to the United States and pulled out of the U.S. market. Despite its commitments to major customers, JFE abruptly abandoned the market. Then, almost immediately, it began making what quickly became a very large volume of shipments to Europe at even lower prices than it had charged for its sales to the United States.

With the dumped imports out of the market and demand improving, Eramet has been able to make larger volumes of sales and negotiate higher prices. At Customer B, where JFE had won a substantial volume for 2005 deliveries, as I've previously described, JFE canceled its contract after the petition was filed. As a result, we have increased our volumes of sales to

this customer instead of losing sales volume.

As I noted, at our large customer, C, we have been unable to obtain a sufficient price increase in 2004, with JFE selling merchandise at dumped prices in the market. After the petition was filed and JFE left the market, we were able to obtain a 10-percent price increase for deliveries to Company C during the second and third quarters of 2005. This price increase has had a significant positive effect on our bottom line because of the volume that we shipped to that particular customer.

We have also been able to make an increased volume of sales to five other customers since the filing of the petition, all at good prices.

The improvements we have experienced since JFE withdrew would not have been possible with the dumped imports in the market. Demand was already improving in 2004, but we still lost major sales volume to JFE at the critical customers, and prices were held down.

Eramet's recovery since the dumped imports have left the market is a fragile one. We are very much threatened with further injury. If final relief is not provided, I am certain that JFE will quickly shift back to the U.S. market, which is by far the

largest market for superalloy degassed chromium in the world. We have every reason to believe that JFE can and would quickly reestablish itself at the critical customers it penetrated prior to the filing of the petition, again, by offering extremely low prices.

In short, if JFE is allowed to resume its method of penetrating the U.S. market by price undercutting at key customers, the future of the U.S. industry will be in severe jeopardy. Thank you.

MR. BUTTON: Good morning. I'm Kenneth Button, senior vice president of Economic Consulting Services, testifying on behalf of the domestic superalloy degassed chromium industry, which the staff report refers to as "SD chromium." I'm accompanied by James Dougan, ECS senior economist.

In my testimony, I will summarize for the Commission how the economic evidence in this investigation meets the statutory criteria to demonstrate material injury to the domestic industry by reason of the subject imports. In sequence, I will address the conditions of competition distinctive to this market, the current injury suffered by the domestic industry, the causal link between that injury and the subject imports from Japan, and the threat of further injury.

There are several conditions of competition that are important to understand how the dumped imports of SD chromium from Japan have injured the domestic industry. First, as Mr. Vorberger explained, the market for SD chromium is composed of a small number of producers and consumers. The universe of consumers is very small, with fewer than 20 in total, and of them, three large producers consume approximately 70 percent of the domestic consumption.

Once a supplier has qualified with its customers, competition among suppliers is fundamentally based on price, and relatively small differences in price can lead purchasers to switch suppliers. In particular, the economic difficulties within the aerospace sector have tended to make customers extremely interested in any step that can reduce their costs. Other customers have expressed to Eramet that they are under extreme pressure to reduce such costs.

Toward this goal, purchasers tend to be willing to reveal to competing suppliers the prices at which other suppliers are offering SD chromium. The effect of these relationships among the small number of buyers and sellers is that price changes are quickly communicated throughout the market.

Virtually all SD chromium is sold pursuant to annual contracts. As a result, changes in a supplier's market share tend to happen in large blocks rather than gradually over time. In one contract negotiation, a supplier can go from having a large portion of a customer's business to having virtually none.

Finally, as Mr. Vorberger has just described, the period of investigation was characterized by a major decline and then a recovery of demand, the decline in demand resulting from the post-9/11 collapse of the aerospace market and the sudden fall in energy sector demand following soon thereafter. Demand began to recover significantly in 2004. The fall in demand created a situation of great vulnerability in the domestic SD chromium industry just as the imports from Japan began to accelerate.

With respect to injury, the data indicate that the domestic industry producing SD chromium is suffering current material injury, notwithstanding the significant improvements since the filing of the petition in March 2005. Let me note the main injury indicia.

First, Eramet has suffered a severe decline in production volume from 2002 to 2003. Demand began

to recover in 2004, and Eramet's production also increased in 2004. However, the unfortunate irony is that Eramet's 2004 production increase led to inventory buildup as Eramet's shipments volume actually declined in 2004. Eramet's recovery did not begin until after the petition was filed in the first quarter of 2005, permitting production to increase significantly in the January-to-June 2005 period.

Capacity utilization was low throughout the period before the petition was filed, falling from 2002 to 2003 and recovering somewhat in 2004. Capacity utilization improved after the petition filing, increasing strongly in part-year 2005. Eramet's U.S. shipments of SD chromium were essentially static between 2002 and 2003. However, as noted, in 2004, shipments fell substantially, for a major decline in shipments during the 2002-through-2004 period. Shipments improved substantially with the filing of the petition in March 2005, the resulting exit from the market of the dumped imports from Japan, and the continued demand growth in 2005.

Demand, as measured by apparent U.S. consumption, declined and then recovered during the 2002-to-2005 POI, as you've heard. Demand fell sharply in 2002 to 2003, recovered partially in 2004,

and then grew strongly in part-year 2005. For Eramet, a key point about this major demand swing is that just when demand began its recovery in 2004, imports from Japan surged, causing Eramet's shipments volume and market share to fall to the lowest levels of the POI. Only with the petition filing in 2005 and the resulting withdrawal of JFE from the market did Eramet's shipments and market share begin to recover.

As to employment, the number of Eramet production and related workers producing SD chromium, as well as the associated number of hours worked and aggregate wages paid, declined during the POI, indicative of the injury being inflicted on Eramet's workers until the filing of the petition.

With respect to the financial performance, as Eramet's production and shipments volumes fell during the POI, Eramet's fixed costs were spread over a smaller volume, leading to a higher per-unit cost and forcing the company to sell at a loss, even at prices below its fully loaded cost of production, in two of the three years of the POI. Only with the filing of the petition did Eramet begin to return to profitability.

Over the 2002-to-2004 period, Eramet's average price for SD chromium did increase somewhat.

However, as noted by the Commission in its preliminary determination, Eramet's per-unit costs of goods sold increased much more rapidly than did its prices. As noted in the prehearing staff report, "the average unit value of sales increased between each of the yearly periods but did not compensate for the decline in volume." As a result, Eramet's financial performance deteriorated at both the operating and net-income levels. However, conditions improved considerably with the filing of the petition in early 2005 with respect to price but also with respect to sales volume.

Even in the face of the increase in the cost of its high-carbon, ferrochrome raw materials in part-year 2005, the increase in Eramet's sales volume helped to lead to a drop in Eramet's per-unit cost of goods sold in part-year 2005. Consequently, Eramet's operating profit improved substantially, from a loss to an operating profit in January to June of 2005. Without the price and volume improvements, Eramet's financial position would have continued to decline.

Faced with financial deterioration and declining cash flows during the POI, Eramet made fewer capital expenditures than planned during the POI and actually decreased its investments in R&D over the

period. There was a brief spike in capital expenditures in 2003 associated with the addition of the new-technology pilot furnace, but this increase should not mask the overall decline in capital expenditures in the 2002-to-2004 period. The addition of the pilot furnace in 2003 was intended to be part of a larger capital-investment program, but due to the impact of the dumped imports, Eramet was unable to go forward with these plans.

Financial pressure has forced Eramet to decrease R&D expenditures during the 2002-to-2004 period. These R&D reductions have been especially injurious. A continuing challenge for Eramet has been, and continues to be, that the technical requirements for products supplied to the investment caster customers are becoming ever more demanding as, for example, gas turbines for the energy sector are increasingly incorporating jet engine technology. The need for Eramet to maintain its R&D program is, therefore, all the more commercially important. The relief brought by filing the petition in 2005 has allowed Eramet to increase its R&D expenditures somewhat.

As described by Mr. Noland, Eramet began operation of a new, pilot gas furnace, Number 60, in

January 2003, which uses a new technology patented by Eramet. Eramet had intended to continue the development of this technology and to build large-scale furnaces that would eventually replace its largest existing degassing furnace at the Marietta plant. Continuing poor financial performance due to the unfairly traded imports prevented Eramet from implementing these plans.

With respect to causation, the material injury suffered by Eramet and its workers is clearly by reason of the unfairly traded imports from Japan. Just as the demand decline made Eramet vulnerable, JFE aggressively expanded its exports to the United States. Over the POI, the volume of dumped subject imports grew dramatically, to a level that is quite significant in both absolute and relative terms.

Imports from Japan began to enter the U.S. market in 2001 and began entering the U.S. market in significant volumes in 2002, when the U.S. industry was at its most vulnerable. The imports from Japan increased rapidly in 2003 and again in 2004, to a very large, absolute level. Imports from Japan continued to grow in part-year 2005 but halted immediately after the filing of the petition in March.

During the POI, the imports from Japan have

also increased to significant levels relative to their share of total U.S. imports, their share of apparent U.S. consumption, and in relation to U.S. production.

With respect to underselling, the prehearing report indicates that imports from Japan consistently undersold U.S. merchandise by large underselling margins in all quarters for which comparisons could be made. As a result of the aggressive pricing by JFE, Eramet suffered major lost sales volume and lost revenues during the POI, as described in detail in the prehearing report and Eramet's prehearing brief. Despite certain customers' statements of disagreement with respect to particular details, the overall record confirms clearly both the primacy of price and the fact that JFE took sales volume away from Eramet and forced Eramet to cut its bid prices in an effort to maintain volume. The net effect of these low-priced JFE sales was to suppress severely Eramet's sales prices.

An important element of understanding the financial injury caused by the price suppression is the rising cost of raw materials and energy faced by Eramet during the POI. The key raw material input for the production of SD chromium using the electrolytic process is high-carbon ferrochrome. An indicator of

the cost pressure faced by Eramet arising from its raw material purchases is the price of high-carbon ferrochrome as published in the publication, Metal Bulletin. As shown in the prehearing report, that benchmark price increased by over 200 percent during the 2000-to-2005 period.

Eramet also experienced large increases in the cost of steam, electricity, sulfuric acid, ammonium, and labor during the POI. By comparison, Eramet's average price for all types of SD chromium increased by relatively small amounts. The disparity between Eramet's large cost increases and these small price increases is directly attributable to the price suppression caused by the presence of the dumped imports in the market.

Sales volume lost to the dumped imports from Japan also forced Eramet to reduce its production volume, requiring Eramet to spread its fixed costs over lower volumes. Due to the import-induced price suppression, Eramet was unable to pass these higher costs on to customers through price increases, creating a situation in which Eramet was forced to sell below its fully loaded cost of production.

The deteriorating financial performance was in part a consequence of Eramet's reduced production

volume. The increase in other factory costs accounts for much of the decline and was offset only partially by the increase in net sales value.

Following the filing of the petition in March of 2005, Eramet's situation improved markedly. Official Census Bureau import data indicate that there were no imports from Japan of unwrought chromium in the SD chromium price range after April 2005. In short, JFE essentially abandoned the U.S. market.

