UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No.:
CERTAIN ACTIVATED CARBON	)	731-TA-1103 (Final)
FROM CHINA	)	

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Tuesday,
February 27, 2007

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

The hearing commenced, pursuant to notice, at 9:31 a.m., before the Commissioners of the United States International Trade Commission, the Honorable DANIEL R. PEARSON, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

DANIEL R. PEARSON, CHAIRMAN
SHARA L. ARANOFF, VICE CHAIRMAN
DEANNA TANNER OKUN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
IRVING A. WILLIAMSON, COMMISSIONER
DEAN A. PINKERT, COMMISSIONER

APPEARANCES: (Cont'd.)

Staff:

MARILYN R. ABBOTT, SECRETARY TO THE COMMISSION
WILLIAM R. BISHOP, HEARINGS AND MEETINGS COORDINATOR
SHARON BELLAMY, HEARINGS AND MEETINGS ASSISTANT
JAMES MCCLURE, INVESTIGATOR
PHILIP STONE, INDUSTRY ANALYST
STEVEN TROST, ECONOMIST
CHARLES YOST, ACCOUNTANT/AUDITOR
DAVID FISHBERG, ATTORNEY
GEORGE DEYMAN, SUPERVISORY INVESTIGATOR

In Support of the Imposition of Antidumping Duties:

On behalf of Calgon Carbon Corporation and NORIT Americas, Inc.:

RONALD THOMPSON, President, NORIT Americas, Inc.
TIMOTHY WRUBLE, National Account Manager, NORIT Americas, Inc.
DENNIS RESTER, Consultant, NORIT Americas, Inc.
ROBERT O'BRIEN, Senior Vice President, Calgon Carbon Corporation
WILLIAM ALDRIDGE, Business Development Manager, Calgon Carbon Corporation
BRAD HUDGENS, Economist, Georgetown Economic Services

DAVID A. HARTQUIST, Esquire
R. ALAN LUBERDA, Esquire
MARY T. STALEY, Esquire
Kelley Drye Collier Shannon
Washington, D.C.

I N D E X

P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN PEARSON: Good morning. On behalf of the U.S. International Trade Commission I welcome you to this hearing on Investigation No. 731-TA-1103 (Final) involving Certain Activated Carbon From China.

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

Schedules setting forth the presentation of this hearing, notice of the investigation and transcript order forms are available at the public distribution table. All prepared testimony should be given to the Secretary. Please 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 requests should comply with Commission Rule 201.6.

Madam Secretary, I have one preliminary item.

I would like to note that yesterday, February 26, 2007, Dean A. Pinkert was sworn in as the 82nd Commissioner of the U.S. International Trade Commission. Please join me and my colleagues in welcoming Commissioner Pinkert to the ITC.

(Applause.)

CHAIRMAN PEARSON: I think I have no further preliminaries, Madam Secretary. Do you have any?

MS. ABBOTT: No preliminary matters, Mr. Chairman.

CHAIRMAN PEARSON: Very well. Let's proceed with the opening remarks, which in this case I believe will be combined with the panel presentation at the request of the domestic industry. Is that correct, Mr. Hartquist?

MR. HARTQUIST: Yes, Mr. Chairman. Thank you.

CHAIRMAN PEARSON: Okay. Thank you.

Madam Secretary, all witnesses have been sworn?

MS. ABBOTT: That is correct, Mr. Chairman.

(Witnesses sworn.)

CHAIRMAN PEARSON: Thank you. Please proceed.

MR. HARTQUIST: Thank you, Mr. Chairman. Good morning to you and to the members of the panel. My name is David A. Hartquist of the law firm Kelley Drye Collier Shannon representing the domestic industry producing steam activated carbon.

Let me add my thanks also. It's an honor for us to appear before new Commissioner Williamson, who I think is here for your first Title VII hearing, and Commissioner Pinkert, your first ITC hearing. We appreciate the opportunity to testify before you this morning.

We believe this is a fairly straightforward injury case, and perhaps that is why no foreign producer or importer chose to participate today. Steam activated carbon from China is being dumped in the United States at very large margins. The Commerce Department has found dumping duty margins that range from 62 percent to 228 percent in this case.

The prehearing report, which, by the way, we found to be very, very thorough and an excellent job by the staff we believe, demonstrates that those dumping margins fueled a significant increase in subject import volume and market share at very low prices.

Imports of certain activated carbon from China are significant by any measure, and these imports were concentrated in the coal-based carbon products produced by the domestic industry.

The record also shows that there was general agreement that both domestic and subject imports of activated carbon are generally interchangeable and compete on the basis of price. This was confirmed by domestic producers, by importers and by purchasers. The low prices of the Chinese carbon resulted in massive and pervasive underselling on every product examined by the Commission.

As you will hear from our witnesses today and as is aptly documented in the staff report, this pervasive underselling placed significant downward pressure on pricing during a period when the industry was facing rising costs, substantially rising costs.

There is evidence of both suppression and depression on the record, but the bottom line is that prices have not been able to increase sufficiently to cover rising raw material and other manufacturing costs.

The impact of this underselling is apparent from the unusually large amount of lost sales and lost revenues confirmed by the staff to date, and we believe the staff will be able to confirm a large amount of lost sales that we allege for 2006.

The financial condition of the domestic producers has worsened over the period of the investigation despite increasing demand in the marketplace. Virtually every financial indicator declined over the period, and it was not until the preliminary duties were announced that the industry had begun to feel some tentative relief.

No other factors explain the injured condition of the domestic industry during a period characterized by strong demand. Nonsubject imports are not an alternate cause of material injury to the domestic industry because nearly all the nonsubject imports of steam activated carbon are made from coconut shells, which are not produced in meaningful quantities in either the United States or in China.

I would also note here that the so-called Bratsk analysis is not an issue in this case for two reasons. First, the nonsubject imports of coconut-based activated carbon are generally sold to customers and for applications that are different from those primarily serviced by the coal-based activated carbon sold by the Chinese, so they will not replace subject imports if an order is imposed.

Second, the nonsubject imports are higher priced and are not cost competitive with subject imports. These factors all demonstrate that the domestic industry is suffering material injury by reason of the dumped imports of steam activated carbon from China.

That concludes my opening statement, Mr. Chairman, and I would like now to introduce our witnesses to you if I may.

CHAIRMAN PEARSON: Please do.

MR. HARTQUIST: Thank you. Our first witness will be Mr. Ronald Thompson, the president of NORIT Americas, Inc. After Ron testifies, Mr. Robert O'Brien, senior vice president of Calgon Carbon Corporation.

The third witness will be Brad Hudgens, economist from Georgetown Economic Services, and the last witness presenting some legal testimony on like product in particular will be Alan Luberda of my law firm.

In addition we have several others here who will be available for the Q&A session: Timothy Ruble, the national account manager for NORIT Americas; Dennis Rester, who is a consultant to NORIT Americas and a technical expert on this product; William Aldridge, business development manager of Calgon Carbon Corporation; and also with us from Kelley Drye Collier Shannon is Mary Staley.

With that, we will proceed to Mr. Thompson's statement.

MR. THOMPSON: Good morning. My name is Ron Thompson. I'm the president and CEO of NORIT Americas, Inc.

NORIT was established in 1918 and currently is one of the leading activated carbon producers in the world. NORIT produces certain activated carbon in the United States at two facilities in Marshall, Texas, and Pryor, Oklahoma. Our parent company is based in the Netherlands and has production facilities there.

I know that you have by now read the staff report. You know what activated carbon is. Having done that, you can tell just how important activated carbon is in your every day life. Many of the foods you eat and the beverages you drink and almost certainly the water that you drink are treated with activated carbon to improve the purity, color, smell or taste.

It is also used to prevent pollution from escaping into the environment from industry and to remediate poor historical disposal practices. It's used in literally hundreds of industrial, home and other applications. It's an essential industrial product.

So NORIT produces a product that essentially everyone needs. Demand has been growing for activated carbon and is predicted to grow over the next several years. There are only two domestic producers of this product, and we do not have overcapacity in this country.

Under these conditions, NORIT should have been able to perform very well during the last several years, but we faced an immense problem: Injury from a seemingly inexhaustible supply of dumped imports of steam activated carbon from China.

Before this case was filed in March 2006, NORIT had experienced a period of poor and declining financial performance due to the barrage of low-priced imports from China. Over the last several years, imports of activated carbon from China increased and were sold at consistently low prices that undercut our own prices.

Because we were facing increasing costs during the same period, we needed to be able to raise our prices, but with dumped competition from China we often had to lower our prices and certainly could not raise our prices to cover our costs.

Our choice was to sell our product without being able to receive a satisfactory return or to lose those sales. Quite frankly, we did both. NORIT was increasingly losing sales to these low-priced imports from China during the period of investigation.

As you are aware, we have documented numerous lost sales and lost revenues in our petition and our questionnaire responses. With the affirmative preliminary determinations from both the Commission and the Commerce Department in 2006, we have seen a marked improvement in the pricing trends in the activated carbon market. Not only have we been able to obtain some reasonable price increases to cover the increased costs that we face; we have also begun to recapture sales that were previously lost to Chinese imports.

We are now seeing instances in which we had previously lost the bid to Chinese material and then in subsequent bids after the affirmative preliminary determination the Chinese competitors did not even participate in the bidding processes. We have experienced an improvement to our bottom line results as a direct response to this case.

As a businessman, I can draw a direct connection between the increased Chinese imports of activated carbon and our financial performance in the expanding 2003 to 2005 market and the subsequent 2006 improvement in that performance as the Chinese reduced volume and increased prices in reaction to the antidumping investigation.

To sustain these improvements, however, an antidumping order must be imposed on imports of activated carbon from China. Without the antidumping order, imports from China certainly will continue to surge in the U.S. market at low prices.

How do we know it was dumped imports from China that had such a direct and injurious impact on our business in addition to the lost sales we have reported? First, the Chinese importers make and sell what we make and sell, coal-based steam activated carbon. The Chinese activated carbon competes for exactly the same customers and applications we do.

Second, I agree with the statement in the Commission's staff report that "price is the largest single factor affecting purchase decisions" as long as the required specifications are met.

Because of the Chinese producers having had little trouble meeting industry specifications across the board, it is relatively unimportant to end users whether they use the product of one manufacturer or another and whether the product is produced domestically or by a foreign manufacturer.

Few grades and product forms account for the bulk of the market so that it's easy for importers to stock the Chinese product in large quantities in the United States. The importers have helped the Chinese producers increase their presence in the marketplace by stocking the product, providing technical support required and ensuring uniform product quality.

We compete for the same customers on the same products as the Chinese and their importers in the United States, and that competition is on the basis of price. The public version of the staff report confirms what any of my sales force has experienced every day during the period of investigation: The importers of Chinese activated carbon consistently undersold the domestic industry by significant margins.

Over the past several years, our customers have become increasingly familiar with the Chinese product and the willingness of the Chinese producers to supply them at prices far below our own. Because we could not afford to lose these accounts with longstanding customers, we had little choice but to defend our remaining business aggressively, maintaining or lower prices. We had to do this to maintain production volume within our plants during a period in which we faced rising costs for raw materials, energy and healthcare benefits.

There is no question that the Chinese exporters have used price underselling to directly take sales and market share away from NORIT. Between 2003 and 2005, we lost annual commitments to a number of U.S. customers, including some of our top customers, to Chinese imports.

Specifically, in 2005 we lost 15 major municipal drinking water accounts across the country because of imports from China. In 2006, we continued losing accounts early in the year, but we won back nine municipal accounts that we had previously lost in 2005.

You can see in our questionnaire response what this did to our bottom line. Our worsening financial condition over the period of investigation led to reductions in the available capital, maintenance dollars and employee benefits. We were forced to lower our employment levels by almost 20 percent during the 2003 to 2005 period.

We did everything humanly possible to reduce our costs and improve our manufacturing processes and productivity. We implemented a number of measures to improve efficiency and to make the plants more environmentally friendly.

We know that we must remain competitive and responsive to our customers, and we have tried to do so. There is a limit to how much we can control, however. There was very little else we could do to tighten the belt further, and there were virtually no means by which we could get our costs low enough to be able to match the dumped prices of Chinese activated carbon.

As a result, our condition continued to deteriorate until this case offered us some relief. It wasn't until the imposition of the preliminary duty that we began to see a turnaround in both our pricing trends and financial condition.

That it has been imports of activated carbon from China and not other factors has been perfectly clear to me from the nature of the marketplace. There has been a steady growth in demand, so economic conditions are not to blame.

The problem for us has been that the imports from China have not only taken sales from us; they have absorbed the growth in the market. Without an antidumping order we will again lose the opportunity to participate in any future growth that we hope to see in the market.

That imports from China rather than imports from other countries are the problem is also straightforward to confirm. The vast majority of imports of steam activated carbon from sources other than China are coconut-based steam activated carbon. Coconut-based products are typically more expensive than coal-based products and are largely sold to a different customer base than ours. Because the Chinese producers export primarily coal-based steam activated carbon, they compete head-to-head with NORIT products.

In light of our financial condition and loss of market share to the subject imports, it is impossible for NORIT to continue making the investments in equipment, processes and people that are necessary to be viable in the long term without the discipline of an antidumping order against China.

We have invested $13.5 million since 2003 to maintain our competitive position. My board of directors will not continue to invest in this business in the face of no return on that investment, nor can we continue to match or beat Chinese prices.

We chose to file this case because we were convinced that our company was at a crossroads: Address the dumping and stop the bleeding or eventually be forced out of business. I think that what we have experienced over the last year has proven us to be right.

China has enough activated carbon production capacity to supply the entire world with low-priced activated carbon. Just like NORIT, they have to keep their plant full and continuously operating, which perhaps explains why the Chinese industry has been so aggressive in the U.S. sales efforts in the last few years.

If Chinese imports continue at the same or increased volumes at the low prices we have experienced, we will eventually reach the point that it would no longer make sense to manufacture activated carbon in the United States.

We have now seen some improvement as a result of the case, but we need the imposition of an antidumping order to ensure that our business will fully recover. After such a sustained period of poor performance due to the Chinese imports, we still have some distance to go before NORIT will recover from the injury sustained during the period of investigation.

We respectfully urge you, therefore, to reach an affirmative determination and thank you for your attention.

MR. HARTQUIST: Thank you, Ron.

We'll now turn to Robert O'Brien of Calgon.

MR. O'BRIEN: Good morning. My name is Bob O'Brien, and I'm a senior vice president for Calgon Carbon Corporation. I'm responsible for our activated carbon operations in North and South America.

Calgon is the largest producer of steam activated carbon in the United States. We also have operations around the world, including in China. In the United States we employ approximately 775 people, including 247 employees manufacturing steam activated carbon at our two production facilities in Catlettsburg, Kentucky, and Pearlington, Mississippi.

Like NORIT, Calgon competes head-to-head with Chinese steam activated carbons every day. As you can see from our questionnaire response, we are consistently being undersold by Chinese producers and exporters, and it has resulted in Calgon losing sales and revenue.

For Calgon, the events that led to the filing of this case have been a very long time in coming. China first entered the U.S. market in volume in the early 1990s. To enter this market initially, large trading companies first approached point of use water filter manufacturers and other OEMs that they could easily identify using data from sources such as *Thomas Register*.

China's prices were so far below the domestic market prices that they began to have almost immediate acceptance, even when there was a concern about inconsistent quality in the early days.

As the Chinese product gained more acceptance in the marketplace, particular importers would deal with one or several Chinese producers on a regular basis. This allowed them to develop consistency in quality, hold inventories in order to bid on contracts and develop a nationwide distribution system.

By the time the period of investigation began, Chinese imports were established in virtually every part of the market for steam activated carbon. The Chinese producers captured over 80 million pounds per year by having the lowest priced activated carbon in the market.

We have routinely had to compete against Chinese import prices that were below our cost of production. Because the Chinese industry has a very large production capacity, they have been able to grow their presence in the market rapidly using these low prices.

We have followed a variety of strategies to try and deal with this problem. We have taken steps to lower our cost structure and to keep our production lines full. We have rationalized plants and services, closing three of our six original production lines since 1995. The most recent closure was in 2002.

Of course, we have little control over some of our primary costs like coal, natural gas, electricity, binder and employee healthcare. When those costs go up, it's critical that Calgon be able to recover them through price increases.

Our substantial efforts at trimming costs and improving efficiencies still did not allow us to match Chinese pricing, and the rising raw material and energy costs over the last several years made the problem of low Chinese prices even more critical.

Calgon Carbon found itself with difficult choices to make when faced with these extraordinary low Chinese prices. We could either walk away from the business the Chinese were taking through their persistent and pervasive underselling, drop the prices of our domestically produced product to match the Chinese and incur losses or find an alternative.

We could not afford to match the Chinese prices on a sale-by-sale basis. No producer can afford to sell at below cost of production for an extended period. We also did not want to just walk away from the business. Activated carbon production is capital intensive, and we would not be able to simply forego all of the business on which the Chinese were willing to undersell us, so again we looked for an alternative.

Our customer base in the United States was encouraging us to purchase Chinese material to supply them. They wanted to get the advantages of the low prices for Chinese material while having Calgon's technical support and quality assurance.

We had established relationships with a number of Chinese producers and we would fulfill our customers' requests, but it was very clear to us that whatever advantages we might have in service and quality were secondary to price. If we did not sell them Chinese material, we would lose the sale and other importers of Chinese carbon would get the sale.

Rather than cede the field to other suppliers of Chinese activated carbon, we chose to import some activated carbon to serve those parts of the market that were already being dominated by the Chinese. It allowed us to compete with the Chinese imports on a price basis in a way we simply could not afford from our U.S. production.

If you will look at the data in our importer questionnaire, you will find that we took a much more responsible approach to pricing than did our importer competitors.

Because Calgon is first and foremost a domestic producer of steam activated carbon with a very large investment in plants, equipment and employees in the United States, we attempted to price our imported carbon in a manner that did not totally undercut the domestic market. Therefore, we tended to price our Chinese carbon above carbon from other importers, and the data you have before you supports this.

As Chinese activated carbon increased in volume and intensity of price competition increased, we were forced to raise the level of our imports. You should also note that we bought the operations of

Barnaby Sutcliffe in 2004, and the addition of their operations accounted for some of the increase in imports from China in our data of that year.

Since 2004, however, Calgon has been reducing its imports of activated carbon from China. We recognized that it was critical to Calgon's long-term health in this market that the Chinese product not be dumped in the United States. Our domestic production was not benefitting from the long-term growth in the market for steam activated carbon.

We also recognized that some promising opportunities existed for future growth in demand such as for mercury abatement in the electric power sector, but it was apparent to us that imports of carbon from China were going to take most of that potential benefit from us, just as they had taken up most, if not all, of the growth in the market over the last several years.

That left us with the choice of addressing the dumped imports that were injuring our business or perhaps facing the closure of our remaining domestic production facilities. Therefore, even though we had been importing we filed this case as the only means to address the dumping of activated carbon.

As a domestic producer, we have pushed

vigorously for the imposition of dumping duties to exert some price discipline on Chinese imports. The Chinese presence and influence in the market had become so pervasive by the period of investigation that it exerted a downward influence on prices throughout the market despite a general demand in growth for steam activated carbon.

This is of great concern to us, particularly as our raw material, labor, energy and transportation costs have all been significantly rising. We need to be able to increase prices sufficiently to cover these cost increases and to regain some measure of healthy profitability on these products, but in the face of high levels of imports from China we have been unable to do that.

You can see from our questionnaire response that the direct impact of the large and increasing volume of dumped imports from China is that prices remain suppressed, our profitability has dropped, investments have been postponed and the benefits and compensation for our employees have been reduced. All of this evidence of material injury is tied directly to the dumped imports from China in the market.

We have seen some improvement in our performance in the activated carbon market since the imposition of preliminary duties in late 2006. Because some of our supply contracts were negotiated during the period of investigation when Chinese imports were surging and underselling carbon, our recovery from the material injury was not readily apparent in our 2006 results.

With the imposition of an antidumping order, we believe that improvements will continue in 2007, and we will be able to increase our profitability on these products.

We are committed to remaining a domestic activated carbon producer and an industry leader. While we recognize that there is a place for imports in the market, they must not be dumped and must be reasonably priced. Despite being an importer, therefore, we felt we had no choice but to become Petitioners in this case.

As I said before, Calgon Carbon is first and foremost a domestic producer of steam activated carbon. If the Chinese industry is required to stop dumping in this market, we are confident that Calgon can effectively compete and again achieve a healthy return on our investment.

Thank you for your attention.

MR. HARTQUIST: Thank you, Bob.

Our next witness is Brad Hudgens of Georgetown Economic Services.

MR. HUDGENS: Good morning. I am Brad Hudgens of Georgetown Economic Services. I will discuss the data on record concerning conditions of competition and the volume, price and injurious impact of the unfair imports from China of activated carbon.

The Commission is required to perform its injury analysis within the context of the business cycle and conditions of competition prevalent in the market. This morning I would like to discuss four conditions of competition that are pertinent to the Commission's analysis.

First, as Mr. Thompson and Mr. O'Brien testified earlier, demand for activated carbon as reflected in apparent U.S. consumption increased over the period of investigation. Most of the growth in consumption is attributable to new environmental regulations for water and air quality.

As I will discuss in more detail, the domestic industry's financial performance has deteriorated despite this strong demand as the imports from China have undermined pricing and taken sales and market share.

Second, activated carbon is a price

sensitive product for which the primary determinant of a sale is price. The staff report concludes that for activated carbon sales "price is the largest single factor affecting purchase decisions."

The staff report also indicates that for the municipal water treatment market, which is the largest market segment for activated carbon, sales are typically determined by a bid process that generally means "the lowest cost supplier will win the bid."

U.S. customers purchase both U.S. and Chinese activated carbon and use both products interchangeably. The staff report indicates that "by and large product from China and product from the United States are fairly comparable." The majority of responding importers and purchasers also noted that the domestic product and imports from China are always or frequently used interchangeably.

The questionnaires showed that the domestic and Chinese products compete head-to-head for the same customers. U.S. producers' and imported activated carbons are also sold through the same channels of distribution to the customers.

Nothing could be more supportive of a finding of substitutability between the U.S. produced and Chinese activated carbon than the significant number of lost sales and revenues that were reported in the staff report. China's share of the U.S. market increased over the period of investigation as the domestic industry lost sales to imports from China entirely due to price.

The domestic industry's customers have increased their purchases of activated carbon from Chinese suppliers because the quality is satisfactory and the prices are significantly lower than the domestic industry's. These events demonstrate the importance of price in the purchasing decision and the clear substitutability of domestic and Chinese products.

The staff report even concludes that "due to the general comparability of domestic and subject activated carbon, purchasers have been increasing their purchases of low-priced activated carbon from China."

Third, the nature of the production process requires high capacity utilization for the domestic producers. Given the very high capital intensive nature of activated carbon production and the highly integrated nature of the production process, the domestic producers are designed for and depend on running at very high capacity utilization rates to spread the high fixed cost over as much production volume as possible.

The domestic producers operate 24 hours a day, seven days a week, except for scheduled maintenance shutdowns. This condition of competition is particularly relevant to the Commission's analysis because as U.S. producers have experienced low priced competition from Chinese imports they have been forced to reduce prices significantly to maintain volumes rather than cut production.

Fourth, as you have heard from the Petitioners themselves this morning, the industry is in a period of rising cost. Energy and raw material costs have been rising over the period, and as a result of high energy prices transportation costs have also risen.

According to the staff report, the price of coal, which is the primary raw material and the largest single cost factor in the production of activated carbon, rose by almost 60 percent during the POI. In a period of rising costs, producers must be able to raise prices to cover these costs, and, as I will discuss in a moment, the domestic industry has not been able to do so.

In terms of injury, I will show you this morning how the domestic industry's material injury has been a result of the unfair import competition from Chinese activated carbon producers. By consistently using aggressive pricing practices, these producers were able to significantly increase their shipments to the U.S. market.

The import figures in the staff report are confidential due to the adjustment to eliminate chemically activated carbon from the total imports. For purposes of the public hearing, I will refer to the trends of the official import statistics because their trends are representative of the subject merchandise.

Imports of Chinese produced activated carbon rose by more than 22 percent from 2003 to 2005 before declining slighting in 2006 in the face of this antidumping investigation. The individual questionnaire responses show that the vast majority of both importers and purchasers increased their imports/ purchases of activated carbon from China during the period of investigation.

The staff report indicates that 12 of 14 responding purchasers stated that they had increased shipments of activated carbon from China due to low prices, and many indicated that they decreased purchases from the domestic industry as a result.

This growth during the POI is indicative of the pattern that has persisted over the past decade. In 1996, imports from China stood at 25 million pounds. Imports grew steadily to 84 million pounds in 2005, which represents an increase of 238 percent during the 10 year period.

The volume of growth of subject imports has come at the direct expense of the domestic industry. Despite gains in apparent U.S. consumption during the period 2003 to 2005, U.S. producers' market share declined. The decline in China's market share in 2006 was a direct result of the filing of the petition and the implementation of the preliminary duty.

Accordingly, the import volumes of activated carbon from China are significant both in absolute and relative to domestic consumption. The growth in the volume of the Chinese imports has been achieved through aggressive pricing and underselling of domestic producers. The Commission's record clearly shows that the increasing volume of subject imports consistently undersell the domestic industry and have a suppressing and depressing effect on U.S. prices.

Based on the staff report, the record shows that imports from China undersold the domestic product in the vast majority of comparisons at significant margins. Furthermore, these comparisons accounted for a large share of total consumption. As a result of this underselling, the domestic industry lost a substantial number of sales to imports, which the Commission staff was able to confirm in the staff report.

In a price sensitive market, this degree of underselling, coupled with the increasing volume of subject imports, has led to the price depression and suppression experienced by U.S. producers in the activated carbon market.

The depression and suppression of U.S. prices has resulted in significant financial deterioration for the industry. The U.S. industry's operating income plummeted during 2003 to 2005. In a period of both rising demand and rising cost, the domestic industry should have been able to pass on the cost increases to its customers.