The filing of the petition and JFE's exit from the market have allowed Eramet to take advantage of improved demand in the market. Eramet was able to increase its average price and its sales volume. Production volume has increased such that increased output has enabled Eramet to allocate its fixed costs over a larger sales volume and thus helping to reduce its per-unit costs significantly and leading to improved gross profit and operating profit margins.

With respect to threat, the evidence makes clear that recovery in Eramet's condition will be short lived without final relief from the dumped JFE imports. The part-year 2005 recovery of the domestic industry, however, is fragile. The loss of just one of Eramet's primary customers to new flows of dumped imports would have a very damaging effect on Eramet's

operating and financial performance. The statutory criteria for a finding of threat of material injury are unambiguously met.

First, JFE has greatly increased production and production capacity for SD chromium in Japan. Prior to 2000, JFE did not have any SD chromium production or capacity. It began manufacturing the product in June 2000 by converting previously idle assets at its Toyama, Japan, plant. When it entered the U.S. market, JFE stated its goal was eventually to produce 3,000 metric tons per year. According to its Web site, JFE has reached production of 1,000 metric tons per year, which is one-half of total global consumption.

Second, over the POI, the volume of subject imports increased dramatically, both in absolute terms and relative to U.S. consumption, until the filing of the petition. JFE can easily return import volumes to the U.S. market.

Third, as described before, during the POI, the imports from Japan have been sold at low prices, undersold U.S.-produced material by significant margins, and suppressed U.S. market prices. Given the success of this strategy in winning market share for the Japanese producer, JFE will continue to undercut

Eramet's prices if not restrained by final antidumping relief.

Fourth, JFE imports have caused actual and potential negative effects on the existing development and production efforts of the domestic industry. As Mr. Noland described, Eramet had plans to make major investments in its operation to enhance its competitive position. However, Eramet had to postpone implementing its plans because of continued poor market conditions caused by the dumped sales of JFE product. The dumped sales have had actual negative effects on Eramet's existing development and production efforts.

Fifth, JFE continues to have idle capacity at its Toyama, Japan, plant, which could be converted to additional SD chromium production.

Sixth, and finally, when JFE ceased exporting to the U.S. market after the filing of the petition in March 2005, JFE retargeted that volume, about 400,000 pounds, to Europe within a few months, as shown in Eramet's prehearing brief at Exhibit 6. Without a final antidumping order, JFE could, and with equal ease, redirect that volume back to the U.S. market, to the injury of Eramet.

Thank you. That concludes my testimony.

MR. KRAMER: That concludes our presentation. Would you like us to present the closing statement?

CHAIRMAN KOPLAN: Well, I thought we might have a little bit of a dialogue in between.

MR. KRAMER: Before that? Okay.

CHAIRMAN KOPLAN: Yes. I appreciate your raising the question. Thank you very much for your testimony, and we'll begin the questioning with Commissioner Aranoff.

COMMISSIONER ARANOFF: Thank you, Mr. Chairman, and I want to thank the panel for being here with us this morning and especially the industry witnesses. It's always really helpful to have people with firsthand knowledge to help us go through the record. There are perhaps fewer questions today that we can ask than on some other occasions because so much of the record is confidential, but as the chairman said, we will hope to have a productive dialogue.

I wanted to start with some questions about the product itself, and so perhaps for Mr. Noland. It seems as though producers of chromium product seem to specialize in either the VMG-type grade, the superalloy degassed, or there is the electronics

grade. It doesn't seem as though there are producers that are serving all three markets substantially across the spectrum, although there does seem to be some production. Can you explain why that is? Is it because there is completely different technology involved? Is it the sizes of the markets? Is it the chemistry of the product? What is it that would make someone produce one and not expand their product line to all three?

MR. NOLAND: I would answer that by saying technology and chemistry are the primary reasons for that. Electronics, extremely low iron. Superalloy degas requires low impurities in the nitrogen, oxygen, and sulfur range; and then you've got your VMG, which is much higher in the impurity levels.

COMMISSIONER ARANOFF: Can your technology not make the electronics grade? That level of purity can't be achieved with your equipment?

MR. NOLAND: Not at this present time.

COMMISSIONER ARANOFF: What kinds of equipment are those producers using that's different?

MR. NOLAND: Typically, it's the starting raw material to produce the chrome metal. Many facilities will use what's called chromic acid, where we have a starting material, high-carbon ferrochrome,

and chromic acid is much lower in iron content.

COMMISSIONER ARANOFF: Okay. You indicated that the vacuum-mill grade is new and is a small and unimportant, I think, was the word that was used to characterize it, part of Eramet's business. It's a larger market. It's a cheaper product to produce. You have all of the facilities you need to produce it. Why is it small and unimportant? Why haven't you gone further into that market?

MR. NOLAND: Basically, it's a byproduct from our milling system where we actually end up adding more impurities, and it's a very small amount of material that we convert to the VMG.

COMMISSIONER ARANOFF: Okay. I thought I understood from the staff report that some of the VMG that you sold was product that you were actually making as SD that didn't meet spec. but that that didn't account for most of it. Is that incorrect?

MR. NOLAND: That is correct. We have what we call "blemished" or "oxidized" product that is part of the producing of the superalloy degassed chromium. That's a very small portion, and I think it's proprietary, the percentage, but it's very low. Then we also produce what's called "dust-collector finds" off the milling step that is the higher portion of the

VMG production.

(Pause.)

MR. NOLAND: What he is asking me to explain to you is that in the milling process, the electrolytic, or the chrome metal, is milled to essentially a face powder consistency for then making a compact that is then degassed in the furnace as a superalloy degassed chromium. Part of the milling step there is dust-collecting systems that collect the -500 micron size that is then converted to the VMG product. Most of your higher levels of impurities will end up in the dust-collector finds.

COMMISSIONER ARANOFF: So I understand, then, that this is a byproduct that comes out of your process. What did you used to do before you started selling this as a VMG-grade product? It was just waste, or it was recycled?

MR. NOLAND: We used to produce what was called a "reclaimed-chrome product." That also serviced a lower-end market.

COMMISSIONER ARANOFF: Thank you. I appreciate those answers.

MR. NOLAND: The panel is aware that most VMG is produced not using a vacuum or a degas method, which we do because that's our primary way of reducing

the impurities.

COMMISSIONER ARANOFF: And that's because the vacuum degassing method is an unnecessarily expensive way to go about producing that product.

MR. NOLAND: Producing VMG. That's correct.

COMMISSIONER ARANOFF: And is that why, aside from byproduct material, you don't view yourselves as competitive in that market and haven't tried to produce a larger amount?

MR. NOLAND: Our goal is to be in the superalloy degassed chromium market.

COMMISSIONER ARANOFF: Okay. Thank you.

Let me change subjects a little bit now and ask you some questions about pricing, to the extent that there is anything that we can ask publicly.

One of the comments that -- I think it was Mr. Vorberger -- you made in your testimony was that your customers purchase, you said, almost entirely on price once a product has qualified technically. But if you take a look at our record, and it's confidential so I can't discuss it in detail, but especially the information we have on the bid process, there seems to be an indication that a number of large customers tend to split their orders amongst the major suppliers. I guess I want to ask you to comment on

how those two statements are consistent since there does seem to be a range of prices offered by the major suppliers going into the process, and some of the orders seem to come out split.

MR. VORBERGER: Well, the range, historically, has not been nearly as significant as the disparity between existing market prices and JFE's very low offered prices, and what that was meant to illustrate is that simply once a superalloy degassed chromium product is qualified at a customer, then essentially, from a quality perspective, an applications perspective, all products are on a level playing field.

Given the fact that these customers, superalloy producers, are in a very competitive field and under a tremendous amount of cost pressure, if a competitor chooses to, having qualified their material, chooses to lower their price significantly below existing market level, then it's almost certain that they are going to gain -- it is certain that they are going to gain significant market share, if not eventually a majority market share.

MR. KRAMER: Commissioner, with respect to one of the major customers, we've pointed out to the staff that there are prices that are definitely wrong

in the staff report that may be, in part, creating the impression you have of these large price differences. We'll address that in our post-hearing brief.

COMMISSIONER ARANOFF: Okay. I appreciate that, although, frankly, my question didn't depend so much on my impression that there are large price differences so much as my impression that the whole sale doesn't go to the lowest bidder, the whole sale doesn't go to any one bidder.

MR. KRAMER: That, in part, is a reflection of the step-by-step process by which JFE has captured share at these companies. There has been splitting among traditional suppliers as well, but part of what you see is them coming in, giving a sample quantity, then a much larger quantity, and then moving to 100 percent of the company's business over time.

COMMISSIONER ARANOFF: My time is almost up, but I guess one of the things I was trying to get out of you was, is this the kind of market where the purchasers, because they know that there is a small number of suppliers, will deliberately spread their purchases around so that they don't have to rely on just one company?

MR. VORBERGER: Yes. There is a desire by most large consumers to not be single sourced, to

have, at least, an optional second source, and that explains the splitting of business, albeit sometimes in favor of one supplier or another. But on top of that, again, given the very competitive conditions, if somebody then comes in, a third supplier or a fourth supplier comes in, offering very low, dumped prices, having qualified their product as a prerequisite, then they are most certainly going to gain a very favorable majority market position within that particular customer, and eventually, as they qualify throughout the market, in the market as a whole.

COMMISSIONER ARANOFF: Thank you for that answer. My time has more than expired.

CHAIRMAN KOPLAN: Not a problem. I want to thank you for your testimony thus far. Let me start the questioning with Mr. Vorberger.

At the March 25, 2005, staff conference, as part of your response to a question from Mr. Deal, at page 48 of our transcript, you stated that, and I quote, "an important fact to mention, the process by which Company X solicited the first portion of their business by three years was an on-line reverse auction rather than the typical submission of a proposal and then negotiation, and Eramet does have a policy, for various reasons, not to participate in such auctions.

That is a policy at the division level."

What are those reasons? If Eramet voluntary refused to bid for contracts that were ultimately awarded to JFE, how should the Commission view that fact in our material injury analysis? In other words, should I consider such a contract that resulted from a reverse auction to be a lost sale? Maybe you could explain to me why you have such a policy first.

MR. VORBERGER: Firstly, the reason for the policy is primarily the on-line reverse auctions tend to put the seller into a difficult position, unlevel. It's typically tilted toward the buyer. There is a lack of information provided to sellers, as an example, versus what the buyers have. And the policy, I should mention, comes from the divisional level, the manganese division, and it's even more of an issue for those reasons on the manganese side of the business. As a matter of policy --

CHAIRMAN KOPLAN: So you're saying that it wouldn't be profitable for you to compete on that basis.

MR. VORBERGER: Typically, yes.

CHAIRMAN KOPLAN: Okay.

MR. VORBERGER: Yes.

CHAIRMAN KOPLAN: So you see where I'm going

with that. If you don't compete for those reasons in one of these reverse auctions, --

MR. VORBERGER: Right.

CHAIRMAN KOPLAN: -- and by default, JFE picks it up, that wouldn't be a lost sale caused by JFE. Right?