Due to the pervasive underselling by the dumped imports of activated carbon from China, domestic producers were unable to pass on these increased costs, leading to the financial deterioration of the industry. As Mr. Thompson testified in his testimony, the domestic industry did not experience any improvement in the financial operations until after the antidumping case was filed in 2006.

In addition to the significant financial declines, the record also shows a decrease in U.S. shipments and employment trends during 2003 to 2005 before showing some improvement in 2006 after the antidumping case was filed. The fact that the industry showed some improvement following the implementation of the preliminary duties confirms that there is a causal relationship between the growth and low-priced imports and the industry's material injury.

The domestic industry's financial injury was not a result of high production costs and manufacturing efficiencies, but rather declining and stagnant prices. During the period of increasing demand, the industry should have been able to pass along such cost increases. The underselling by low-priced subject imports prevented that.

Calgon and NORIT have done everything possible to control rising costs and are among the most efficient producers in the world. Both companies have invested heavily in plant and equipment to improve productivity rates during the POI.

As Mr. Thompson testified, NORIT has

implemented several measures to make their plants more efficient such as major capital investments and a cost reduction program which included the termination of 20 percent of the workforce.

Mr. O'Brien testified that Calgon was forced to cut manufacturing back to three production lines to cut costs in 2002. Calgon also invested heavily in capital improvements during the POI to improve production efficiency.

Yet for all the capital improvements and cost reductions, the U.S. producers have not been able to compete with imports from China because these imports are sold at such low prices in the U.S. market that their prices are often below the domestic industry's raw material costs alone. No amount of efficiency gains would enable the U.S. producers to compete against these low-priced imports.

The Commission's record strongly supports an affirmative injury finding. As imports surged into the U.S. market, the U.S. industry experienced declining market share, underselling by the subject imports, lost sales and lost revenues and significant price depression and suppression.

Despite significant gains in apparent U.S. consumption and rising raw material cost, U.S.

producers were unable to raise prices due to the intense competition of low-priced imports.

As a result of the price depression and suppression, the U.S. producers' financial performance worsened over the POI. Consequently, the U.S. producers' material injury is directly linked to the surge in dumped, low-priced imports of activated carbon from China.

Thank you.

MR. HARTQUIST: Thank you, Brad.

Our final witness this morning will be Alan Luberda.

MR. LUBERDA: Good morning. I'd like to take a few minutes to conclude our direct presentation by addressing two issues that bear importantly on your analysis. Those two issues are, first, the so-called Bratsk issue and, second, the appropriate like product to be applied in this case.

As to the Bratsk case, we agree with the Commission's recent statements that nothing in the statute itself requires the type of analysis that the Court of Appeals now appears to have imposed.

Nonetheless, applying the replacement benefit analysis the Commission adopted in the Lined Paper investigation to the facts of this case demonstrates that nonsubject imports would not replace Chinese imports and therefore would not deprive the U.S. industry of the benefit of an order.

Two factors identified by the Commission as triggering a Bratsk type analysis are the existence of a commodity product that is readily interchangeable and the significant presence of price competitive nonsubject imports in the market.

Neither factor is present in this case. While Chinese and U.S. produced steam activated carbon are generally interchangeable, the vast majority of nonsubject imports are not interchangeable with the subject imports from China.

Nearly all the imports of activated carbon from China are coal-based steam activated carbon like those produced in the United States, while nearly all the imports from nonsubject countries are coconut-based carbons. The coconut-based products are not interchangeable and tend to service different applications and different customers than the coal-based carbons.

Both purchasers and importers confirm this lack of interchangeability in their questionnaire responses as summarized in the staff report. For Bratsk analysis purposes therefore, activated carbon is not an interchangeable commodity product.

There is also not a significant presence in the market of price competitive nonsubject imports. The record shows that nonsubject coconut activated carbon is not priced competitively with the subject coal-based imports.

Calgon's witnesses can also tell you from firsthand experience that the coconut carbons they import are significantly more expensive than the coal-based steam activated carbon. Thus, the requisite conditions for a Bratsk analysis are not present in this case.

Even if a Bratsk analysis were proper, the record does not indicate the availability of sufficient coal-based steam activated carbon from other sources to replace the Chinese carbon. The higher prices of coconut-based carbons would also mean that they would not likely undersell the domestic industry and deprive them of the benefit of the order.

Finally, in the recent period during which subject imports declined in reaction to the dumping case, nonsubject imports also declined and did not replace subject market share. Thus, it's the domestic industry that will benefit from any order and not nonsubject imports.

The other issue to address this morning is the Respondents' argument that the like product in this case should be expanded from steam activated carbon to include chemically activated carbons and reactivated carbons. Neither of these products should be included in the like product.

In the preliminary results, the Commission agreed with Petitioners that neither chemically activated carbon nor reactivated carbon were within the like product for certain steam activated carbon. We recognized that the Commission stated it might address these issues in the final determination and that we now have three Commissioners who did not participate in the preliminary determination.

Nonetheless, the Commission did not seek information on chemically activated carbon in its questionnaires, reflecting the strong case for a bright line between chemically activated and certain activated carbons. We have the experts from the industry here today who can provide you with any technical information the Commission may need if it elects to revisit this issue.

I would also point out that Petitioners provided in Exhibit 2 of our postconference brief a summary table of the differences between steam activated carbon, chemically activated carbon and reactivated carbon, and the Commission may find this useful if it further considers this issue.

The Commission has, however, gathered additional information on reactivated carbon for the final determination. That information supports the decision the Commission made in the preliminary determination that there is a bright line between steam activated and reactivated carbons.

Like product is derived from the scope of the case. The statute at § 1677.10 defines a domestic like product as a product which is like or, in the absence of like, most similar in characteristics and uses with the articles subject to investigation under this title.

The articles subject to investigation as defined by the scope provided to the Commission by the Commerce Department includes only steam activated carbon and excludes both reactivated and chemically activated carbons. Thus, the domestic like product is the product that is like the imported steam activated carbons in the scope, and that product is steam activated carbon.

The Commission does have the discretion to expand the like product beyond the products covered in the scope, of course, through application of its six part test. Where an industry has defined the scope in a manner to provide relief only to that industry, the Commission has most often found scope and like product to be coextensive.

The Petitioners define the scope and the like product precisely in the way that mirrors their own production and marketing practices in the manner that the product is understood in the marketplace and in a way that mirrors what is being imported and causing material injury to the domestic industry.

There are essentially no imports of reactivated carbon from China. Reactivating carbon is simply the reprocessing of spent activated carbon so that the unwanted material trapped in the carbon structure by its initial use are removed, allowing the carbon to be reused.

While it is superficially tempting, as Respondents have done, to claim that once the carbon has been reactivated it has identical characteristics to the activated carbon that was its origin, such claims are not really accurate.

The reactivation process begins with spent activated carbon that already has a defined pore structure from the original activation and has been used to absorb certain impurities.

Thus, the raw materials used to produce reactivated carbon are different from those used to produce activated carbon. One starts with virgin coal. The other starts with a contaminated activated carbon, which often must be stored and handled specially because of the hazardous nature of the materials trapped in the carbon.

Even after reactivation there's a fear that impurities left in the remnants may contaminate the reactivated carbon, and for this reason activated carbon and reactivated carbons are not identical in the marketplace.

Consumers and producers do not treat steam activated carbons and reactivated carbons as identical or interchangeable unless the reactivation is being done for reuse by the same consumer. Such consumers reuse only their own spent carbon to ensure that other impurities are not introduced into the process.

Reactivated carbons are also used in some wastewater and other low end industrial applications where the source of the potential contamination of the carbon is not critical to the media being treated.

While activated carbon could be used in any application that permits the use of reactivated carbon, the reverse is not true. There are many applications, such as for drinking water treatment, that would never use reactivated carbon taken from a third party source.

In practice, customers specify whether they want activated carbon or they want reactivated carbon, and it's rare that the two would compete for the same application or customers.

For these applications, the primary driver of carbon choice is the price. Reactivated carbon is typically much less expensive to produce than activated carbon, so while a customer could use steam activated carbon in place of reactivated carbon it generally would not do so for practical purposes because of that difference in price.

As detailed on the record, reactivated and activated carbons are produced on different equipment. Both Petitioners produce certain activated carbon and reactivated carbon on different production lines. The reactivators that reported data to the Commission generally only reactivated carbon and do not have activation facilities.

Reactivation uses different equipment and has a different production process utilizing different raw materials than activated carbon, does not have to go through the raw material crushing, mixing with binders, forming in briquettes, crushing to size and baking steps, and reactivation itself is less complex, takes much less time and a different expertise and processing than activation.

Petitioners and the reactivators out there all treat reactivated carbon differently than activated carbon as one can see by looking at their sales materials on their websites. Any sales pitch or bid must state clearly whether the product is steam activated or reactivated.

No producer would market reactivated carbon as virgin activated carbon and no purchaser would treat them interchangeably, and for good reason. Would any person in this room want their drinking water treated with reactivated carbon that had previously been used in other applications to remove toxic substances like mercury or pesticides?

Could the reactivator ever process that product enough to make you comfortable under those conditions? Probably not, and the market behaves accordingly, treating virgin carbon and reactivated material differently.

In the majority of instances, reactivation is really just a service provided by an outside processor or performed internally by the consumer itself to permit the consumer to reuse his own spent activated carbon. It should not be treated as the production of a product like certain activated carbon.

Steam activated carbon and reactivated carbons are separate products that are produced from different materials in different facilities, sold in established different markets and priced differently. They are perceived differently by producers and consumers alike, and the Commission should treat them just as they did in the preliminary determination as separate products.

The Commission should continue to find a single like product that is coextensive with the scope of the petition and covers only steam activated carbon.

Thank you very much.

MR. HARTQUIST: Thank you, Alan.

Mr. Chairman, that completes our direct testimony, and we will be pleased to answer questions.

CHAIRMAN PEARSON: Okay. Well, I thank you very much. I would like to express my welcome to the panel and appreciation for your testimony. It is good to have you here. I know some of you have traveled to do that.

We will begin the questioning this morning with Commissioner Okun.

COMMISSIONER OKUN: Thank you, Mr. Chairman, and before I begin my questioning let me first take a moment to welcome Commissioner Pinkert to the Commission.

I look forward to working with Commissioner Pinkert, as well as Commissioner Williamson, in the years ahead and also would like to join the Chairman in extending our thanks to the panelists for being here today, for traveling, taking time from your business to be here and help us better understand the product and the market in which you operate.

Let me start, Mr. Thompson and Mr. O'Brien, with you, but if others from your companies are available to answer questions who want to jump in feel free as well, and that is just to help me better understand the product and the end uses and where the competition is with the Chinese.

As I understand in reading the staff report and the materials, we've talked about the waste treatment. We've talked about food and talked about filters as being end uses for certain steam activated carbon.

What we don't have in the staff report and we often have is a breakdown of how big a part is each of these areas of where the product goes. Is that something that you have a sense of that you could share with me here or provide posthearing if necessary?

Again, I'm kind of just looking for percentages of how much goes into the wastewater treatment, how much goes into filter and how much goes into food.

MR. O'BRIEN: I'm sure we can give you more detail in a posthearing brief.

In our business, probably 40 percent of our business is water treatment, perhaps an additional 30 percent could be in wastewater treatment and then the remaining 30 percent plus or minus is a wide variety of applications.

As you mentioned, food processing, corn syrup treatment, use in recovering gold at gold mines, just a wide variety of different applications that would make up the rest.

COMMISSIONER OKUN: Okay. Mr. Thompson, would that be similar?

MR. THOMPSON: Yes, we're very similar. We can provide that easily, I mean, in a graph form that shows you the major market segments.

COMMISSIONER OKUN: Okay. That would be helpful.

You had both talked about the competition from the Chinese, and obviously we do have the lost sales record that contains numerous lost sales that were confirmed primarily in the water treatment area.

Can you tell me? Is there any area where you're competing with your product where you do not yet see the Chinese either because of quality reasons or otherwise? You talked about them moving up the quality, gaining acceptance in the market. Has that also been in different end uses?

Mr. O'Brien?

MR. O'BRIEN: We basically see them almost everywhere. The only application where they do not participate is in some specialty respirator applications.

We have been fortunate enough for probably the last 60 years to make the activated carbon that goes in military gas masks for protecting troops from all types of hazardous chemicals, and that's proprietary and patented products we've developed in cooperation with the federal government so that's the only segment of our business now where we don't see the Chinese involved.

COMMISSIONER OKUN: And that segment represents what percentage?

MR. O'BRIEN: It's probably five to eight percent of our business.

COMMISSIONER OKUN: Okay. Mr. Thompson, anything you can add there?

MR. THOMPSON: We don't service the same gas mask applications, so for us that's not a factor.

We really see the Chinese across the board from water applications to gas applications, wastewater applications. There's not much where we wouldn't see them if it's a coal-based specification.

COMMISSIONER OKUN: Okay. You ended there with the coal-based specification, and I wanted to better understand the argument being made about the coconut-based steam activated carbon and that the nonsubjects essentially don't compete with the coal-based steam activated carbon.

Help me understand why that is. Again, at this point they're in the scope, so help me understand what the differences are of those products which are within the scope.