MR. VORBERGER: No. It is a lost sale. We had many ongoing discussions with this customer before, at the time of the auction, and after the auction and had indicated our interest, as evidenced by our history with this customer. We also had indicated our general commercial terms, including price. I firmly believe, regardless of the process, regardless of whether this was an on-line auction, or this would have been the traditional method, the competitive prices, our offered price, the offered price by JFE, would have been the same. The results would have been the same.

CHAIRMAN KOPLAN: I guess why I'm struggling is what you're telling me at the outset is it's the buyer who sets the stage in this reverse auction, and you feel that because of the way that's set up, you don't compete because the terms that the buyer is putting it out there for don't make it worth your while to do that.

Do you understand why I'm having a bit of a problem with his response, Mr. Kramer?

MR. KRAMER: Yes, I do understand that. One thing we did in the preliminary phase is to lay out in excruciating detail the history of the interaction between Eramet and each of the major customers --

CHAIRMAN KOPLAN: I appreciate that.

MR. KRAMER: -- so that the Commission could understand the full context. What happened in that case was there had been continuous interaction, and JFE underbid Eramet for a variety of different types of sales with different methods of selling, and very large volumes were lost by similar underpricing prior to the auction, and then after the auction, very large volumes were --

CHAIRMAN KOPLAN: But as long as you have a -- that sets up the fact that it's a reverse auction --

MR. KRAMER: Not that step, but my point was simply that various different methods of purchasing were used, and exactly the same scenario unfolded in each instance.

CHAIRMAN KOPLAN: Thank you. If there were other reverse auctions during the period that we're looking at, if you could give other examples, not

necessarily now but for purposes of the post-hearing, because I assume the details would be BPI.

MR. KRAMER: There were no other such auctions.

CHAIRMAN KOPLAN: That was the only one.

MR. KRAMER: Yes.

CHAIRMAN KOPLAN: I appreciate that. Thank you. Mr. Kramer and Dr. Button, I note that Eramet's financial condition is significantly better in the first half of 2005 than it was earlier in the period examined, and I'm referring to Appendix C of our prehearing staff report. I can't get into the details because it's BPI, but you both have access to those details. I also note that subject imports were higher in January-to-June 2005 than in January-to-June 2004. How should I factor this anomaly into my causation analysis?

MR. BUTTON: Mr. Chairman, a couple of factors should be taken into consideration. First, the imports from Japan ceased after the petition entirely. The financial data --

CHAIRMAN KOPLAN: That would have been April that they ceased?

MR. BUTTON: Yes, sir. Yes, sir, with respect to the import statistics that we have, whereas

the financial data cover the entire period of January through June.

Additionally, in this environment, Eramet was able to gain increases in its prices, and as it was informed of JFE's departure from the market, it was solicited by customers to provide volumes. The volumes went up, and its prices for these volumes went up as well, all of which were a part of the record for the January-to-June 2005 period.

With the increase in the volumes, it was also able to achieve certain economies with respect to its production operations, helping to reduce its cost of goods sold, and there were some other cost factors going on which, I believe, Mr. Yost is aware of as well.

CHAIRMAN KOPLAN: Thank you. Let me stay with you. I'm still considering whether vacuum-mill-grade, VMG, should be included in the definition of like product. I'm referring to pages 12 and 13 of the Commission's confidential preliminary reviews, which indicates that between 2001 and 2003, certain purchasers switched from superalloy to gassed chromium to VMG during the period examined. In addition, Eramet produces VMG and superalloy on the same production equipment, and that was at pages 6 and 7,

footnote 15 of your prehearing brief, and you've talked about that this morning.

Now, in our preliminary reviews, we indicated that we wanted specific information about what applications VMG has been substituted for superalloy degassed chromium. Your prehearing brief didn't provide that information, and I didn't get a sense of that in the testimony this morning, and I'm wondering whether you or whether Mr. Noland or Mr. Vorberger could do that for me now. I'm just interested in what the details were of the switching when it did occur. What were the applications?

MR. KRAMER: In the vast majority of those cases, this was a situation where, in fact, those customers were consuming a Cadillac grade for what turned out to be truly a Chevy-type application.

CHAIRMAN KOPLAN: You did say that in your brief.

MR. KRAMER: That is probably the most succinct way of describing the severe costs due to the competitive nature, with the downturn, the severe pressures on those consumers' costs, that prompted them to evaluate their raw materials.

CHAIRMAN KOPLAN: I appreciate it. I see my light is about to go off. But what I'm saying is I'm

trying to find out what the model of the Cadillac was. In other words, I'm trying to understand exactly what the product was that it was used in.

MR. KRAMER: Right. It goes to the application. For alloys that are going into the critical components, the hot-end sections of jet engine, jet aircraft, those alloys absolutely require SD chromium. They cannot be substituted. That cannot be substituted by VMG. So the applications for which they did substitute were lower-end applications.

CHAIRMAN KOPLAN: Which would be what?

MR. KRAMER: It would be nonrotating parts, typically wrought parts in the jet engine and other --

CHAIRMAN KOPLAN: That's the kind of information I'm looking for.

MR. KRAMER: -- and other applications completely outside of aerospace, such as corrosion resistant for petrochemical processing, oil wells, and so on and so forth, but noncritical. The rotating parts within the hot sections of jet engines, the jet engine turbines, the alloys that are produced to cast those parts absolutely require SD chromium.

MR. BUTTON: The vast majority of VMG is used for nothing to do with jet engines.

MR. KRAMER: That is true. That's a good

point. The vast --

CHAIRMAN KOPLAN: Whose point? Mr. Button's point? That wasn't my point.

MR. KRAMER: What was mentioned to me just now, it's worthy to note that most of the VMG chromium that's consumed is going into other nonaerospace applications, into those that I had described, right, the corrosion-resistant-type application.

CHAIRMAN KOPLAN: Thank you. Thank you very much.

Vice Chairman Okun?

VICE CHAIRMAN OKUN: Thank you, Mr. Chairman, and let me join my colleagues in welcoming the panel here and, again, express my appreciation for the industry witnesses taking the time to be here and help us better understand both your product and the nature of your business, and the responses you've given thus far have been helpful in better understanding the product and competition.

I wanted to go back just briefly to some questions that the chairman had raised with regard to citing to the transcript from the prehearing and talking about the on-line reverse auction. It was helpful, Mr. Vorberger, to hear you talk about what it meant divisionally that your company overall, I guess,

had experience in Internet auctions, reverse auctions, as opposed to in this line of business where, as I understand it, this was the only one we saw.

The question -- it does strike me, in looking at it, that the Commission has seen a lot of these Internet auctions, and often, if we're looking at consumer products, you have lots and lots of unknown bidders, and then you go on line, and you see these things going down and down. When I was looking at this particular sale, it does seem odd because you've had a very few number of sellers and customers, and even with respect to this particular customer, you had that business. So it does, I think, take further explanation to understand why you wouldn't have competed when it does not look to me like the type of Internet auction where you have six, 10, 20 people submitting bids and really driving the price low.

So you had made a comment in your opening testimony saying, We were told by Customer A that we would not be competitive. And I don't know if that was with respect to this, but if there is any other information you have about -- you said you had a lot of negotiations before and after, and we obviously have responses from the purchaser of how they perceived this particular bid. I'm just trying to

connect the dots and trying to understand what was going on. I understand that a lot of this is proprietary, so, Mr. Kramer, it could be that a lot more can be done post-hearing, but I think it is a little difficult to understand.

MR. KRAMER: Can I make one comment?

VICE CHAIRMAN OKUN: Yes.

MR. KRAMER: There were two suppliers -- there are three total potential suppliers -- and this was a longstanding customer. Eramet was in regular communication with that customer. Eramet offered to supply the material that was the subject of the auction and made known at what price it would supply it. So the only difference is they would not participate in that particular method of --

VICE CHAIRMAN OKUN: I guess my question -- I don't think I put it very well, which is why would that customer have to go to an Internet auction anyway when there are only three of you, and you've been competing all along? That's what struck me as odd because that is what I'm hearing, and I'm saying, well, they have been dealing with JFE before or knew something about their pricing, so that's what I think is odd. That's what I'm trying to understand.

MR. VORBERGER: I do understand. It is odd.

It struck me as odd. For this particular market, this is not the type of market where you would expect a reverse on-line auction. I believe this was driven, based upon discussions with this customer, driven by requirements at their corporate level to place a certain amount of business through this vehicle, through a reverse on-line auction. That's my very educated guess on that, that that was the motivation there. And, in fact, therefore, that goes, in large part, to why the medium through which this business was negotiated and ultimately taken by JFE, in my view, is not significant, doesn't mean much.

The prices which we were prepared to offer were known to Customer A. Our interest in that business was known and demonstrated through years of having supplied Customer A, and, likewise, they knew, had indications of JFE's pricing ahead of this reverse on-line auction. So I looked at the method by which they did this as a formality. By either mode of negotiation, the results would have been the same.

VICE CHAIRMAN OKUN: Okay. I appreciate those further comments.

Mr. Noland, did you want to add something or Mr. Stevens?

MR. STEVENS: One other point that was in

the original lost sale allegation for Company A is that the auction volume was a small portion of that company's requirements for the years covered by the auction. It was a much larger volume, and the details of how JFE won that volume are laid out in the proprietary brief, but the auction was just a small portion of that company's requirements for that, for the years in question.

VICE CHAIRMAN OKUN: Right.

MR. STEVENS: By "small," I don't mean insignificant, but it was not the portion -- the percentages in the record.

VICE CHAIRMAN OKUN: Right. I understand what you're referring to there.

MR. VORBERGER: If I may just add one quick point, I did leave out, part of the reason why we would not want to participate in this particular on-line auction, and it's partly the reason at the divisional level, is so not to encourage this type of negotiating process from our other customers. We don't believe it serves a good purpose on either side of the table.

VICE CHAIRMAN OKUN: Okay. All right. I appreciate those responses.

I think you started, in response to

Commissioner Aranoff, talking about the role of nonsubjects in this market, and, again, we have three producers, and you apparently had been competing against Delachaux for a long period of time. But if we look at this record, it's a record where there is a very large volume of nonsubject imports, and during 2001, which is the year that I hear a lot of emphasis on in terms of where you thought demand was turning around and where you don't see your shipments improve -- you said production went up, but you didn't get shipments.

Talk to me about the role of nonsubject imports, in this case, mostly Delachaux, during that period and how they performed vis-a-vis the subject imports and what it meant for you in terms of competition.

MR. VORBERGER: Based on the competitive information that I had, mainly in negotiating and discussing the market with our customers, we did not lose any significant market share to nonsubject imports, mainly Delachaux. Our loss of market share was almost exclusively due to the entrance and growth in the market of JFE.

VICE CHAIRMAN OKUN: Okay. So you didn't see any change in their behavior during this period.

MR. VORBERGER: No, other than the changes in behavior such as we exhibited, which was to react to the very low prices being offered. We were not able to get price increases, and I believe, based on the competitive information I have, again, through customer contacts, that neither was the nonsubject importer.

VICE CHAIRMAN OKUN: Okay. I appreciate those comments. And then let me also just return briefly to the post-petition period, and you've had a chance to respond in general to what we see in terms of the Japanese shipments maintaining their presence, whereas the imports stop post-petition. I think this probably needs to be done post-hearing, but the one thing I was trying to sort out, in looking at that, is how much world demand is playing both in the price increases during that period and in terms of the new business you got.