MR. THOMPSON: Primarily why coconut-based is not in direct competition with coal-based is because of the cost between the two different products, the coconut being higher priced. Higher cost, therefore higher priced.

There is limited interchangeability between the products so they do compete. You can use coconut with coal in some cases. In other cases with the pore structure that's different of the coal you'll specify coal.

If you have a choice, you're going to tend to go with coal because of the lower cost if you're a customer.

COMMISSIONER OKUN: Okay. But not in terms of its physical characteristics or how porous or hard? I'm trying to remember the terms that you used.

In terms of if you're looking at water treatment, you could use coconut-based if it weren't so expensive?

MR. THOMPSON: Yes.

COMMISSIONER OKUN: Okay. And just help me out. Mr. Luberda had talked about the like product determination in the preliminary and that we didn't include the chemically activated.

Help me understand the difference between coconut-based and chemically-based both being higher priced than coal-based, but could be used in the same applications if not for the price differential?

MR. RESTER: I'm Dennis Rester. I'll try to address that.

COMMISSIONER OKUN: Okay.

MR. RESTER: Maybe it would be beneficial at this point to just do a quick summary of the differences in the two processes.

COMMISSIONER OKUN: Sure. Go ahead.

MR. RESTER: A steam activated carbon made from bituminous coal and other types of coal, whether it be a lignite coal or a sub-bituminous coal or even other raw materials, is manufactured by a process in which we react the material at very high temperature, somewhere in the vicinity of say 900 or 1,000 degrees C, with steam to burn out an internal pore structure, so we're basically oxidizing carbon atoms out of a char and converting it into a gas, which then leaves the particle and leaves behind a pore structure.

In chemical activation we do that at a much lower temperature, usually in the 400 to 550 C range, and it's done with a chemical dehydrating agent. It usually is only used with a material that is mostly cellulose or has a very high content of a lignose cellulose like component because the dehydrating agent breaks down the chemical structure of the cellulose, removes water and leaves behind a pore structure.

So the processes are quite different, and the types of materials that are involved in types of raw materials are different. You're using a chemical dehydrating agent, and usually this dehydrating agent in terms of quantity that's used in the manufacture is greater than the quantity of raw material that you use, whether it be wood or a wood byproduct.

So you may have a situation to where there's 150 percent more dehydrating agent used than there is the wood raw material, and that makes that process much more expensive compared to steam activation of say bituminous coal.

COMMISSIONER OKUN: Right. I think I understand. It's helpful to hear. I mean, I understand what would drive the cost higher.

Now I guess I'm focused on what that means for your end uses in terms of what you can or can't use it in, if not for the price.

MR. RESTER: Okay. One of the second points is that this chemical activation process, because of the nature of the way it works, make a dramatically different internal pore structure in the activated carbon particle.

The average pore size is much larger, which makes a chemically activated carbon very good at removing large molecular weight impurities from a liquid, for example, so it is a great carbon for decolorizing because of its pore structure. It has a pore structure that you in many cases can't duplicate by the steam activation process.

COMMISSIONER OKUN: Right. So that would be why it's in the automobile sector?

MR. RESTER: Right.

COMMISSIONER OKUN: I understand that. That was one of the distinguishing characteristics.

For steam activated coconut then its pore structure would be the same as the pore structure of the coal-based steam activated?

MR. RESTER: Steam activated coconut carbons. The process is similar to a steam activation of bituminous coal, but because of the nature of the raw material in general the pore structure is a little bit less developed in that the total volume or porosity is usually a little bit smaller than a steam activated bituminous coal, and the average pore size is also smaller than most bituminous coal-based carbons so it finds a lot of applications where you're removing very small size impurities.

So there are some markets where perhaps a coconut carbon and a coal-based carbon could be used interchangeably, but there are also quite a number of markets where they can't.

COMMISSIONER OKUN: Okay. Thank you, Mr. Rester, for all that. My red light has come on. If I have other questions, I'll come back to them in my next round. Thank you.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: Thank you. I, too, welcome the panel to help us understand this product.

A follow-up to Commissioner Okun. Are there certain customers because of the use that they have to use the coconut-based activated carbon and that's the reason that they're willing to pay a higher price?

MR. O'BRIEN: Let me answer that. There are probably two major markets for coconut carbon, and because of both the pore structure internally and some of the other properties such as hardness coconut carbon is a very good fit for those markets.

Thus, in those markets they are willing to pay the larger price, and those markets are in cigarette filters. A lot of cigarette products are made in the United States. Most of them end up being exported outside of the United States, but that's a very big market for coconut carbon.

The fine pore structure allows it to absorb some of the components of the smoke and make the cigarette taste better, I guess. I'm not a smoker myself, but that's what it's used for.

The other market I mentioned is gold recovery. A lot of gold mines worldwide use activated carbon. They grind the rock that contains the ore, pulverize it, put it into a slurry with chemicals that extract the gold from the ore. Those chemicals become absorbed on the coconut carbon. The coconut carbon is filtered out and then the gold is recovered through a stripping process.

They use coconut carbon in those applications because it tends to be very hard and also doesn't break off. If you break any of the coconut carbon it takes some gold with it, which costs money to the mine.

Those are by far the two biggest applications for coconut carbon that make up the bulk of the sales of coconut carbon. Because of those properties, they are 100 percent coconut carbon used in the United States. There's no coal-based carbons used in those two markets.

COMMISSIONER LANE: If you had an application that you could use coconut-based or coal-based and the coconut-based is more expensive, do you use less coconut-based than a comparable amount of coal-based?

MR. O'BRIEN: I think the answer to that would most likely be no. I mean, customers are going to make decisions on what's their best value, and if we were having a discussion with a customer and they were trying to evaluate what would be the best product for their application -- would it be coal or coconut -- we would try and take those factors into consideration.

Again, except for some of those specific markets where coconut really performs better, in many other applications it's actually a worse performer so the higher price combined with worse performance would mean it's not a product that's going to be used, and that's why coconut tends to be used in specialty applications like the ones I mentioned.

COMMISSIONER LANE: Okay. Thank you.

With regard to your raw material costs, are you generally in the spot market for coal or do you have long-term contracts or a mixed supply portfolio?

MR. O'BRIEN: We try to have a longer term outlook. We have various lengths of contracts for coal that we could share in a follow-up brief, but we try to have long-term purchases for coal.

COMMISSIONER LANE: Mr. Thompson?

MR. THOMPSON: We have established long-term contracts and at the same time have contracts which are one to two years in duration in addition to long-term, so it's kind of a combination. We're never really on a spot market basis.

MR. O'BRIEN: If I could make one more comment? Even the long-term contracts though in today's market, the coal manufacturers are asking for escalator clauses and the ability to raise their price depending on market conditions so you're not able to get a fixed contract for a long term, a fixed price contract.

COMMISSIONER LANE: Mr. Thompson, do you have more long-term contracts than one to two year contracts or vice versa?

MR. THOMPSON: In terms of volume, it would be roughly 60 percent long-term, 40 percent shorter term.

COMMISSIONER LANE: Okay. Thank you.

Okay. Coal prices, particularly spot market prices, have been consistently high since mid 2004. However, there was a significant drop in coal prices in the last quarter of 2006.

Have you seen that drop in coal prices since

September 2006, and do you believe the lower coal price levels are likely to remain at current levels or drop even further?

MR. THOMPSON: I'll be happy to answer that. After the period that we've gone through, sometimes predicting future markets such as energy are very difficult.

We have not seen the drop in coal prices because I think, and you can ask Calgon the same thing, we're both in a situation where our coal is a very specialized type of coal. It's not just a generic utility coal.

So we have not seen that drop. We do not anticipate seeing that drop in 2007. Beyond that, I honestly don't know what direction the coal market is going to go.

COMMISSIONER LANE: Mr. O'Brien?

MR. O'BRIEN: We have not yet seen a drop. We certainly are looking for one. We have people contacting various coal mines consistently throughout the United States.

We're certainly trying to make that happen to improve our business performance, but we have not seen it yet.

COMMISSIONER LANE: Okay. Could each of you tell me what percentage of your total cost of goods sold relates to coal?

MR. O'BRIEN: We can certainly. We'd prefer to submit that in a postmeeting brief.

COMMISSIONER LANE: Okay. Thank you.

Mr. Thompson, the same for you?

MR. THOMPSON: Yes. We'll put that in our brief.

COMMISSIONER LANE: Okay. Thank you.

On page Roman numeral II-2 and on Table Roman numeral II-1 of the public hearing report it is noted that a large percentage of certain activated carbon was sold to end users. It is suggested that sales to distributors are often made at a lower price than sales to end users.

Do you agree? If so, what is the level of discount that you would expect on sales to distributors as compared to sales to end users?

MR. THOMPSON: Yes. In general there's a discount that's applied to distributors. I'd prefer that to put that in our brief.

However, we utilize distributors for smaller customer applications where distributors can add a value to that customer, such as stocking of the material and quick deliveries of materials that aren't typically readily available.

Those type of customers tend to have a higher price than the larger customers, so while the distributor gets a discount for us our distributor strategy is actually a higher priced side of our business.

COMMISSIONER LANE: Mr. O'Brien?

MR. O'BRIEN: I think I'd concur with Mr. Thompson. We sell to distributors at a slightly lower price than we would sell to an end user, but they are taking away a lot of our cost of operations.

Instead of us shipping a whole bunch of small orders and having the cost associated with that, we try to ship in truckload quantities to distributors so they get a better price, but they also lower our overall operating cost so it works out well for both of us.

COMMISSIONER LANE: Okay. Thank you.

Mr. Chairman, I'll wait until my next round. Thank you.

CHAIRMAN PEARSON: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Williamson. I, too, would like to welcome Commissioner Pinkert and also would like to express my appreciation to the people presenting to us this morning.

I think you've indicated that I guess about 30 percent of your customers, 30 to 40 percent are utilities. I'm sorry. The majority of your customers are municipalities that use for water purification, and I guess 20 percent is other purposes.

I was wondering. Are there any changes in these trends in the future? Is this a stable pattern of utilization, or is it likely to change over the future?

MR. O'BRIEN: I don't see any significant changes coming in the short term.

We can perhaps look at trends. Is the public trying to demand of water plants that they continue to improve the quality of water that they supply? You know, they do have some impact on water companies looking to both improve the taste of the water that they supply and also making sure there are no harmful chemicals in the water supply.

That's been the trend that's probably been in the United States for the last 25 years or so. I think we're expecting the perhaps slow, steady growth in the municipal water treatment market, but no real big shift or change.

Again, that probably makes up about 40

percent of our business from potable water treatment at municipalities.

COMMISSIONER WILLIAMSON: Actually I guess it was 30 or 40 percent was what, for wastewater?

MR. O'BRIEN: Yes. Forty percent was water, 30 percent perhaps wastewater treatment and then the rest miscellaneous applications.

MR. THOMPSON: Yes. Much the same, we don't anticipate a significant change other than the continued growth from improving the drinking water specifications.

You know, our business tends to be driven heavily off regulations with the purification. Most companies or municipalities for that fact don't try to improve unless there's a regulation so it tends to be driven off improving water standards.

COMMISSIONER WILLIAMSON: Mr. O'Brien, you indicated I think there's something like 700 employees working for Calgon in the U.S., and about 200 of them are involved in making the CAC. I was wondering. What do the rest of them do?

MR. O'BRIEN: Well, probably the rest of them support those 247 who are making the activated carbon. The 247 are actually the people that are at the plants manufacturing the carbon.

It does not include the personnel at our plants that do reactivation and impregnation. We have plants in Pittsburgh, Pennsylvania, and a plant in Columbus, Ohio, so it doesn't include those manufacturing facilities. The number doesn't include the support, sales, engineering, marketing, R&D.

We also have a couple other businesses that are not directly involved with activated carbon. We manufacture ultraviolet light equipment for disinfecting water. That's the biggest other one. The 247 would not include those.

COMMISSIONER WILLIAMSON: Thank you. I would like some clarification on the forms of CAC that comes into the United States.

I think there's an indication that 20 percent of the imported CAC is in pelletized form. To what extent does pelletized form compete with the domestic production, which I guess is primarily granular and powdered, and so I wondered what the relation there is?

MR. O'BRIEN: You want me to take that? Basically there are three forms that product is imported. It could be powdered, as you mentioned, it could be granular, and it could be pellet, pelletized.

The pellets and the large mesh granular

basically compete directly against each other, so pellets that come into the United States would be competing against large mesh granular material that we could make.

In applications, large mesh carbons and pelletized carbons are used for purifying air perhaps in an air pollution application, and the larger mesh reduces the pressure drop or the amount of power you have to use to push the air through the bed of activated carbon so it's a direct competitor.

We used to make pellet activated carbon in the United States at a plant in Pittsburgh and were forced to close that facility outside of the period of investigation, but in the 1990s. We were forced to close our operations due to pricing pressure from the Chinese.

So we no longer manufacture pellet carbon in the United States, and those applications which benefit from having a pelletized carbon we now import that product from China.

COMMISSIONER WILLIAMSON: Mr. Thompson, anything you want to add?

MR. THOMPSON: I really have nothing to add to that. Much like Calgon, we do not make pelletized carbons in the United States in the exact same applications that Bob just spoke to.