In other words, I feel fairly certain, looking at the record, I can understand where JFE pulled out of the market and had to rebid, what happened to that volume. I'm trying to better understand, for those customers who you got additional volume from, whether those were ones where you would think it was a switch from subject imports to you, if

there is any information you can provide on that.

And then also, when we look at the pricing information, and I understand your point about believing that JFE's pricing is not reported correctly on the different products, but if I look at the different products, particularly Products 1 through 3, and where I see the price increases and don't see JFE in there, help me understand whether I shouldn't attribute price increases during that period almost primarily to a demand increase.

MR. KRAMER: Are you saying, based on the staff report statement, that they were only selling the two grades?

VICE CHAIRMAN OKUN: Right now, in this current staff report, we only have them in -- I believe it's Products 3 and 4 and not in 1 and 2. But just to make sure that I understand in terms of your argument, whether it's just related to the data being skewed by not having JFE or Mitsui pricing in there or whether -- it's just helping me understand because there was a demand increase.

MR. KRAMER: The answer -- we'll address it, but the answer is that either those data are misreported, which I think is the more likely correct answer, or that they were selling higher-purity

product in competition with the lower-purity product at lower prices.

VICE CHAIRMAN OKUN: Okay. And, I guess, if I can just finish up, Mr. Chairman, the other portion of my question is just, to the extent that JFE pulling out of the market affected some volume, it didn't affect all of the volume, and you've got price increases all over, including with customers who, I understand, were only dealing with you. So I'm just trying to make sure we can understand what's going on during that period, to the best extent we can.

Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you.

And you were nodding in the affirmative, so I assume you're going to respond.

MR. KRAMER: Yes, we will.

CHAIRMAN KOPLAN: Thank you.

Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, and I, too, will join my colleagues in welcoming you all here and appreciate your taking the time to help us understand your industry and this product.

I guess I want to pick up where the vice chairman left off, which is I, too, want to make sure I understand how you see the role that changes in

demand has played. Maybe let's just start, first, with to what do you attribute the very, very significant increase that we would show in our data in terms of an increase in consumption in the first half of 2005? It's quite substantial. We don't normally see quite this level of spike-ups in consumption. Why?

MR. VORBERGER: Primarily driven by the very strong recovery in aerospace. The type of recovery that you're seeing is not atypical for the aerospace market. You tend to have very sharp upturns and very sharp, abrupt downturns. And it's also coincidental to our recovery in the power-generation markets but mainly aerospace.

COMMISSIONER HILLMAN: Okay. Do you have a sense of the portion of your product that typically goes to aerospace as opposed to power generation?

MR. VORBERGER: Yes, I have a sense. I don't have a number. The majority of our product, of the SD chromium, would be going into aerospace applications, although power generation is a growing, strongly growing, sector, and that's mainly as they begin to develop and implement aerospace technology and implement that in the production of gas turbines for electricity generation.

COMMISSIONER HILLMAN: Then what you're suggesting to me is there are these cycles and that you've been through this before where you've had demand, in essence, weighed down when the aerospace sector is down.

MR. VORBERGER: Yes.

COMMISSIONER HILLMAN: I'm struggling with this record for how do I view the issue that demand was down for a good part of this, and yet you're telling me that I should be attributing the negative financial performance to imports during this period as opposed to attributing it to the fact that demand was down very significantly.

I can look at this data and say demand was down, capacity utilization was down, your fixed costs are staying high, so I'm trying to make sure I can understand how I would attribute what we see in the data to imports, and particularly the Japanese imports, as opposed to the normal business cycle in this industry where you have the big down dip in demand, pushing again on all of those fixed costs that you can't use, causing that. That's what I'm trying to understand, from your perspective, how we separate out the effect of the downturn in demand in the 2002-2003 period from the impact of imports.

MR. KRAMER: May I speak to that?

COMMISSIONER HILLMAN: Mr. Kramer.

MR. KRAMER: First of all, we've never said to the Commission at any point in this process that demand was not a factor. There are two factors that have affected Eramet's performance: the demand and the imports.

The second point is that the demand improvement began, significant demand improvement occurred, in 2004, but Eramet did not benefit from the improvement because its shipments and market share declined because of this progressive process of JFE taking critical customers from it. I think the evidence shows that that process was continuing so that as demand improved, JFE would have continued to capture the benefit of improved demand, not Eramet. So you can see that, in looking at the explanation we've given of how this went beyond Customer A to Customer B and also the impact of Customer C.

Furthermore, we've tried to put forward as clearly as we can evidence showing that while there is demand improvement in the first half of the year, it's very clear that improvement in sales volume and price occurred after filing. There was demand improvement throughout that period, but there is very clear

improvement in both price and volume in that post-filing period when they would abandon customers and were known to have pulled out.

If we simply had the demand upturn, but they were capturing an increasing portion of the business, and we were facing this continued price suppression, Eramet would not have achieved the results that you see.

COMMISSIONER HILLMAN: Well, Mr. Vorberger, if I can go to the issue of how both the volume and the price get set within the contracts. I heard your testimony that it's not entirely but largely a contract market, --

MR. VORBERGER: Yes.

COMMISSIONER HILLMAN: -- and the contracts are typically negotiated when?

MR. VORBERGER: Historically, they have been typically negotiated at the end of a calendar year for the upcoming next calendar year.

COMMISSIONER HILLMAN: Both volume and price locked in for the coming year?

MR. VORBERGER: That is correct, although the volumes typically aren't what I would refer to as a take or pay. There is flexibility --

COMMISSIONER HILLMAN: -- on the volume

side.

MR. VORBERGER: -- on the volumes.

COMMISSIONER HILLMAN: And on the price side.

MR. VORBERGER: Not on the price. Typically, there is a fixed price for a certain period of time. Historically, as you go back two or three years ago, that price had been fixed for a period of typically one year. Because of the volatility in raw materials prices, we have attempted to truncate, shorten, that price volatility period.

COMMISSIONER HILLMAN: To what?

MR. VORBERGER: Typically, to six months, two quarters.

COMMISSIONER HILLMAN: Okay. For the contracts that were for the 2005 year, what's the duration of most of them? How many have you been successful in truncating your duration?

MR. VORBERGER: For 2005, we have been largely successful in truncating to six months.

COMMISSIONER HILLMAN: Okay. And would these contracts typically cover -- what I'm trying to understand is if I look at the data, you clearly can see very recently some up tick in prices. I'm trying to square that with the notion that if the prices were

negotiated in 2004 at a fixed rate for the year, why do I see prices increasing in the most recent quarter of data?

MR. VORBERGER: You're talking about prices coming into 2005.

COMMISSIONER HILLMAN: Correct.

MR. VORBERGER: There was a slight increase in 2005, but, number one, it was not sufficient to cover the increase in costs. It wasn't the increases that we had planned. We had to significantly reduce our pricing from the original offer in the face of direct competition from JFE.

MR. KRAMER: You're trying to understand the increases during the part-year period?

COMMISSIONER HILLMAN: I'm trying to understand the increases in the second quarter of 2005. I'm just trying to make sure I understand it because what I'm hearing is largely the product is sold on a year-contract basis and that that contract is negotiated at the end of 2004; and, therefore, the prices that you negotiated at the end of 2004 are what I should be seeing in the data which we have for the first six months of 2005, should reflect the prices that you got in December of 2004. And yet I'm saying I see some increases in the second quarter of 2005,

which strikes me as not necessarily consistent with the notion that prices were locked in for at least a six-month period at the end of 2004.

MR. VORBERGER: There is one large customer, in particular, which was off cycle with that where, I believe, we had pricing established for the fourth and first quarter -- fourth quarter of 2004, first quarter of 2005. We then renegotiated for the second and third quarters of this year. We were successful in obtaining a price increase, and that would be the referenced Customer C.

COMMISSIONER HILLMAN: And then from your perspective, are prices also related to volume? In other words, do your largest purchasers get, in essence, a volume discount off of a price, or is it a set price for this range of product in terms of whether it's low sulfur, low nitrogen, low something? That's a set price, and everybody pays that for that product, or do you --

MR. VORBERGER: Not exactly. There are no significant volume discounts. There are premiums for certain qualities, "premium qualities," I would call, ultra-low nitrogen, very low-sulfur grades. The variance from customer to customer is minor.

COMMISSIONER HILLMAN: Okay. Given that the

red light is on, I will come back for the next line of questioning. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Lane?

COMMISSIONER LANE: Good morning. I, too, want to welcome you to the Commission. I especially want to welcome those of you who may be living in Marietta or the Parkersburg area because that is the area that I grew up in, and it is a very nice area, and I'm glad to have you here today.

I would like to refer you to something that's in your prehearing brief, and I'm not sure who to direct this to, but in the prehearing brief, you mentioned several times that output and capacity utilization is a critical factor in your level of profitability. For example, at page 25 of your prehearing brief, you stated, "Upon the petition filing, Eramet's decline in production volume and resulting drop in capacity utilization required the company to spread its fixed costs over fewer units of output, resulting in an increase in per-unit costs."

Table 3-4 in the confidential staff report clearly shows a change in productivity, along with increased capacity utilization in interim 2005. I would like you to explain your operations from a labor

standpoint and explain how labor varies or remains fixed as output changes.

MR. NOLAND: To attempt to explain that, there are certain levels of volume where you reduce labor, and as volume increases, you don't necessarily increase labor until you reach a certain point, and then you may add labor. So you end up essentially with the same labor producing different varying ranges of volume, which the nice thing about that is it also reduces your fixed costs per unit. I don't know if that's clear or not.

COMMISSIONER LANE: Okay. Thank you.

On the same subject of spreading fixed costs, I would like to ask you a question about your other factory costs. If you look at Table 6-1 at page 6-3 of the staff confidential report, and, Dr. Button, this may have to be for you, other factory costs are an important component of profitability. Could you please explain to me what is in that cost category and the changes in 2005?

MR. BUTTON: Commissioner Lane, I would be happy to do so. My fear is that this will get into some fairly detailed, confidential information. We would be pleased to provide that in the post-hearing brief.

COMMISSIONER LANE: Okay. Thank you.

I'm trying to understand what happened when JFE decided to pull out of the market in April 2005. Did they just flash cut and leave and leave all of their customers high and dry, or did it continue to provide product for a period of time, even though they weren't going to do it after April 2005?

MR. VORBERGER: It was abrupt. They, very shortly after the filing of the petition, advised Customer B, as we're referring to, advised them that they were going to cancel the contract. It, in fact, never ended up making any significant commercial deliveries as a result. The exit -- as evidenced by the import data from Japan into the U.S., it appears that it was also an abrupt turnabout at Customer A. However, given the fact that that was ongoing business, and there was likely consignment inventory already in place at this customer, it was probably some period of time after the filing before that consignment inventory was fully consumed, but they certainly immediately stopped shipments.

MR. BUTTON: Pardon me. Commissioner Lane?

COMMISSIONER LANE: Yes.