COMMISSIONER WILLIAMSON: What percentage of the domestic consumption uses pelletized versus the granular or powdered?

MR. O'BRIEN: I don't have the facts right in front of me. Perhaps it's 50 percent powdered and 50 percent granular. We'll need to really get you those facts, I think, in a brief. Let me just take a minute so that you understand.

Powdered carbon tends to be used perhaps, and I'll give an example, in water treatment where a water plant is interested in removing taste and odor compounds from water, but they are not present all of the time. There may be only certain times during the year when -- let's say they are getting their water from a lake where there may be algae forming that creates taste and odor.

At that time, using powdered carbon, a water plant would dose powdered carbon into the raw water as it's coming into the plant. It would allow time for the powdered carbon and the water to contact, and thus the powdered carbon would adsorb, hopefully, the materials that cause taste and odor. As it's going through the processing plant, it would settle out, fall out of the bottom of a clarifier, and then the powdered carbon would be taken to disposal, and the water would be purified.

So powdered carbon tends to be used many times where there is an intermittent problem or when there is a batch application. If you're a chemical company, perhaps like a pharmaceutical company, and you're not in continuous operation, but once a week you're making Product A that needs to be processed, needs to be purified.

Then you may use activated carbon to have a tank of Product A, and you throw some powdered carbon in, and you mix it. You give it time for the activated carbon to remove the contaminant, and then you allow the powdered carbon to settle, and take it off the bottom and send it to disposal.

Powdered carbon, because of its nature, being very, very fine, is not reactivated. It's used in the process, whether it's water treatment or chemical treatment, and then it's disposed of.

Granular material is normally put in a tank -- a small tank, big tank -- and, in the liquid phase, the water is actually usually pumped down through, if it's a water application, and the material sits in the tank, the water is pumped down through. There are screens in the bottom that keep the carbon in the tank, and the water would pass through and then out, being purified.

Then, depending on the level of contamination in the water, the carbon could last six months, a year, two years, three years. When it's finally exhausted, when it's adsorbed all of the contaminants that it could hold, then it needs to be taken out and replaced.

So powdered carbon is a batch or a sporadic application usually, and activated granular is usually a material that's online constantly.

COMMISSIONER WILLIAMSON: Thank you. That's all for now.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: Thank you, Mr. Chairman. First of all, I would like to thank my colleagues, the commissioners, for welcoming me here as a commissioner and also to the panelists for traveling here today and for presenting the testimony.

I realize that some of my questions are going to get into business-proprietary information, and, to the extent that you can discuss these matters publicly, that would be great, but, otherwise, if you can answer with a post-hearing submission, that would be great, too.

Now, I understand that the injury that is being claimed here is based on a cost-price squeeze. Is that correct, Mr. Thompson?

MR. THOMPSON: Yes. The prices have either been maintained or even lowered in many cases, and, as the record shows, our costs have clearly increased substantially during this period.

COMMISSIONER PINKERT: Mr. O'Brien?

MR. O'BRIEN: That would be the same for us, yes.

COMMISSIONER PINKERT: When did the deterioration in the company's financial performance end? I'm thinking of this 2006 discussion. Is there a point in time that you can fix on where the deterioration ends, Mr. Thompson?

MR. THOMPSON: If I understand your question, at what point does the injury end?

COMMISSIONER PINKERT: Well, the deterioration of the company's financials, which, I think, is the data point that we're looking at here.

MR. THOMPSON: We started to see a turnaround in the marketplace after, one, the case was filed initially and then, two, a substantial improvement once the preliminary duties were established. And then, as I testified, we even won back some accounts because Chinese importers no longer bid.

So, throughout the year, we started to see an improvement. When you say, when did our deterioration end, I don't think it is completely ended. We still have a considerable ways to go to the point where we're back to where we should be.

COMMISSIONER PINKERT: Mr. O'Brien?

MR. O'BRIEN: We've seen declining prices in the market for many years, even outside the period of investigation. We just, in the latter half of 2006, began to see improvement in our performance.

As I mentioned in my testimony, it hasn't completely gotten down to the bottom line in our 2006 financial results, but we certainly are seeing light at the end of the tunnel, and we are being able to go back to customers and start to raise prices.

So we're believing that we're turning the corner, and, in 2007, we will show significant improvements in our results. But we're just basically at the bottom now, just starting to turn around.

COMMISSIONER PINKERT: Okay. So let me see if I understand 2006. There is some improvement during that period for both companies. Is that correct?

MR. THOMPSON: I can speak for myself. Yes, we started to see improvement in 2006.

MR. O'BRIEN: Our financial results will show just slight-to-modest improvement in 2006.

COMMISSIONER PINKERT: And is it your testimony that the improvement, and, again, to the extent that you can state this publicly, that the improvement is the result of price increases, or is it some other aspect of the equation that we're looking at here?

MR. THOMPSON: In our case, there is absolutely no question, and I think our record will state that out, if you look at it carefully, that it is price.

MR. O'BRIEN: In our case, certainly, it's price.

COMMISSIONER PINKERT: Okay. Now, can you discuss, either publicly now or confidentially in your post-hearing brief, whether the financial returns shown in the staff report differ markedly from the average operating margins and return on investment that you experienced in the three years prior to the current period of investigation?

MR. THOMPSON: We'll be happy to put that in the brief for you.

MR. O'BRIEN: We'll submit that also in the post-hearing brief.

COMMISSIONER PINKERT: Now, could each of you also explain why domestic activated carbon producers need to run at high capacity levels?

MR. THOMPSON: We're a very high, fixed-cost business. With the assets that we have in place, both in terms of plant property and equipment, we're not really that much different than any other very heavy manufacturer. So, for us, the ability to run at full capacity is critical to spread out fixed costs and also the efficiency on some of what we even call variable cost components.

So to be the most cost effective and efficient that we can be, you must run a plant at near capacity.

MR. O'BRIEN: One thing I'll add is the equipment that's used to make activated carbon, I think, as Dennis mentioned, is very high-temperature equipment. He gave it in Centigrade. I still think in Fahrenheit. It's 1,800 degrees Fahrenheit in our activators, and bakers are about 1,000 degrees Fahrenheit, and this is not equipment that you could say, "I don't have the orders, so I'm going to shut down for the weekend." You have to keep the equipment hot, you have to keep it running, or you end up with significant maintenance problems.

So once you turn a line on, you can't say, "I'm only at 70 percent of capacity, so I'll operate it four days a week, and I'll be down three days a week." You can't do that. It takes a week to cool a furnace down and a week to heat it back up so that you don't cause harm to the refractory brick inside the furnace.

So once you go online, you'll want to stay online as long as possible. So it's not a piece of equipment that can be operated in an off-and-on-type mode.

MR. THOMPSON: We're exactly the same. So up and down with kilns is the worst thing we can experience.

COMMISSIONER PINKERT: Turning to another issue, Respondent Importer Cherishmet, Inc., states in its brief that, until recently, NORIT marketed and sold both steam and chemically activated carbon with little or no distinction. I would like to get a reaction from NORIT to that statement.

MR. THOMPSON: Let me restate what you said to make sure I have it clear. We marketed, until recently?

COMMISSIONER PINKERT: It says: "Until recently, NORIT marketed and sold both steam and chemically activated carbon with little or no distinction."

MR. THOMPSON: That's absolutely false. We distinguish chemically activated from steam activated. If you go on our Web site, it will tell you whether it's chemically or steam activated. We sell based on performance, is maybe where they are confusing that statement, particularly in our European operations, where our chemically activated is produced today. We sell based on the performance of those products, but it's definitely sold as different products.

COMMISSIONER PINKERT: And I realize that that statement related to NORIT, but I would like to get your reaction to that statement, Mr. O'Brien, just as a general matter for the industry.

MR. O'BRIEN: I think, as Mr. Luberda commented, we have never produced chemically activated carbon as Calgon, and we've always viewed them as very distinct products with generally distinct uses, and chemically activated carbon, by and large, in the United States is used in the auto industry in the canisters that fit into your automobile that prevent the gasoline vapors from escaping.

So we view them generally as very distinct. I would have no reason to believe that they have been promoted in the United States by NORIT or anyone else any differently than distinct products.

COMMISSIONER PINKERT: Thank you. That's all I have, Mr. Chairman, at this time.

CHAIRMAN PEARSON: Okay. I would say, not a bad effort, Commissioner Pinkert, given that you've had access to the confidential record for only about 24 hours. I don't know whether you got any sleep last night. You spent much of yesterday partying to celebrate the fact that you're here.

Let me follow up on some of the points raised by Commissioner Pinkert. How many days per year are these plants normally down for maintenance? Mr. O'Brien?

MR. O'BRIEN: It may vary a little, but probably somewhere around three weeks a year.

CHAIRMAN PEARSON: Okay. That would be the same in the case of Calgon.

MR. THOMPSON: In NORIT's case. Yes, very similar, and it varies, depending on the work that's required for our operations. It can vary from about 15 or 16 days up to as much as, say, six or seven weeks for a major rebuild that occurs every five or six years.

CHAIRMAN PEARSON: These are scheduled in advance, if at all possible, I would guess, and you're tying up a week to cool things down and a week to warm things up and then some days in between to actually go in and do the work.

MR. O'BRIEN: Right. Besides the furnaces, there is a lot of ancillary equipment: pumps, valves, and things like that. So while the activators are cooling, from a maintenance standpoint, you're trying to do everything else. Once the activator is cool enough for people to go in, then whatever maintenance might be necessary inside the furnace, you're doing that then at that time.

CHAIRMAN PEARSON: Mr. Thompson?

MR. THOMPSON: Same exact thing. As it's cooling up or heating down, there is other work that's going on, so it's not unproductive time for those outages.

CHAIRMAN PEARSON: Do you try to schedule the down time at a period of the year when you expect demand to be somewhat slack, or doesn't demand work that way in this marketplace?

MR. O'BRIEN: We wish we could. We wish we could time it. We wish we could time it so that we would have an opportunity to perhaps make sure we had the right amount of carbon in inventory and the right product and the right package to be able to satisfy our customer needs as a furnace is down.

Now, we have three production lines, so we obviously would schedule them so all three are not down at the same time. So we're trying to minimize the effect that taking one of the furnaces down would have on our operations, but it does put a strain when you take a system out of line or offline.

CHAIRMAN PEARSON: So, in an average year, these plants might be running 330, 340 days, something like that.

MR. O'BRIEN: Correct.

CHAIRMAN PEARSON: Is it necessary to take a shutdown every year, or could you stretch it 18 months or two years, if market conditions and the engineers will allow?

MR. O'BRIEN: I think it depends, whether you're asking the sales people or the manufacturing people, to that question. I would rather give you that in a follow-up brief.

CHAIRMAN PEARSON: That would be fine.

MR. THOMPSON: I don't view that as confidential, but can they be stretched? At times, yes, but it comes down to how the equipment is running and the condition and everything that we see. We don't take down equipment unnecessarily because it's obviously at a high cost.

So there are periods where, yeah, we've gone 18 months without a turnaround.

MR. O'BRIEN: I'll make one more comment. The longer you push between turnarounds, the more risk you are taking that the furnace may go down on its own in an unplanned state, and then you have to try and scramble to get the resources and the equipment necessary to do the maintenance.

So, as a manufacturing company pushes the length of time between turnarounds, they take a risk that they will end up going down at the wrong time, not having it well planned, and thus, instead of being down for three weeks, have to be down for four weeks or longer as they try and scramble to get the resources necessary to do the repair.

CHAIRMAN PEARSON: If there is that type of unplanned need to shut down, that would be due generally some mechanical issue: a problem with a pump, a problem with a bearing.

MR. O'BRIEN: It would have to be. It would most likely be something with one of the major pieces of equipment, such as the activators, which are the high-temperature devices, or the bakers. The smaller things, like bearings and all of that; they probably could be handled very quickly. But if the bricks fall out of your furnace, or half of them fall out, now you have a problem.

CHAIRMAN PEARSON: I can believe that. Do you have any standby electrical power? For instance, if you lose electricity, does the process cease?

MR. O'BRIEN: We have standby diesel generators.

CHAIRMAN PEARSON: Is that the same for any plant like this?

MR. THOMPSON: We actually generate our own electricity based on utilizing waste heat at one of our facilities, so it doesn't matter if the utility shuts down or not; we still are making our own power, and, at our other facility, we have plans to do the same thing.

CHAIRMAN PEARSON: Okay. Good. That gives me a better sense of kind of the case that you've made that you've got to run these plants full tilt. It sounds to me like it's very expensive to take them down, and one does it only when necessary.

Also going back to an issue that

Commissioner Pinkert raised, I have the impression that your industry has been adjusting to competition from Chinese imports for some number of years, probably going back prior to the period of investigation. I think, Mr. O'Brien, in your statement, you indicated that the Chinese product was established in all relevant segments of the U.S. market prior to the POI.

I think you also stated that your firm had cut back production in 2002 by closing a line, which would have been prior to the period of investigation.

So did injury occur prior to the record that we have in front of us?

MR. O'BRIEN: I don't know the official definition of "injury."