MR. BUTTON: There is an additional point that perhaps Mr. Vorberger might make which is

relevant to Commissioner Hillman's question a few moments ago as to what happened in the second quarter of 2005 as to pricing.

MR. VORBERGER: Yes. So you had a very abrupt pull out of the market at these two customers, in particular, and subsequent to that, or in about that same timing, we began negotiating and had, because of this, been able to finally negotiate a higher price at Customer C which would have been effective for the second quarter and third quarter of 2005. So that would have had an impact on second quarter pricing of 2005.

We also enjoyed increased volumes of spot sales during the second quarter of 2005. So the volume was increased, and the pricing that we were able to achieve was increased from previous levels.

COMMISSIONER LANE: How do you see the demand trends subsequent to the first quarter of 2005?

MR. VORBERGER: The demand trend is upward. The trend is up, very strong.

COMMISSIONER LANE: Okay. Is SD chromium -- I'm sorry.

MR. VORBERGER: Perhaps I should qualify, generally up. It was not growing, and we don't anticipate demand to grow at the accelerated rate

which we saw during the period before, 2004 mainly, where you have a very sharp upturn. We've reached a very high level of production. Our customers have reached a very high level of production, nearing their capacity. Therefore, you would expect that resulting demand growth for SD chromium -- demand will remain strong, but the growth rate will level off.

COMMISSIONER LANE: Okay. Thank you. Is SD chromium used primarily in the industry used solely for combustion turbines, or is it also used in steam turbines?

MR. VORBERGER: I'm not absolutely certain. I'm not certain.

COMMISSIONER LANE: Okay. Let me try another one, then. Has the recent Energy Act opened up the possibility for greater demand for SD chromium, for example, by encouraging coal-gasification, combustion-turbine technologies?

MR. VORBERGER: Yes. It has the potential to. As growth in electrical generation by means of gas-fired turbines, as that goes, so does the potential growth in demand for SD chromium in that application, the requisite being that, and it's likely to be that, aerospace technology continues to be implemented in the turbines for gas power generation,

and what's driving that is the desire to run these units more efficiently for cost effectiveness, which implies running the turbines at higher temperatures, conditions which begin to simulate those in the jet engine turbines. Therefore, the materials required in these turbines are more and more the aerospace-type alloys, which then require SD chromium as an addition.

COMMISSIONER LANE: Okay. I have one more question along that line. Is SD chromium used to produce metal blades, or is it used to make a protective coating for turbine blades?

MR. VORBERGER: The blade itself, the metal blades.

COMMISSIONER LANE: Okay. I'll just save my other questions for the next round, Mr. Chairman.

CHAIRMAN KOPLAN: Sure.

Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman. My greetings also to the panel. Good to have you here today.

Is it possible to build a modern jet engine without SD chromium?

MR. VORBERGER: Not today, no.

COMMISSIONER PEARSON: So what other metals get combined with SD chromium when a jet engine

manufacturer is putting one of these things together?

MR. VORBERGER: Primarily, nickel in these casting alloys. The alloys are primarily comprised of nickel and chrome, and there are some other minor element additions to that.

COMMISSIONER PEARSON: Okay. So let's assume a situation in which I'm in a 737 flying somewhere. I look out the window, and I admire the engine there that's whirring along happily, and I'm thankful for the SD chromium that's in there keeping it from flying apart. How much SD chromium am I being thankful for? How many pounds go into an engine, or what percentage of the metal is SD chromium?

MR. VORBERGER: The percentages are roughly in the range of 10 to 25 percent -- no. The content of chromium in the alloy is roughly 10 to 25 percent, depending on the types of alloys that are used.

COMMISSIONER PEARSON: Okay. So it would be a fairly meaningful percentage of the overall weight of the engine is chromium.

MR. VORBERGER: It is a significant percentage in the alloys that are used in certain componentries of the jet engine. I don't have at hand the statistics on what percentage that would represent in terms of the overall weight of the jet engine.

COMMISSIONER PEARSON: Okay. Fair enough and thank you for that clarification. I just was trying to get a sense of how important an ingredient this stuff is for those engines.

Was the decline in apparent consumption that we saw in 2003 related in part to the remelting and reuse of material that was coming out of older jet engines that got grounded after the events of September 2001? There were a lot of jets getting parked there for a while, and I think a bunch of them got scrapped. Did that have an effect on your market?

MR. VORBERGER: It did, not by virtue of scrap reclamation, if you will. There were, again, based on conversations with our customers, there were, as you noted, a number of aircraft grounded; and, therefore, a lot of those engine component parts were available as spare parts. So that most directly impacted the spare parts end of the business for our customers and then, in turn, impacted their demand for our SD chromium.

COMMISSIONER PEARSON: Okay. So those engines weren't yet at a point in their life cycle where they were just going to be melted down, and the metal would be free for reuse.

MR. VORBERGER: I can't say with certainty

what percentage were in that condition, and it is a normal course for our customers to consume a certain amount of scrap in the production of various alloys. Depending on the customers, for certain critical components, the alloys going into certain critical components typically consist of a higher content of virgin raw material versus scrap, mainly the turbine blades in the hot section of the jet engine.

COMMISSIONER PEARSON: And is that related partly to a change in the composition of the alloys over time? If you took a 20-year-old engine, it would be a different composition of alloys than a new engine made today.

MR. VORBERGER: That's partly the consideration, yes.

COMMISSIONER PEARSON: What exactly is an investment caster, someone who is funded by an investment banker?

MR. VORBERGER: No.

COMMISSIONER PEARSON: Okay.

MR. VORBERGER: The investment casters; these are the customers that are not only producing -- some produce just the alloy for investment casting. Others, such as Company C, are themselves the actual casters. So they are actually not only producing the

alloy, but then they are casting the parts, the critical componentry. The critical turbine blades that go into the hot section of the jet aircraft; those are actually cast in a sand mold. So it's cast, and then there is a little bit of machining afterward and coating applied and so on and so forth.

It's almost like pouring wax into a mold -- not quite as simple as that, but that's the process for coming up with the final shape of the part versus the wrought end of the business where you have products that are forged and then further machined. So it's two completely different processes for coming up with the final component.

COMMISSIONER PEARSON: But the term "investment" itself has some specific meaning in the context of this casting. It's not a term that I was familiar with.

MR. VORBERGER: I should know. You've stumped me on the investment part. Greg?

COMMISSIONER PEARSON: Okay.

MR. VORBERGER: I knew at one time --

COMMISSIONER PEARSON: In the post-hearing.

MR. VORBERGER: Yes. We could put that in our post-hearing brief.

COMMISSIONER PEARSON: Okay. Is there any

SD chromium produced in countries that formerly were members of the Soviet Union? In our staff report, there are some hints that there may have been product originating in that part of the world.

MR. VORBERGER: Not to the best of my knowledge. There is not SD chromium being produced.

COMMISSIONER PEARSON: Mr. Kramer?

MR. KRAMER: We believe that that is a misunderstanding.

COMMISSIONER PEARSON: Okay. Well, further on that issue, though, at one time, the Soviet Union had what was considered to be quite a capable military, including quite a number of jet engines. How were they getting the SD chromium that would have been required to build those engines?

MR. VORBERGER: I'm not certain exactly what chromium was being consumed within the Russian industry. Perhaps some of the confusion here more recently would be related to production of electronics-grade chromium metal in Russia, which is a low-iron, high-purity grade going into electronics applications.

The only other production of chromium metal that I'm aware of in Russia is aluminothermic chromium metal, and that is not a degassed product; that's a

lumpy, as-cast, crushed product. One of those two companies does have historical ties back with the government, and if I had to guess, that's likely one of the significant sources of chromium metal going into the -- in the past.

COMMISSIONER PEARSON: Okay. You're fairly comfortable that there really are only three manufacturers in the world that have currently the capability to produce SD chromium.

MR. VORBERGER: Commercially -- capable of producing commercial quantities of SD chromium. There are other degassing facilities, but aimed or geared toward the electronics end of the market.

COMMISSIONER PEARSON: Okay. Shifting gears a bit, what's the significance for the Commission's analysis of the fact that sales often are made on a consignment basis? And I ask this because you've indicated that this is a key condition of competition.

MR. VORBERGER: We noted this, specifically, with regard to Customer A. Traditionally, business has been done on a consignment basis. That's not as necessary for a domestic supplier as it would be for an offshore supplier. The reason for mentioning it, or the difference in terms of those, we typically have a limit on the consignment period, after which the

customer must report materials consumed, whereas JFE was offering unlimited consignment, which was a significant difference and put us further at disadvantage, in addition to the very low pricing they were offering.

COMMISSIONER PEARSON: So it would have had the effect of operating almost like an additional discount.

MR. VORBERGER: Effectively, yes. Effectively, it goes directly toward the customer's inventory management, effectively keeping their inventories at zero or near zero.

COMMISSIONER PEARSON: Well, thank you very much. My light is changing, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you, Commissioner Pearson.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you. You were discussing earlier with one of my colleagues what happened to JFE's production after they withdrew from the U.S. market in 2005, and you provided us with Exhibit 6 to your brief, which are, I believe, public Japanese export statistics. I wanted to ask some questions about them. There are some very curious aspects to those statistics.

But first of all, can you comment on what the Japanese exports were to the U.K. or other third-country markets prior to the 2005 withdrawal from the U.S. market? Maybe you can provide us with the complete statistics going back a few years in your post-hearing brief.

MR. KRAMER: We would be happy to do that.

COMMISSIONER ARANOFF: Okay, because you give the impression that this was a sudden shift: They were serving the U.S., they pulled out of the U.S., and they went into Europe.

MR. KRAMER: We know what happened -- yesterday, we looked at 2004 --

CHAIRMAN KOPLAN: If you could hold your microphone just a little bit closer to you.

MR. KRAMER: We did get those data for 2004 yesterday, and it shows some shipments during that period. There was one shipment prior to the petition filing in 2005, so there was some level, but what we see is, after the filing, there is kind of a transition period of a couple of months, and then shipments each month, with a huge ramp up in August. We will respond to your question and give you more information, but that's essentially what we think it will show.

COMMISSIONER ARANOFF: I would note, actually, looking at the numbers that you provided for 2005, that, as you say, there is a very substantial increase in August. Prior to that, during a period of months when there were no shipments to the U.S. market, you see either no shipments, or you see the same amount reported each month, the exact same amount, which seems a little weird and maybe a quirk of the Japanese statistics. But you also see that although it's the same amount, the average unit value is going up.

MR. KRAMER: They are container quantities. That's why the amounts are identical.

COMMISSIONER ARANOFF: That's helpful.

I would like to understand a little bit better kind of what is going on in the European market. In particular, does your company export product to Europe, and if not, has that market for SD chromium been solely served by Delachaux up until JFE showed up in the market?

MR. VORBERGER: Recently, we have not done much business in Europe, and mainly the U.K. is the primary producer of superalloys which would consume SD chromium metal, but the vast majority of consumption still resides in the United States. This is the

largest, far and away, the largest market.