CHAIRMAN PEARSON: We don't know either. We have to determine it every time we come down here to vote, you know. Is it injury that's not immaterial?

MR. O'BRIEN: Our profits have been declining since the Chinese first began to enter the market in the early nineties, and we remained profitable through most of the nineties, as we were doing some of the operations that we had mentioned, doing things to reduce costs in our own manufacturing, looking to import products where we made the decision we couldn't compete with the Chinese in certain product lines or in certain categories, and we would have to import those products, and, as a result, then we shut down capacity.

So we've been fighting against Chinese imports since 1991. It declined every year. In the last three years, it's gotten to the point where, for at least some of those years, we were in a loss position.

So certainly in our definition, we are in an injured state, but it took a number of years to get there as we tried to defend ourselves, but we finally are losing the battle, and that's why we're here today.

CHAIRMAN PEARSON: Anything to add, Mr. Thompson?

MR. THOMPSON: We have been fighting this around the world since about '96. If you go and look at our European operations, you'll find where there are duties in place against the Chinese activated carbon for a much similar thing as what's happened in the United States.

So, yes, it's been a process of getting to where we're at. As put on testimony here, we definitely view that we were at a crossroads of whether we continued manufacturing in the United States, and we decided that this was the better route than closing our doors.

In Europe, the antidumping case that's in place there gave a measure of relief to the industry and allowed NORIT to compete very effectively. So we believe this was the right approach, and it took some time to convince and get the industry put together to approach it.

CHAIRMAN PEARSON: Okay. Well, I may come back to this issue. Oh, a quick comment? My light is changing but please proceed.

MR. WRUBLE: I'm Tim Wruble with NORIT. I just wanted to clarify something on that. Yes, we've been injured by the Chinese imports for a number of years. It really started escalating in probably '99 or so, and during the first several years, we made a number of changes to improve our efficiency, to keep our costs down.

However, it's really escalated during the period of investigation, at which time the imports increased even more and at the same time that we had made all of the changes. As Mr. Thompson and Mr. O'Brien said in their opening statements, that, at that point, we had already made all of the changes that we felt we could and still have a viable business. And then, on top of that, then the cost increases, which have really escalated more in the last three years or so, on top of everything else, put us in the situation that we're in now.

CHAIRMAN PEARSON: Thank you very much.

Vice Chairman Aranoff?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman. I join all of my colleagues in welcoming the witnesses here this morning.

I want to start, and some of my colleagues have touched on this, but I want to go into more detail: I'm puzzled by exactly how to weigh the full year 2006 data that we have on the record in this case. We have an original and earlier petition that was filed in, I believe, January of '06; the current petition, which was filed in March, I think. Preliminary duties didn't go into effect until closer to the end of the year, October.

Both Mr. Hartquist and Mr. O'Brien stated in your direct testimony that the industry didn't really begin to feel any relief until the preliminary duties were imposed, so then we're only looking at about maybe two months of the year.

When we have part-year data in an instance like this, we will sometimes say we're going to give very little weight to the most recent data because it's affected by the pendency of the investigation. How much of 2006 is affected by the pendency of the investigation, and how should I be weighing that data?

MR. HARTQUIST: Let me start, if I may. As Mr. Thompson has indicated, they started to see some modest improvements in the marketplace when the case was filed because of anticipated decisions that were going to be made and, I think, a judgment by the Chinese as to the strength of the case, the likelihood of succeeding in the case.

But, really, I think the major turning point, both Mr. O'Brien and Mr. Thompson would agree, was the preliminary decision with the very significant margins that were determined by the Department of Commerce.

So, in terms of weighing that, Madam Vice Chairman, I think it's appropriate for the Commission to take this into consideration, that the case appears to be working as one would hope an antidumping case would work in the marketplace, but I certainly agree with you, it's a short period of time to look at, just a couple of months, and whether that will continue in the future remains to be seen as we go through the first quarter of 2007, whether business continues to improve and pricing levels hold, anticipating the decision that you will make very soon.

MR. HUDGENS: Can I make one comment? I think it's important for you to understand that we are still arguing that the industry is injured in 2006. The turnaround has been very modest, but we think that the turnaround does show a causal relationship between the import trends and the pricing trends that you collected in 2006 with the industry's financial condition.

VICE CHAIRMAN ARANOFF: Mr. Hudgens, I think you've hit it on the head there, is that if you take a look at the Lined Paper decision, you'll see that the Commission, now in its era under the Bratsk decision, is looking at the most recent data to look at two different things, one being if there has been any improvement in the most recent period, is that due to the pendency of the investigation and, therefore, should not weigh against finding present material injury, and, on the other hand, does it show improvement since the filing of the case, which goes to the Bratsk replacement benefit test because it's evidence of some benefit?

The Commission looked at both of those

things in Lined Paper, so I'm trying to figure out how to do both of those things here.

Let me just make a few follow-up requests. The first is, maybe you can help me in your post-hearing brief, for example, by going through your bid data for 2006, because that's the place where we separate by date, and seeing if there is anything there that can demonstrate to me improvements that date to October, since that seems to be the date that you all are pointing to as when things maybe started to turn around.

Second, sometimes people tell us that the improvement due to the case goes back further because everybody in the industry knew that the case was pending, and that had a certain effect on the market. If there is any evidence of that that's demonstrated through articles in applicable trade press or something else that shows that people were thinking about this as they priced or purchased product in the market during 2006, I would ask if you could submit those as well.

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

VICE CHAIRMAN ARANOFF: Thank you very much.

From that, I guess maybe it's logical to turn to some questions about how the bidding process works.

First, I guess I wanted to understand -- I know that the municipal water treatment contracts for drinking water; those are done through a big process. Are all of your sales done through a bid process, or do some of your industrial customers purchase a different way?

MR. O'BRIEN: It's basically just the municipal market that goes through bids. Industrial customers will obviously hold their own auction, but it's not public. They will contact ourselves. They may contact NORIT, contact the Chinese exporters, and explain what they want, and then take pricing for us all and make a decision, but it's then, obviously, not open for others to see. So it's just the municipal water and wastewater industry where it's bid.

VICE CHAIRMAN ARANOFF: So it's both the municipal drinking water and the wastewater, so you're already talking about 70 percent of the market, based on your estimation.

MR. O'BRIEN: No, no. The wastewater treatment, for us, is almost all industrial. There is not that much business for us. That's municipal wastewater. So our municipal business is around 40 percent.

VICE CHAIRMAN ARANOFF: Okay. So when you're bidding -- my understanding is that municipalities, when they solicit bids, they do it on an annual cycle or maybe even a longer cycle. Is that correct?

MR. O'BRIEN: Many of the carbons, granular carbons, that are used in drinking water are used to remove taste and odors from the water, and it would not be atypical to see the carbon last three to four years in those applications. So we may see a customer bidding every three or four years to replace the carbon in their plants.

Some of them may stagger it, and they may bid every year, but it would be somewhere between one year and three and four years that an existing user would be bidding to replace their carbon.

VICE CHAIRMAN ARANOFF: Okay. Is there a particular time of year, is there a season, for buying activated carbon for drinking water applications, or do you just have different municipalities soliciting bids at all different times of the year?

MR. O'BRIEN: I'll answer for the use of granular, which may be a little different from NORIT that's supplying powder. Our customers bid through all the year. The one thing they try to avoid is changing the carbon out in, like, July or August, when they are at peak demand for watering the lawns and the like.

So when they replace activated carbon, physically you have to take the carbon out of the filter, whether it's a tank or it's a big gravity filter, and then replace it. So it takes time. They try not to be offline during those two-month periods.

So with the exception of those two months, it can go on all year long. Spring and fall are probably the biggest times for changing, but they could bid at any time. Often, some municipalities will bid five, six, seven months ahead of when they actually want to take the product. So we're bidding carbon now that may not be delivered until September, October.

VICE CHAIRMAN ARANOFF: Okay. Mr. Thompson, did you want to add anything?

MR. THOMPSON: Yes. In the powder market, you tend to see a heavier period of bids from, say, September through late November, but they do continue all year long. They tend to be one year in duration. They can be longer, but typically it's one year. And then the granular is just like what Bob said. They may be every two, three, four years when they buy carbon, and, again, the bidding process continues all across the year.

VICE CHAIRMAN ARANOFF: Okay. When you are involved in a bidding process, these are all public, so how many bidders is it typical to bid against when you're dealing with a municipal contract?

MR. THOMPSON: It varies. One of the things, I review every bid that we do. There can be bids where, just like we've seen on a few bids, where nobody else bids against you, and then there can be seven or eight importers plus Calgon that we're competing against. So it varies, depending on the municipality, the volume, the location.

VICE CHAIRMAN ARANOFF: Okay. Mr. O'Brien, did you want to add anything?

MR. O'BRIEN: It would vary, depending on the project, but four to five bidders probably would be the average.

VICE CHAIRMAN ARANOFF: Okay. All right. I have more questions about bids, but my time is up, so I'll come back to it in my next round. Thank you very much.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you, Mr. Chairman, and, again, I appreciate all of the answers you've given so far. It's been very helpful to hear your testimony. Just some follow-ups to the Vice Chairman's questions with regard to '06 and the request of what was going on because it was, I thought, significant. Mr. Thompson, you had talked about regained bids, and to the extent that there is a timeline associated with when you're able to do that, I think it would be helpful to see in post-hearing.

You had submitted in the brief Exhibit 1, which includes, Mr. Hudgens, the monthly import data, and, again, these are overinclusive categories of the HTS, but just in terms of trends, just to help us understand because, again, if we look at the '06 data, two of the biggest months for Chinese imports occurred during the period of investigation, but then we do see the large dropoff after the duties are imposed.

So I think having you, in post-hearing, go through when the companies see the impact on their bottom line, including on their pricing, and how we should treat the full-year data versus partial-year data, I think, is going to be helpful.

A question on that as well, which is, the other interesting thing about the '06 data is that the nonsubjects also drop off in '06. Now, we've talked about, in earlier questions, about the different end uses for coconut-based versus coal-based activated carbon.

Is there anything that you know, from the press or otherwise, that would help explain why nonsubjects not only don't replace subject imports when they go out of the market, but that they also dropped down in '06? I'll come back, while you're looking at that, Mr. Hudgens, I have you have a response on that, or if they can help. It could be, since you're not, as you've testified, in the same markets, you may not know, but it is interesting to me that maybe they have different demand-based projections. I'm not sure. I'll come back to that.

Mr. Thompson, you had referenced the '96 EU dumping order, and we have multinational companies here. One thing I was curious about that, and, obviously, we're not bound by it, but you used orders, but the scope is different than our scope. That scope, as I understand it, included both chemically activated as well as steam activated. It covered powdered, but it didn't cover granular.

I wondered if there was anything about the market in Europe that you can help us understand why that then led to recovery for your company, as you described it over there, versus what we have here, which is a much different scope.

MR. THOMPSON: Primarily, the reason behind that is that NORIT and counterparts in the industry that filed that case tend to be more powder companies than granular. Now, there are different laws in place, you know, between the EU and here. You can import, for example, granular carbons and then mill them and process them and avoid the case as well.

You had an influx of the Chinese powder that was occurring at substantially low prices. The duty went into place and allowed NORIT and another counterpart in France to keep their piece because a lot of it was in terms of chemical activation, as well as powdered steam. But there, they chose to break it separately straight just because of the company basis that was in place in Europe.

COMMISSIONER OKUN: Okay. All right. Mr. Hudgens, is there anything you could comment now about nonsubject demand, or will you do that post-hearing?

MR. HUDGENS: Not at this point, but we'll explore that further and provide a response in the post.

COMMISSIONER OKUN: Okay. I appreciate you doing that.

I don't know if this goes to you, Mr.

Hartquist, but I also would like the producers to comment on, which is this is a case where there are a lot of confirmed lost sales. We don't always have a record like this to look at.

I wanted you to help me understand how to put that in perspective in terms of how many bids are out there; in other words, the significance of the lost sales here, in a market where, as I've heard it described, at least for the water treatment, there are a lot of bids out there, if I understand it correctly. So help me just understand the significance of these lost bids, and when you're able to regain a bid, is that common if you're competing against U.S. competitors, as well as against foreign competitors?

I'll start with you, Mr. Thompson, and then ask Mr. O'Brien to comment as well.

MR. THOMPSON: What I stated was that, in 2005, we had lost, and the record shows, 15 major municipal accounts. Just to give you kind of a general average, we would average, say, two to 250 bids per year. So 15 is significant.

COMMISSIONER OKUN: Okay. Then, as you've described it, I guess we'll see more. Then, in '06, you regained nine of those bids. Can you comment on whether that happened after the duties were put in place, or would you prefer to do that --

MR. THOMPSON: Those bids, I can give you the details. Some of those occurred after the duties were in place, and some of them occurred once the case was filed.

COMMISSIONER OKUN: Okay. That would be great. Mr. O'Brien?

MR. O'BRIEN: I don't have, and didn't state specifically, the number of customers that we regained, but a given municipality an amount of carbon that is equal to one percent of our production. So if we would perhaps win back five or 10 bids, it could be a substantial amount of our production.