COMMISSIONER ARANOFF: Okay. Let me switch to another subject. We were talking earlier about the fact that demand went up in 2004, started to go up in 2004. Eramet increased its production in 2004, but a lot of that production ended up in inventory because shipments did not go out. Could you help me understand? I know you have to predict, because you produce in advance of sale, you have to predict how much you think you're going to sell when you produce, but what was the business calculation that went into thinking, given what you knew JFE was doing in the market, that you should expand your production to that degree?

MR. VORBERGER: Not having all of the numbers, I believe a major impact was the delay in learning the ultimate results at Customer A. We knew, by virtue of the results of the initial on-line auction, that we had lost a portion of the business, but then, even more significantly, the balance of their business ended up being negotiated unilaterally between Customer A and JFE, and we learned sometime after that had been concluded that, indeed, it had been concluded, and that business was locked up, lost for the next three years, which was probably a

significant contributor to --

COMMISSIONER ARANOFF: I appreciate that, and I certainly invite you to take a look back at the numbers, and if there is anything you want to add on that in your post-hearing, I think we would be happy to see it because there does seem to be sort of a disconnect there between what you knew the pricing behavior of JFE was in the market and what you decided to do in terms of production in 2004.

Let me turn to another question. You testified earlier, Mr. Vorberger, -- I think it was you -- that although you lost a good deal of business with Customers A and B, when it came to Customer C, you were able to retain that business and, in fact, get a price increase, although not as big as you hoped. How did that happen?

MR. VORBERGER: Well, simply, JFE had not yet targeted Customer C. The reason we were not able to achieve the price increases that we sought was the impact that JFE had in general on the overall market for SD chromium. It's a very small sphere of customers, and the market information is pretty readily known. So as that becomes known, that puts not only direct pressure where you're in direct competition, but very real, indirect pressure at other

customers.

COMMISSIONER ARANOFF: I understand what you're saying, and that would explain why the price increase you tried to get, you didn't get as much as you wanted. But it still seems a little odd because you do have a market with such good price communication and because, as you've testified, your customers are under such pressure to reduce costs for their customers, that Customer C, either JFE wouldn't make an offer to them, or they wouldn't solicit one, for this business that they would just sort of sit it out and go, "Oh, look. A and B, who have to be C's competition, are getting these great prices, but we're not going to try."

MR. VORBERGER: Well, in large part, it goes to qualification. There is a process. It's not a decision that can be made immediately. In other words, it takes time and effort to qualify a new critical component into critical alloy going into these jet engine components, such as SD chromium, and if you look back at the track record of JFE, there was a period of time when they visited, they provided samples, went through the qualification process, and then became aggressive systematically at one account and then the next. So it was a matter of time,

really, I believe, before this customer ultimately would have been targeted.

COMMISSIONER ARANOFF: So you don't think that Customer C has any different or particular loyalty to you as a supplier as opposed to the other two.

MR. VORBERGER: I would like to believe that. I believe that we are valued as a supplier, but I didn't fall off the turnip truck yesterday. If JFE began targeting, and I believe they would, -- it was just a matter of time -- and went through the qualification process and offered the same very low pricing, ultimately, the results would have been the same.

COMMISSIONER ARANOFF: Okay. I appreciate that answer. I was trying to establish that there wasn't anything in particular about the chemistry or your production process or something else that led to the different result, and I think you've explained --

MR. VORBERGER: I think we're perceived as a high-quality supplier, but given that price differential, there would have been tremendous pressure from the market and from the management of Company C, particularly given the current ownership, to consider the alternative and do what it takes to

accommodate any minor technical differences in the product.

COMMISSIONER ARANOFF: Okay. Thank you very much. I see that my time is up.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Dr. Button, on my first round I asked you based on Table C to explain the anomaly for me in the interim period as to why Eramet's financial condition is significantly better in the first half of 2005 than in the first half of 2004 despite the fact that subject imports were higher. I'm afraid I need you to further elaborate on your response, because your explanation didn't quite get me there.

You attribute Eramet's better financial condition to the lack of subject imports in the second quarter of 2005 because of the filing of the petition in March. However, Japanese shipments continued during the second quarter because they were imported previously and were on consignment, so I don't quite understand your point.

MR. BUTTON: Some of the response I suspect would involve some confidential information.

CHAIRMAN KOPLAN: You want to do it post-hearing?

MR. BUTTON: Probably I can give you a more

complete answer that way.

CHAIRMAN KOPLAN: Would you do that?

MR. BUTTON: Certainly.

CHAIRMAN KOPLAN: Because I would like to get, you know, more of a response from you on that one.

MR. BUTTON: Right.

CHAIRMAN KOPLAN: I'm still tied up with that.

MR. BUTTON: I would make just a general comment.

CHAIRMAN KOPLAN: Sure.

MR. BUTTON: In my testimony and I believe the testimony of the Eramet witnesses, they have indeed acknowledged that demand cycle is important for a variety of reasons, including on the upside, you know, their desire to take advantage of it.

And a significant problem is that whereas there was a benefit to the domestic industry associated with the demand upswing, most of it they did not get, and, you know, they were dealing with a combination of factors shaping the PNL performance in 2005. So I'll be happy in the post-hearing brief to try and balance -- have a balanced description of those.

CHAIRMAN KOPLAN: Thank you. I appreciate what you just said, and I also look forward to your doing that in the post-hearing, elaborating. Thank you very much.

Mr. Noland and Mr. Vorberger, JFE uses a silicothermic process to produce chrome metal from chromium oxide, silicon metal, and calcium oxide rather than ferrochromium. I want to do that again real soon. To what extent did lower raw material costs or a lower production cost method present JFE with an advantage in the U.S. marketplace?

MR. NOLAND: We don't believe that JFE's production costs are lower to start with, and in fact, we would say we're very competitive with them, so I don't think that offered them any advantage.

CHAIRMAN KOPLAN: I didn't hear that last part.

MR. NOLAND: We don't think that offered them any advantage.

CHAIRMAN KOPLAN: You don't think it did.

MR. NOLAND: No.

CHAIRMAN KOPLAN: Okay. Thank you.

Dr. Button, if I can come back to you, I direct you to Footnote 170 at page 28 of the confidential version of our preliminary views.

Reference is made to a particular sale during the period examined. The Commission indicated that we wanted additional data pertaining to that transaction, but that was not covered in the prehearing brief. Will you provide those details in your post-hearing submission?

I'm asking this because the footnote references your argument that the domestic industry was unable to raise prices to a greater extent due to competition with subject imports.

MR. BUTTON: Yes, we will do that.

CHAIRMAN KOPLAN: Thank you.

Mr. Vorberger, at the staff conference in March, you stated at pages 77 and 78, and I quote, "In one particular case, there is a customer which prefers electrolytic. However, that's not a technical limitation. In the end, it's a preference, and there's reasons behind it."

And then you go on and you say, "So it's a preference in this case for electrolytic, but my understanding, it's not ultimately an insurmountable technical barrier if you will. There are other superalloy degassed chromium bases for production that would be applicable. They could use other grades. They could make a combination to use material other

than electrolytic-based superalloy degassed chrome."

Could you please provide additional information on the preference that this customer has for Eramet's SD chromium rather than JFE's SD chromium produced using the silicothermic process? Why do they prefer the electrolytic process? Could you for purposes as well of the post-hearing please provide additional detail on these purchases? But I would be interested in what you can tell me now.

MR. VORBERGER: Yes, we could provide detail, and I would prefer for confidentiality reasons to address the detail in the post-hearing brief. But generally speaking, there are chemistry-related reasons for this customer's preference of Eramet's electrolytically produced chrome.

But having said that, it is a preference. It's based on technical rationale, but it's not insurmountable. In other words, they are capable, and have stated as such, capable of consuming, of engineering around aluminothermic or silicothermically produced SD chromium.

CHAIRMAN KOPLAN: Thank you. Let me stay with you and Mr. Noland if I could. Commissioner Hillman mentioned this before, but I want to follow up in a slightly different context.

Demand for SD chromium appears to be closely tied to demand for turbine blades used for both commercial aircraft and electricity generation. These two sectors experienced lower demand early in the period examined but are improving in the latter part of the period. How do I factor this into my threat analysis? Mr. Vorberger?

MR. VORBERGER: Well, the -- it's true that in the beginning of the period, we were in the midst of a downturn for both sectors which impacted the demand for SD chromium and which in turn impacted our sales of SD chromium. However, there was a very significant further reduction in sale due to lost sales to JFE as a result of their dumping of SD chromium in the U.S. market.

And, yes, that was both on the -- in the trough period and most notably during the recovery period, the beginnings of the recovery in 2004. So, in other words, if you look at this as a curve, while we would expect the market to go up and down, cyclically to go up and down, what we saw was a deeper trough and less of a recovery relative to the overall -- as compared to the overall recovery in the aerospace and power generation markets.

CHAIRMAN KOPLAN: Are you saying that the

improvement that we're seeing in the latter part of the period is going to reverse itself?

MR. VORBERGER: Eventually. I mean --

CHAIRMAN KOPLAN: Well, if I'm looking into the foreseeable future, when do you think that would occur, and what's your basis for that?

MR. VORBERGER: Well, the -- based upon forecasted projections of participants in the aerospace market, those such as General Electric, many are forecasting a strong period of demand for aero -- within aerospace, a strong period of growth over the next several years, but most of those are well-qualified, because there's a number of unpredictable events that could impact the continuance of that strong demand.

CHAIRMAN KOPLAN: If there's anything that you can submit on that post-hearing that, you know, details what you just said, I'd appreciate it.

Mr. Kramer.

MR. KRAMER: Okay.

CHAIRMAN KOPLAN: You looked like you were nodding that you will do that.

MR. KRAMER: Yes, we will do that.

CHAIRMAN KOPLAN: Just, okay, for the record. Did you want to add anything to that, Mr.

Noland?

MR. NOLAND: No.

CHAIRMAN KOPLAN: Okay.

MR. VORBERGER: If I may, I think the other thing to take -- had this pattern continued through this -- if we look out into the next couple of years and if you presume some of the forecast to be correct with strong demand from aerospace, I firmly believe that had this pattern continued with JFE, we would not -- we would have seen a further reduction in our market share. We would not have enjoyed, continued to enjoy the benefits of that strong demand.

CHAIRMAN KOPLAN: Yes, Mr. Kramer.

MR. KRAMER: This goes back to JFE's announced intention to ultimately produce a volume equal to 150 percent of current global consumption, and in fact, in a very short period of time, it's already producing at the level of 50 percent of global consumption, so there's no reason to think that if they're offering prices that are dramatically lower that they won't be the ones who would realize the benefit of the increased demand if there's no dumping relief.

CHAIRMAN KOPLAN: Thank you. I see my red light's about to come on. I'll turn to Vice Chairman

Okun.

VICE CHAIRMAN OKUN: Thank you. I hope I just have a couple things left here. Mr. Vorberger, there's been a number of questions with regard to the '05 data and the pricing that we see in first quarter '05 and second quarter '05, and you had a helpful discussion with one of my colleagues with regard to contracts that were out of cycle and how that might have impacted it.

And so I think the one thing, though, that I was still struggling with a little bit is that the record that we have also shows the first quarter '05 being a better pricing, better volume than second quarter '05, and so the extent that I thought the response earlier went to the second quarter '05, if you can just talk about first quarter '05.

And I think this might be best done, Mr. Kramer, in a post-hearing brief just again so that I understand which contracts might have been out of cycle and what distinctions you see just in those two quarters versus last quarter of '04 for some of -- I think it's for three products as opposed to all four that you see that pattern.

MR. KRAMER: I'm not sure I understood the question. I want to be sure I can respond.

VICE CHAIRMAN OKUN: Well, just in terms of if you can have -- work with Mr. Vorberger in terms of first quarter '05 data and at least some of the pricing products is already going up, so as I understand it, already going up before the Japanese exited the market, and you had a discussion about the contracts that were relet and when those occur, and I just want to make sure I understand what you see impacting first quarter '05 data demand versus other contracts that came up or other customers that you were working with.

MR. KRAMER: We'll be happy to do that.

VICE CHAIRMAN OKUN: Okay. That'll be very helpful. And then there have been a number of discussions about the Customer B negotiations, and obviously we have the information in Chapter 5 with regard to bid information on what I think is the reference to Customer B and in lost sales and lost revenue.

But I think for post-hearing, Mr. Kramer, if you can just look and see if there's any other information you can provide with regard to the history of Customer B prior to '04, because I'm just trying to make sure I understand whether this was an existing customer that then switched to a subject country or

whether it was a customer that Delachaux had. So if you can just -- it might be on the record, but I just don't -- I can't see it in Chapter 5, and there's been a lot of discussion about it.

Yes, Mr. Vorberger.

MR. VORBERGER: Yes. We were -- Customer B was a longstanding customer.

VICE CHAIRMAN OKUN: Okay.

MR. VORBERGER: So we had history going back to 2004 and prior.

VICE CHAIRMAN OKUN: Okay. And if that information is not on the record, if you can put it on. Again, I know you put a fair amount on, but I just am not seeing it right here when I'm trying to look for it.

MR. VORBERGER: Okay.

VICE CHAIRMAN OKUN: So just -- that would be helpful to me.

And then you had responded, Mr. -- or Dr. Button, with regard to inventories. I had also heard you mention in your testimony, and Ken -- or industry witnesses could maybe a little respond -- that there was going to be maintenance on one of those furnaces. Was the maintenance scheduled for '04? I'm just trying to remember when that was. Were you going to

take down a furnace in '04 or --

MR. BUTTON: I don't believe I referred to maintenance takedown during the testimony.

VICE CHAIRMAN OKUN: You didn't. You referred to inventories, and I was trying to -- someone else referred to maintenance. I was trying to figure out if there was anything to do with were inventories being increased to cover any maintenance that was going to on in '04?

Because there this a question about why the big buildup. Was it because you knew you were going to have customers or you thought there were going to be increased demand, or does it relate to anything that was going on in your -- in the company with regard to maintenance or anything else?

MR. NOLAND: Yes. In 2004, no.

VICE CHAIRMAN OKUN: Not at all. Okay. I appreciate that. And with that, I don't think I have any further questions, but I want to thank all of you for your responses to the questions. I found them very helpful.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Hillman.

COMMISSIONER HILLMAN: Thank you. Just a couple quick followups. Again, I wanted to come back

to this issue of as you see an increase in demand, I just need a little bit more of an understanding of sort of what happens.

I mean, as we see our data, demand starts to go up in 2004. This is a little bit odd for us because of the limited number of customers. So obviously it's not -- you're not seeing it from new customers. Presumably you are seeing a demand increase in the sense that your already existing customers are demanding more.

So help me understand how that works. Does their increased demand fall under the already existing contract, or are you negotiating an additional follow-on different contract to cover additional demand from an already existing customer?

MR. VORBERGER: It is part of a -- normally a part of an existing contract. Well, yes, typically I think --

COMMISSIONER HILLMAN: All right. So, again, I'm just trying to understand. We're seeing this demand go up in 2004.

MR. VORBERGER: Right.

COMMISSIONER HILLMAN: Presumably you knew about the increase in demand because the contracts that you negotiated at the end of 2003 were already

for increased volume levels?

MR. VORBERGER: No. The visibility isn't that clear not even to our customers. There was an understanding coming into 2004 there was an anticipated recovery -- there were signs of recovery. There was an anticipation that there would be a recovery in 2004 to a certain degree. But the timing and the slope of the curve are nearly impossible for our customers to predict, so we normally --

COMMISSIONER HILLMAN: So -- all right. So did customers come back to you at some point in 2004 and say I actually need more than what I contracted for or I'm seeing demand going up even more than I had anticipated, what can you do for me in volume? Did that happen either in 2004 or in 2005?

MR. VORBERGER: I'm sorry. The point on 2005?

COMMISSIONER HILLMAN: A customer coming to you and saying --

MR. VORBERGER: Mm-hmm.

COMMISSIONER HILLMAN: -- I know we had a contract for X volume, but I actually --

MR. VORBERGER: Right.

COMMISSIONER HILLMAN: -- need X plus something.

MR. VORBERGER: In 2004.

COMMISSIONER HILLMAN: Yes. Did that happen?

MR. VORBERGER: We did see that at one customer in particular.

COMMISSIONER HILLMAN: Okay. Now how about in 2005?

MR. VORBERGER: And that was under the existing contractual terms, pricing, so it didn't --

COMMISSIONER HILLMAN: Okay. So the same price, same everything.

MR. VORBERGER: Right.

COMMISSIONER HILLMAN: You just supplied more.

MR. VORBERGER: Right.

COMMISSIONER HILLMAN: Okay. Then 2005.

MR. VORBERGER: 2005, the -- yes, it's because we had a number of things become out of cycle because of the beginnings of the truncating to six months, so as contracts were renewed, we considered volumes and discussed volumes with the customer based on that, their view of their requirements, their demand requirements at that point in time.

However, we weren't -- even in those cases, we were not able to achieve the -- where we had the

opportunity to renegotiate price, we weren't able to achieve the price increases that we needed in order to cover the --

COMMISSIONER HILLMAN: Okay.

MR. VORBERGER: -- the cost increases.

COMMISSIONER HILLMAN: And is it -- again, I'm just trying to understand the relationship --

MR. VORBERGER: Right.

COMMISSIONER HILLMAN: -- between demand and price, because --

MR. VORBERGER: Mm-hmm.

COMMISSIONER HILLMAN: -- as you're describing it to me, there is none. I mean, in other words, it doesn't matter whether the demand is going up or down or people are coming to you for more or less. It is not affecting the price.

MR. VORBERGER: No. It typically will have an impact --

COMMISSIONER HILLMAN: Okay.

MR. VORBERGER: -- on our ability to -- as demand strengthens, our ability to get prices up is enhanced. However, it was -- what's notable is that our ability to do so in this cycle on the back of increasing raw material costs was minimal, and that was due almost exclusively to -- I would say

exclusively to the presence of JFE in the market and their --

COMMISSIONER HILLMAN: Okay.

MR. VORBERGER: -- their pricing policies.

COMMISSIONER HILLMAN: All right. Then help me understand just a little bit JFE's decision to go into production of this product. At the time -- I guess I heard Dr. Button say I think it was 2000 that they began and they obviously started coming into this market more like 2002. At the time, was there a shortage of supply of this product?

MR. VORBERGER: No.

COMMISSIONER HILLMAN: Okay. All right. I'm just -- you know, it's just interesting to me that you would choose to go into this -- if you look again at the data that we have, their capacity came online in these rather large chunks of additional capacity each year between 2002 and, you know, the data that we have through 2005. Why?

MR. VORBERGER: I don't know. I've tried to think through and consider the same thing. I'm not certain because there's not a -- our view, my view on the market, there was not a need for capacity. There wasn't a need for -- they weren't bringing to the table any improved quality, any improved aspect to

product or delivery.

COMMISSIONER HILLMAN: And there were no shortages. In other words, your --

MR. VORBERGER: No.

COMMISSIONER HILLMAN: -- and Delachaux's ability to produce exceeded or met all demand out there.

MR. VORBERGER: That's correct.

COMMISSIONER HILLMAN: All demand at that time, or if demand had been at the levels that it is now in 2005? Again, could the two companies meet all of that demand?

MR. VORBERGER: Yes, they could. And we were prepared to invest as necessary not only to keep up, to keep on the cutting edge of quality, technology for improved quality, but to maintain capacity in line with demand.

COMMISSIONER HILLMAN: Okay. And then, again, getting back to this issue, help me understand the demand relationship with prices. In other uptick cycles where you've seen demand, you know, come back up again, I mean, typically how much do you see prices rise when demand goes up?

MR. VORBERGER: I would say typically -- well, if we look back at the last cycle, those price

increases would have been -- those price increases versus the increases that we sought in this period of time were less, mainly because in this particular cycle, we were being -- we were under much more cost pressure.

The cost pressures in this particular cycle, the volatility, the inflationary pressure on the raw materials markets, our raw materials markets, were causing margin compression, so there was cost incentive to get price increases. And in fact, that's a marked difference to the -- I believe to the previous cycle. We didn't see the same inflationary pressures on the cost side.

COMMISSIONER HILLMAN: Okay.

MR. VORBERGER: But I -- we could if -- you know, specifically I'd have to go back and look at data to compare the -- you know, the pricing or the previous cycle versus current.

COMMISSIONER HILLMAN: Well, again, I'm just struggling, because when I sit back and look at this case, I understand everything you're saying and I see lots of the information on the record in terms of the impact of the Japanese.

And on the other hand, there is a part of me that can say the industry didn't do very well and

things looked bad in 2002, 2003 because consumption was way down, and look at what happened in 2005 when consumption goes way up. Hmm, you know, your financials all come way up, your shipments come -- you know, everything turns back up again and that in fact an awful lot of what we see in the record correlates, yes, on the one hand to imports, but on the other hand very clearly to consumption, and so I'm just trying to ferret out --

MR. VORBERGER: Right.

COMMISSIONER HILLMAN: -- this relationship between sort of the performance of the industry and pricing with what was going on in the demand cycle and to try to understand that in relationship to what was happening on the industry side.

MR. VORBERGER: Well, it's very significant to note that our recovery in 2004 was very significantly dulled by JFE's activities in the market, so we did not enjoy the volume recovery that we otherwise would have anticipated, enjoyed, and we certainly didn't get the price increases that we needed.

And even more concerning from my perspective was the pattern that had been established, and when I looked into the future, this wasn't the end game.

This was a pattern of market penetration by dumping that was gaining, very quickly gaining JFE market share, and I have -- I firmly believe that this would have been -- this was just one -- the next step in their efforts to ultimately supplant us as a -- the SD chromium metal supplier to our customers.

COMMISSIONER HILLMAN: Okay. I do appreciate all those answers. I appreciate -- thank you very much.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Lane.

COMMISSIONER LANE: Dr. Button, I'd like to start with you. You talked a little bit in your initial testimony about price competition. There's some data in the record which compares bid information which includes Delachaux prices. That is on Table V4 of the staff report. The data seems to indicate that the Delachaux bids are reasonably comparable to Eramet's bids. Do you believe that the data on Table V4 of the staff report represents price competition that you consistently get from Delachaux?