One thing, just to make sure everyone is clear, again, we may win a bid in February but not deliver the product until October. So, to make sure we're all on the same basis, we might be saying, I'm having success because I've seen perhaps the ability to win a bid at a higher price, but it's not going to show in our financial results in the first quarter because the product will actually not be shipped until much later in the year, and it's very likely that any bids that we would have won since October, when the preliminary tariffs were established, we probably have not yet delivered.

Over the last three months and first month of 2007, in the municipal market, we're shipping carbon that was probably bid early in 2006 or mid-2006. So there is a little bit of lag between the bidding process and what you might see in a company's financial results.

COMMISSIONER OKUN: Mr. Hudgens?

MR. HUDGENS: I just might add, if you compare the value of the lost sales that were confirmed and compare that to the value of the total U.S. shipments in 2005, you'll see that that number is significant.

MR. ALDRIDGE: I would also like to -- my name is Bill Aldridge, Calgon Carbon Corporation -- elaborate slightly more on what Bob O'Brien was talking about on municipality bids.

A lot of what we've been talking about on the bids for municipalities are replacements, but there is also new construction that can go even longer, when you're involved with more engineering company bids that are bid years in advance before the carbon is actually delivered. We may win it, but it may be years, rather than just even in this same year or months.

COMMISSIONER OKUN: Okay. Very helpful, all of those answers, and I will look forward to seeing more details in the post-hearing as well.

The big issues and the small issues. Let me go back to reactivated carbon for just a moment, which is -- help me understand -- you've described in your brief and, I think, today the process of reactivating the carbon as being a service that's provided, and one of the things that we have to look at, if we were to include reactivated carbon in the like product, and, again, I'm not saying that I'm doing that, but just the hypothetical legal question, whether those who are reactivating are part of the domestic industry, Mr. Hartquist, and if there are other cases that you could look to to cite for post-hearing for me because it is often the case, it seems, in a number of these chemical cases where we have other companies performing something, and we've faced the question of whether it is, in fact, domestic production as opposed to just a service being provided.

So I won't ask you to comment on that because my time is going to run out. But just for post-hearing, Mr. Hartquist, if you can help us look through other instances.

MR. HARTQUIST: Yes. I would be pleased to.

COMMISSIONER OKUN: Okay. Thank you very

much.

Mr. Chairman, since my light is about to change, I'll hold any other questions.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: This is a question for both Mr. O'Brien and Mr. Thompson. Do NORIT and Calgon compete with each other heads up in the same markets, or do you tend to serve different customers?

MR. O'BRIEN: In many markets, we are direct competitors. NORIT manufactures more powdered carbon than we do. We manufacture more granular product than NORIT does, but, in many markets, we go head to head. In the municipal water treatment market, we go head to head. In many large food applications, purifying the fructose that goes into soft drinks; it's a big market for us. We compete head to head there. So there are many markets where we're fierce rivals.

MR. THOMPSON: We would concur with that.

COMMISSIONER LANE: Okay. Thank you.

On page 6-4 of the prehearing report, it is noted that the raw material input for the granular product reportedly is a harder, bituminous coal, which is an eastern coal, that costs more than the soft, lignite coal, which is western coal, used to produce the powdered product. Is bituminous coal always used to produce granular, activated carbon, and is lignite always used to produce powdered product?

Mr. Rester, are you the one to answer those questions?

MR. RESTER: I can take a shot at it. The raw material has a large impact on the pore structure of the activated carbon, and one of the prime reasons for using, for example, a lignite coal to make an activated carbon is you generally end up with a larger average pore size.

There are certain contaminants, for example, in drinking water where that's an advantage, where you need a large average pore size to remove those contaminants efficiently, and a lot of these type drinking water plants prefer to use powdered carbon. So that's where a lot of the lignite coal-based carbon goes, is into treating drinking water where you're removing impurities with a powdered carbon.

I'm not sure that completely answers your question.

COMMISSIONER LANE: Okay. So lignite is used in the powdered, and bituminous is usually in the granular.

MR. RESTER: One of the issues on bituminous coal is that it is a little bit more expensive raw material, and because of that and the pricing in the marketplace for granular versus powder, in general, you would tend to not make a powdered carbon from bituminous coal, as a domestic producer, because it would be more valuable to your business to sell it as a granular.

MR. O'BRIEN: We make both granular and powdered carbon from bituminous coal. Bituminous coal is the major raw material for us. We make both powdered and granular product from it. I know that NORIT sells both powdered and granular material that they make from lignite. So the materials are used widely to produce both products.

MR. THOMPSON: What I would add to that, too, is that both the lignite granular and the bituminous granular compete head on head with municipal bids, for example. If you look at some of our flue gas applications, like, for example, waste incinerators, there we use both bituminous and lignite powder.

So, you know, lignite is unique with NORIT production, and it's really back to our history. Our first plant was established in the Marshall, Texas, area, and that happens to be on lignite, and that particular product was used in the sugar industry, which happened to be in the southern U.S. at that time.

So it's more a basis of the history of the company of why lignite is used there, but they are both used interchangeably for our marketplace.

COMMISSIONER LANE: Can you tell me what the current spot market price per ton is for eastern bituminous coal and for western lignite, and what has been the historic differential price over the last several years?

MR. THOMPSON: Let me answer that. I think I know where you're heading with that, but there are several factors you need to consider that we'll follow up in a post-conference brief with you. There are significant differences, in terms of the yield, from coal to finished product between the different products.

So lignite or even sub-bituminous coals like powder river basin that a lot of utilities use is a lot cheaper. However, it also results in a higher yield loss of the product, so you have to factor that in. It's better to look at a full cost makeup of the products, not just the individual raw material line item.

COMMISSIONER LANE: And you'll provide that for me in a post-hearing brief. Yes. That's exactly where I was going with that.

Mr. O'Brien?

MR. O'BRIEN: We don't have access to lignite coal cost information because we're not actively pursuing that. We certainly can provide, in the post-hearing brief, information about our costs for bituminous coals, but I'll just point out that there are specifications in the coal that we buy that often make it very specific versus normal bituminous coal that could be burned at a power plant, for example.

So when you look at the cost of coal, you do have to make sure you're looking very closely at the specifications for the coal, and if we provide information, as we provide information, we'll also provide information on the specifications of the coal as well.

COMMISSIONER LANE: Okay. Thank you. I'm interested, to the extent that it can be discussed on the record, whether domestic producers export a significant portion of their production, and how important is the export market to domestic producers, from a financial standpoint?

MR. THOMPSON: We'll provide our export

data, and I believe it's already documented in our questionnaires, but we'll provide that in the brief.

Being an international company, and Calgon, I think, will be the same way, we export actively to Europe and vice versa. We do not make bituminous products in Europe. We make those here in the U.S. and then export that to Europe. So that's something that we have a very good quality reputation and provide that. So it's a big part of our business.

MR. O'BRIEN: We'll provide that information also in the post-hearing brief. We do export a considerable amount of carbon to Europe as well. We had a manufacturing facility in Europe, but it was one of the three we closed as we tried to get our operations to be as efficient as possible. So of the three lines that we closed, one of them was in Europe and two of them were in the United States.

COMMISSIONER LANE: Okay. Thank you.

This is for Mr. O'Brien. On page 21 of your prehearing brief, you discuss that you purchase subject activated carbon from China. You indicate that you purchase competing Chinese products to service some accounts. Therefore, it would appear that the Chinese activated carbon that you buy displaces your domestic production. However, you go on to say that Calgon began importing to protect its domestic production. Could you explain how using subject imports to service your accounts protects your domestic production?

(Pause.)

MR. O'BRIEN: I think what we're trying to make sure is, as we've imported product, we're trying to maintain the relationship with the customer and hold on to the customer, knowing that, long term, if things would change, we might want to go back to them and offer our domestically made products. So I think that's really what we were trying to say there.

COMMISSIONER LANE: How do you price your Chinese activated carbon?

MR. O'BRIEN: Well, obviously, to the market, we're trying to get the best price we can. We're trying to, when we go to the market, talk about the capabilities we can bring, but we are forced to price to the market. There are other importers who are offering materials, and so we are forced basically to be competitive.

We certainly know our costs involved with purchasing the material and delivering it, but, in the final analysis, the customer is not interested in our costs; they are interested in how what we offer them compares to what they can get from others. So we're competitive with the market.

COMMISSIONER LANE: Okay. May I just follow up with one question, Mr. Chairman? Do you price your Chinese product closer to the subject import price or closer to your own price?

MR. O'BRIEN: Well, we're trying to get it closer to our price. We're, obviously, trying to price it as high as possible, and we're trying to keep it at the level so that, again, as I mentioned, when we have the opportunity, we could supply our own domestic product instead, but we do have to face realities in the marketplace, and customers will make choices based on what they feel is best for them.

So, as I mentioned in my brief, we're trying to be the leader in, when we import the product, keeping the prices high. We're trying to sell it as close to our domestic prices as we can, but we're not always able to do that.

COMMISSIONER LANE: Thank you. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman. I would like to follow up on that line of questioning from Commissioner Lane. Maybe in your post hearing brief, you might give more specific examples of how you're using the Chinese imports to avoid losing sales in the domestic market.

I guess this gets, again, to the question of how you price those imports. I think you said you try to keep as close to your domestic price as possible. Are you trying to, in a sense, use the Chinese imports to keep your overall prices at a certain level, or are you selling them a specific -- this is the Chinese product that we're selling?

If I could just add something else, on your contracts, are you usually saying, I'll supply you with Chinese activated carbon, and I'll supply U.S. activated carbon? I'll supply the activated carbon, and you can decide yourself, whether it comes from China or from the U.S. Is there any flexibility in that, since these contracts do go out over a period of time?

MR. O'BRIEN: I'll try and answer all parts of that. I go way back with Calgon, so sometimes my history is longer than I want it to be.

We certainly started out, in the nineties, with no intention of importing product from China. We tried as hard as we could to supply only domestic product, both in the U.S. markets and in Europe, and we only began to import product from China when there were prices being offered in markets that we just, frankly, knew we could not offer domestic product economically.

As a result, we began to import product from China to serve specific customers. The customers wanted to still do business with us. They wanted to benefit from what they believed were lower prices coming from China, and so, again, they asked us to continue to be the supplier, but you have to go to China to get the material. So we did that.

Now, as we did that, we continued to want to protect our domestic business, so we were trying to bring material in and sell it at the highest possible price so that we could keep the prices up of the rest of the materials that we sell and supply.

During the nineties, I commented, we had less and less success doing that as Chinese material penetrated more markets. We were faced with, okay, we could bring in imports and sell it, or we would be forced to lower the price of our domestic material. In some cases, we were forced to lower the price of the domestic material.

We are selling Chinese product because we have a structure of a company that wants to be the supplier to the broadest number of people. We had a shrinking base that we could serve at the right price in our domestic products, so the only action we could take, then, was to import product and, again, sell it at the highest possible price, trying to approach our domestic products, but, again, struggling to do that.

So, over time, we did bring in more Chinese product. It certainly leveled off, starting with 2004, and we've continued to try and push it down. But it's not, we're importing Chinese carbon because we have to, I guess, is the best way to say, not because we really want to.

COMMISSIONER WILLIAMSON: What about the question, if, say, the orders went into effect, and prices of Chinese imports went up? Could you substitute with your customers? Will they allow you to do that?

MR. O'BRIEN: The customers would certainly buy our domestic product, if we were able to sell it to them at a competitive price to the Chinese material, so, yes, they would do that.

COMMISSIONER WILLIAMSON: What about in the long-term contracts? Do they usually specify CAC from China or just CAC?

MR. O'BRIEN: It's usually specified on a set of specifications that deal with some of the, I'm sure, specifications that are contained in the information supplied, activated carbon have properties that we measure and customers buy on. So if you meet the specification, customers don't always care where it comes from, and they care more about the price.

We do not usually specify origin, Chinese or U.S. We specify that we're going to supply product that meets the specification. The customer will know where the carbon comes from, but they are most concerned with products that meet the specifications and then the price of those products.

COMMISSIONER WILLIAMSON: I was just thinking about the Florida squeezed versus the Florida orange juice. We don't have this situation here. Could you mix in, say, one shipment?

MR. O'BRIEN: Well, it would be very difficult. I guess it's physically possible to do that, but, logistically, it becomes very difficult to do that.

COMMISSIONER WILLIAMSON: Thank you. That helps clarify.

Mr. Hartquist, you might want to do this in a post-hearing brief. Is there any relevant precedent involving cases in which the Commission has considered whether to include used or refurbished products in the domestic like product? This, of course, gets to the reactivated carbon.

MR. HARTQUIST: The react issue, yes. We'll be happy to look at that in the brief.

COMMISSIONER WILLIAMSON: Thank you. Going back to the different ways that CAC is used, what types of users limit their consumption to virgin-activated carbon, and which types of consumers limit their use to reactivated carbon made from their own activated carbon, and what about those who use the pooled, reactivated carbon? Can you give some indication of the different types of customers you have?

MR. THOMPSON: What customers would specify virgin-activated carbon? First and foremost, municipal water accounts typically are specifying virgin-activated carbon for purchase. A limited number of them will reactivate their own product with their own facilities, but you would never use a pooled virgin or a pooled reactivated carbon in things like municipal water, and the reason for that is contamination issues, as I think you could appreciate.