MR. BUTTON: I would like to respond in the brief so I can examine the record that you've just described.

COMMISSIONER LANE: Okay. When Japan pulled

out of the market, and Eramet was able to increase its prices, did Delachaux also raise its prices, if you know.

MR. VORBERGER: Based on -- I have market information that they did. Through customer contact. So the answer is yes; they were able to achieve price increases.

COMMISSIONER LANE: How long would it take Japan to re-enter this market if it chose to?

MR. VORBERGER: About as quickly as they could divert a shipment. Particularly in those customers where they've already gone through the qualification process. The only limitation there is logistics. It's having inventory in place to begin shipping, and perhaps some limitation on whatever duration of contract is left -- commitment is left with an alternate supplier. So very quickly; they could very quickly resume business in the United States.

COMMISSIONER LANE: Okay, I would like to try to put things in perspective here. Has the Eramet facility always produced SD chromium even when it was owned by the prior owners?

MR. VORBERGER: Yes, yes.

COMMISSIONER LANE: And has Delachaux always

been a participant in this market at the same time that Eramet and its predecessors were in the market?

MR. VORBERGER: They have been in my tenure. I'm not certain of exactly when Delachaux entered the degassed super -- my tenure of almost eight years.

COMMISSIONER LANE: Okay. Now, Mr. --

MR. NOLAND: I don't know the exact that Delachaux entered the market. I've been with Eramet, LCAM Union Carbide since 1973, and sometime in that period of time Delachaux came in the market. I don't know the exact time, but they were not always our main competition.

COMMISSIONER LANE: And it's your testimony that they are in the market at basically their prices and you didn't have the difficulty that you have now until JFE came into the market?

MR. NOLAND: That's correct.

COMMISSIONER LANE: Okay, I have some questions now about affiliated operations. Do any affiliated operations in the Eramet group produce SD chromium?

MR. NOLAND: No.

COMMISSIONER LANE: Secondly, do any of your affiliated operations produce products which are used by Eramet in its U.S. production of SD chromium?

MR. NOLAND: No.

COMMISSIONER LANE: In preparing for today's hearing, I was trying to figure out exactly where your facility was located in Marietta, so I went to the Internet and that didn't give me a clue, but I did see something that you were having difficulty with your energy prices and you were attempting to negotiate a new contract, I think, for your energy prices. And there was a press release that said if you didn't get the right contract you were going to have to go out of business.

So I'm just sort of curious as to what happened to your negotiations with your energy prices.

MR. NOLAND: Well, the negotiations are still continuing, though they did get a change in rate; lower rate, and so that's still proceeding. I'm not involved with that but I do know that we did make strides in that area.

COMMISSIONER LANE: Okay, thank you. Mr. Chairman, that's all the questions I have.

CHAIRMAN KOPLAN: Thank you, Commissioner. Commissioner Pearson.

COMMISSIONER PEARSON: The confidential information that we have available in the staff report indicates that there is a demand for SD chromium in

Japan. Has Eramet exported to Japan, either recently or some years past?

MR. VORBERGER: Yes, we have. We have in years past; we have recently in declining volumes.

COMMISSIONER PEARSON: Okay. The competition there with JFE is causing the volume to decline, or is demand actually decreasing in Japan?

MR. VORBERGER: Well, it consisted -- previously -- the course of demand had followed largely the same course that we're speaking to for the market here in the U.S. and Europe. But the ensuing recovery, while typically a little bit delayed in Japan versus the other two markets, I don't expect that we're going to enjoy much of a recovery in our business in Japan due to the presence of JFE.

COMMISSIONER PEARSON: Prior to when JFE began producing SD chromium, was Japan importing all of its requirements?

MR. VORBERGER: To the best of my knowledge, yes. In the period most recently prior, there was a Japanese producer, Tosph, that existed and went out of business in the middle 1980's. Several years ago; they've been out of the market for a number of years. I'd have to confirm the exact date. But from that period of time through JFE's startup, I believe

they've imported almost all their requirements of SD chromium.

COMMISSIONER PEARSON: Okay. Mr. Button, maybe you'd take a look at Table 7-1 for the post hearing. As I look at the numbers, it looks like the amount of demand from Japan was not -- appears not to have been insignificant during the time frame that we have in front of us. And there must have been quite a shock in the world market if JFE came in and grabbed all that demand plus a bunch of export demand, and that may have happened just prior to our period of investigation. But still I find it interesting that that would have happened and we've not heard comments from Eramet about that being a factor in the global market.

One would assume that the entire demand there would have been served by Eramet and Delachaux. If there's anything that we should know about that, maybe you could tell us. It almost looks to me like there's some type of discontinuity or the numbers aren't quite adding up. But maybe I'm speculating too much on what had happened in the past.

MR. BUTTON: I'll be happy to examine the record and provide comments in the brief.

COMMISSIONER PEARSON: Okay. So from the

staff report we also know that Eramet continues to export some product. If Japan is a declining export destination, have you been holding your own or growing a little bit in Europe, or in other regions?

MR. VORBERGER: No, we are -- the vast majority of our business is domestic, in the United States. We don't have a presence in the SD chromium market in Europe. That would be mainly the UK.

COMMISSIONER PEARSON: Okay, so the --

MR. VORBERGER: I think it's important to note that part of the reason for that is the relative size of the markets. The market in the United States is far and away the largest consuming sector for SD chromium metal, particularly for aerospace application.

COMMISSIONER PEARSON: Okay, so although we see a modest level of exports in the record, it's not an inconsequential level. That's why I was just trying to figure out where -- where those products flows were going. Some to Japan, apparently not to Europe. Is there some that's used in either Canada, or South America that would -- where there would be some sales?

MR. VORBERGER: Not outside of Japan, not significant to the best of my recollection. I don't

believe there's anything -- that's not to say that there wouldn't have been some small quantities of something shipped into Canada. But it would be for some other type of application. There's no significant superalloy producer in Canada. The major markets would be the U.S., Europe, mainly the UK, and to a lesser extent, inasfar as aerospace is concerned, Japan.

COMMISSIONER PEARSON: Mr. Button, if in the post hearing you could tell us any more about the destinations for the exports that we see in the C tables. Not a huge amount of product, and yet I think a not inconsequential amount.

MR. BUTTON: Yes, sir, we'll do that.

COMMISSIONER PEARSON: Okay. Mr. Chairman, I have no further questions.

CHAIRMAN KOPLAN: Thank you, Commissioner Pearson. Commissioner Aranoff.

COMMISSIONER ARANOFF: Actually, I have no further questions. I just want to thank the panel for all their answers this morning.

CHAIRMAN KOPLAN: I have nothing further. Vice Chairman Okun? Commissioner Hillman? Commissioner Lane? It appears that we're done up here. Mr. Deyman, does staff have questions of this

panel before they're released?

MR. WORKMAN: Clark Workman, Office of Economics. I had a question for Mr. Vorberger. In your testimony you said the staff or the commission should fully investigate such lost sales allegations as to those two customers, A and B.

I just wanted to say I've been responsible for doing that, and in the preliminary phase of the investigation, those lost sales allegations were investigated; faxed questions were sent to the companies, and they responded and it was put in the report. In the final phase of the investigation I followed up with some additional questions to try to clarify and expand on some of the points in the preliminary phase.

I guess my view is that we did fully investigate the lost sales allegations, and I was just wondering what if anything would you like us to do that's additional?

MR. KRAMER: That testimony reflects the difference between what we understand to have occurred with respect to those sales, based on Eramet's participation in those transactions and what the most recent staff report data is we've seen regarding what's being reported.

And we don't intend to be critical of the staff's effort to determine what happened with respect to those sales, but because of the importance of -- and we understand that you can only report what people tell you. But there's such a significant difference between what we believe occurred, based on our own direct participation in those transactions, and what's reflected, that we simply are hoping the Commission will re-double its efforts to get to the bottom of that.

MR. WORKMAN: Okay, thank you.

CHAIRMAN KOPLAN: I might suggest that you get together with staff at the conclusion of the hearing and -- because I'm hearing two different things here. Thank you.

MR. DEYMAN: I'm George Deyman, Office of Investigations. The staff has no further questions. Thank you.

CHAIRMAN KOPLAN: Thank you, Mr. Deyman. Thank you, Mr. Workman. It would appear that we can now go to those closing remarks that you were ready to make.

MR. KRAMER: My partner, Cliff Stevens, will present our case.

MR. STEVENS: Where is JFE today? It has

not appeared to defend itself before the Commission. JFE also is nowhere to be seen in the U.S. market. After Eramet filed the petition showing that JFE was engaged in selling at extremely low, below cost prices in the U.S. market, causing severe harm to the domestic industry, JFE pulled out of the market and shifted to selling large volumes at even lower prices to Europe.

Why did JFE withdraw, and why is it not here? Because the evidence shows that imports from Japan which the Department of Commerce found to be dumped at a margin of 129.32 percent, are materially injuring the domestic industry and threatening further material injury, warranting the imposition of anti-dumping relief. As the record shows, JFE consistently underbid Eramet by large margins in its contract negotiations with critical customers.

By this method, JFE took large volumes of sales from Eramet at these customers. By offering product at such low dumped prices, JFE also broadly suppressed market prices at a time when Eramet's raw material and other input costs had increased. JFE has not appeared to contest any of these points.

The result is plainly shown in the record. The data showed declines in Eramet's shipments, market

share, production capacity utilization, employment and financial performance during the POI. Notably, Eramet's shipments and market share further declined in 2004 and it's financial performance worsened that year even as demand for SD chromium improved, because at the same time, Japanese imports reached their highest volume in market share yet.

With JFE out of the market, and the demand improvement continuing, Eramet has been able to make an increased volume of sales, and to obtain price increases. But if final relief is not granted, and JFE is allowed to resume dumping at below cost prices, these improvements will evaporate. As it did during the POI, JFE will again underbid Eramet to gain sales volume and market share, and by doing so will depress market prices, very seriously threatening the continued viability of the domestic industry.

On behalf of Eramet Marietta, Inc., and the union representing the workers producing superalloy degassed chromium, we ask the Commission to find, as the record evidence shows, that the U.S. Superalloy Degassed Chromium industry is materially injured by reason of the dumped imports from Japan, and threatened with further such injury.

Thank you very much.

CHAIRMAN KOPLAN: Thank you. And thank you to everyone who participated in this investigation this morning and this afternoon. It's been extremely helpful. Post hearing briefs, statements responsive to questions, and requests to the Commission, and corrections to the transcript must be filed by November 10, 2005.

The closing of the record and final release of data to the parties by November 28, 2005. And final comments by November 30, 2005.

Thank you all very much; this hearing is adjourned.

(Whereupon, at 12:23 p.m., the hearing in the above-entitled matter was concluded.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Superalloy Degassed Chromium from Japan

**INVESTIGATION NO.:** 731-TA-1090 (Final)

**HEARING DATE:** November 3, 2005

**LOCATION:** Washington, D.C.

**NATURE OF HEARING:** Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: November 3, 2005

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: Jacqueline Richards-Craig
Signature of Court Reporter