If you have an activated carbon, which has things like benzene, mercury, just you name it, I wouldn't want that to be in my drinking water. It doesn't matter how many times you would reactivate that product. You could never, in my mind, convince me to do that.

So customers then specify whether it's virgin, whether react is allowed. Wastewater applications, for example, could contain, and frequently do, where they use reactivated carbon where contamination isn't an issue and where they can benefit by the lower cost of reactivated. You're typically not going to use virgin in those applications because of the higher cost. So you can substitute. The virgin carbon would work in that case, but the cost is prohibitive.

So you can put virgin where react is used in all cases. You cannot do the same in reverse. Reactivated, you cannot substitute for virgin.

We market all of our products. We put a big "R" on the back of every one of our products as "reactivated," and the reason for that is you would never, ever mislead or dupe a customer into thinking that the activated carbon is not reactivated because of the contamination issues. Does that answer your question?

COMMISSIONER WILLIAMSON: Yes, like you

said. What about the percentage of the different categories? Do you have any idea about that?

MR. O'BRIEN: We make about twice as much virgin carbon as we reactivate, so that's probably a good rule-of-thumb.

I will mention again, just maybe for some understanding, when we do reactivation for customers, we are more providing a service than providing a product. For example, a customer may have a thousand pounds of activated carbon that they are using to purify a waste stream. When we bring it back, that thousand pounds of carbon may have adsorbed three or four hundred pounds of some pretty nasty organic chemicals: the benzenes, pesticides, herbicides.

We bring that back to our plant, and we reprocess it through a reactivation furnace, and the processing through the reactivation furnace destroys the organic contaminants that are present on the carbon and does make the carbon reusable for return to them.

So the bulk of our reactivation really is providing an overall service where we're not only able to reclaim the carbon and give the customer back, albeit the quality declines somewhat after reactivation, but we're giving them back a product at a lower price. We're also destroying the hazardous organic chemicals that were contained on the activated carbon as part of the process.

COMMISSIONER WILLIAMSON: Thank you. My time is up.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: I noted that you both indicated that you do export to the European market. Can you comment, on the public record, as to the impact of the European trade action on that market?

MR. THOMPSON: If I understand your question, it is, what's the impact of the EU duty that's in place on the European market?

COMMISSIONER PINKERT: Yes.

MR. THOMPSON: The current duty that's in place is 18 cents per pound on Chinese powdered activated carbon, as we stated. The impact to that market; we'll provide that, I think. We can give you details of what we think that is for NORIT, but it's substantial. If you look at 18 cents a pound times our sales in Europe, which is predominantly powder, it's roughly the impact.

COMMISSIONER PINKERT: Mr. O'Brien?

MR. O'BRIEN: Our sales, as I mentioned, are mainly granular, so the duty in Europe has had very little effect on our business.

COMMISSIONER PINKERT: Now, Mr. O'Brien, and perhaps Mr. Hartquist would also want to comment on this question, I noticed, from your testimony and from the written record as well, that you talked about the importation from China by your company. Can you give thoughts about the extent to which those imports that your company is engaged in might be causing injury to the domestic industry?

MR. O'BRIEN: Well, again, I think we are more the follower than the leader, trying to bring imports in from China. We certainly are using it as a defensive method, not an offensive method. So we would not believe that our actions are hurting the domestic industry or bringing injury.

Again, we're trying to price this such that the products we do bring maintain the pricing as best we can, not to further erode the pricing of the domestically made products. It's not in out interest to do that. So we're certainly very cognizant of that.

MR. HARTQUIST: I think, as the testimony has indicated, what Calgon has tried to do defensively has been to use imports from China to minimize the injury that would otherwise have occurred to Calgon as an individual company. In other words, if they had not brought in Chinese material, they would have lost those accounts entirely and lost whatever profitability there was on selling the imported material, and, therefore, their financial performance overall would have been harmed further.

So their strategy was to use this as an interim step. Hopefully, if we're successful in this case, we will win back those contracts for domestic production that would have been supplied from the Chinese producers.

As to the impact on the remainder of the industry, namely, NORIT, I think the answer to that would depend upon whether NORIT was losing sales to the imports that Calgon was bringing in, whether there was head-to-head competition on those sales and whether it was causing lost sales to NORIT. I think that's something we would have to examine and provide to you in a post-hearing brief.

COMMISSIONER PINKERT: Thank you, Mr. Hartquist.

MR. HUDGENS: Could I make two points? If you were to examine the imports without Calgon, it still shows that the imports are significant, and the growth is significant. And also, in our post-hearing brief, we did an analysis of Calgon's pricing of their imported product from China versus the other importers, and it showed that Calgon was priced significantly higher than the average of the remaining importers. So the downward pricing trend has, by and large, been a result of the subject importers at hand.

COMMISSIONER PINKERT: Thank you. Now, Mr. O'Brien, you mentioned that nonsubject, coconut-based product, that the two largest uses are in cigarette filters and gold mining. What percentage of the overall activated carbon market is comprised by those two end uses?

MR. O'BRIEN: I don't know that off the top of my head, Mr. Pinkert. We'll have to give you that in the post-hearing brief.

COMMISSIONER PINKERT: Okay. Regarding the different forms of the product, from the point of view of the user, is it the raw materials -- wood, coal versus coconut -- or is it the production process -- chemical versus thermal -- that makes the difference, from the point of view of the user? Both of you can comment on that.

MR. O'BRIEN: They are probably not unrelated, from the standpoint that the raw material has a significant effect, a major effect, on the final properties of the activated carbon and, thus, how it's used in its application. But starting with the raw material, then, certain raw materials can only be processed in certain ways. So coconut and coal can be processed using steam activation. Wood can only be processed using the chemical activation.

So they are sort of the same question. You start with the different raw materials. They contribute to the final properties of the carbon, but they can only be processed in certain ways.

COMMISSIONER PINKERT: Do you have anything to add?

MR. THOMPSON: It's a combination. At the end of the day, what the customer is looking for is what the performance of that product is. So I agree with Bob. I don't think you can separate out the raw material portion alone. In terms of the processing that's done on them, there is a very clear distinction between steam and chemically activated.

Then, with the chemical activation, the problem that you run into is the residual, as Mr. Rester referred to, typically phosphoric acid, can be carried over, and is carried over, in the product, so you're not going to use chemically activated for certain applications where that's a problem. So it's a combination effect that you get to in terms of defining what that product is.

COMMISSIONER PINKERT: Okay. What is your reaction to the argument that there are as many differences between types of certain activated carbon as there are between chemical- and steam-activated carbon? Do you have any thoughts about that? Are the differences as significant between the different types of certain activated carbon as they are between chemical and steam?

MR. LUBERDA: As a prelude before some of the panel answers, I just want to say that there are certainly differences within steam-activated carbon in terms of activation level, pore structure, et cetera. Users will ask for specific criteria to meet the particular thing that they want to do, whether it's get rid of a color molecule or pesticide or whatever they are trying to do. They are going to try to match pore structure, et cetera.

So we recognize that there is a continuum of products within steam-activated carbon that can be used for a variety of applications.

There is also a separate product area of chemically activated, and what we think is that there is a bright line between the two, based on markets, based on production, based on perception in the industry, et cetera. We laid that out in the prelim. We can do that more for the final, if the Commission wants us to, but it is true that there are differences within each category because there is a continuum within each category.

Now, if anybody wants to comment on specific differences.

MR. O'BRIEN: As Alan mentioned, the biggest difference, as I said, is the raw material, and then within steam-activated carbons we make a variety of specifications -- mesh size, hardness, activity levels -- and they are all aimed at trying to meet customer needs better, but the biggest difference would come with the different starting raw materials.

MR. WRUBLE: This is Tim Wruble with NORIT. We make steam-activated carbon from lignite coal, bituminous coal, and peat in Europe, and we make chemically activated carbon only from wood, also in Europe.

Generally, the first distinction is between chemically activated carbon, which happens to be wood in our case, and steam-activated carbon. Now, once we settle on steam-activated carbon, then there might be some selection between peat or bituminous or lignite, but that is more fine tuning in most cases, whereas sort of the first cut, and the major distinction, is between chemically activated carbon and steam-activated carbon.

COMMISSIONER PINKERT: Thank you. I think I've run out of time, so no further questions.

CHAIRMAN PEARSON: What I would like to ask about has to do with confidential business information, and, of course, we can't do that in this setting. So I would like to step back a little bit from the details, the numbers, and look at the record from a slight distance and characterize, in a general way, some trends that I see here.

I'm noticing an increase in the quantity of imports; not huge perhaps, but it's there. That quantity is representing only very modest growth in the share of the U.S. market. The market is growing enough to absorb most of it.

The U.S. industry is producing more than at the start of the period of investigation, and its U.S. shipments have grown. Average unit values for both U.S. and Chinese product have risen in the United States over the period of investigation. Raw material and energy costs have risen a bit, but those increases seem to me unrelated to imports from China.

The domestic industry has had less than stellar earnings throughout the POI. Understand, I'm a person who likes businesses to make money. I've been involved both with businesses that do and don't, and it's a lot better to make money. But looking at the record, the earnings have been less than stellar, and they perhaps were somewhat less stellar toward the end of the POI than at the beginning.

But looking at those trends, does this really amount to material injury, or does it simply reflect a continuation throughout the POI of circumstances for the domestic industry that are not great but perhaps not getting much worse?

MR. HARTQUIST: Let me start with an overview, if I may, Mr. Chairman.

First of all, there is certainly nothing in the antidumping law that requires that the material injury be limited to the POI. Frequently, in these cases, a deterioration in financial performance of an industry starts earlier, and you've asked for information -- I think Commissioner Pinkert asked for information prior to the POI as to what was going on in the industry at that time.

But the deterioration that occurs as imports increase their breadth and their hold in the marketplace may occur over a longer period of time.

CHAIRMAN PEARSON: But that does have to be happening currently?

MR. HARTQUIST: Yes. That does have to be happening currently. We would argue very strenuously that the record is very strong in indicating that it is happening currently.

So I think you've outlined the factors that are at play here. Certainly the cost squeeze that the industry has found itself in and other producers around the world also have increases in their costs as well. But during this period of time the prices of the imports from China have caused tremendous lost sales and lost revenue to the domestic industry. That is accelerated during the period of investigation.

So I think what we see here is a combination of factors that were occurring where in normal circumstances all boats would rise. The raw materials are going up, that should push pricing up. The demand is good and everybody ought to be making money in that circumstance. But what's at play here is the growth of the imports and the drastic price cuts that the Japanese have incurred during this period which has not allowed the domestic industry to make money and in fact has resulted in a deterioration in their financial performance during this period.

Now what we're seeing is there's some light perhaps at the end of the tunnel. I think a feeling among domestic producers that things are going to get better if the case is successful. That hasn't happened yet, and as Mr. Luberda indicated, we certainly believe that material injury is continuing to this point.

CHAIRMAN PEARSON: You reference lost sales and lost revenues and clearly we have that on the record. But in the overview I just provided we have both revenues and sales increasing. I guess I only commented on sales.

So yes, there are those instances that are cited, but in aggregate industry sales and revenues have risen.

MR. HARTQUIST: But profitability has not.

MR. HUDGENS: If I might add, if you look at the trends between 2003 and 2005, the period in which there was no duty in place, you see a steady decline in both shipment values and shipment quantities. You see a steady decline in the financial bottom line and that's all correlated with the shipment quantity and shipment value trends.

But it's only 2006 that you see the

increases that you're referring to, and --

CHAIRMAN PEARSON: I look forward to the responses to my fellow commissioners' questions dealing with 2006 and how we ought to understand that.

MR. HUDGENS: Also to state that 2006 definitely is still a year in which the domestic industry is being injured. The operating income in 2006 is still significantly lower than what it was prior to us filing the petition and prior to the period of investigation.

Another point is if you look at the import trends over a ten year period, they've increased over 200 percent in the last ten years.

CHAIRMAN PEARSON: Albeit from a rather small starting base.

MR. HUDGENS: From 25 million pounds to 85 million pounds in a ten year period. Almost tripling.

CHAIRMAN PEARSON: Those of you from industry I think understand the general thrust of the question. We've had different questions that have come out. Was there injury happening prior to the POI? What I'm asking now is how do we interpret the POI broadly? Things are not great for your industry, I understand that, but do we see enough here to make a determination that there is material injury?

Mr. Thompson?

MR. THOMPSON: If I understand your question right, you're saying that our sales are increasing, our prices have increased albeit modestly, so why are we still being injured. Is that --

CHAIRMAN PEARSON: I shouldn't at this point concede that I think you are injured at any point, so just back away from your premise a little bit and proceed, okay?

MR. THOMPSON: If you look at it, it's not just the straight price and volume that's had effect. We talked about we're an industry that has to run at capacity. Anyone in our industry will tell you the same thing. It's very important to run at a relatively high volume or you will lose money, I can assure you.

When we look at the increasing price and the increasing volume, and I can only speak from my perspective, we had some capacity back at the beginning of this case and we're basically at capacity today. We've been improving productivity to allow us to increase that capacity which is also part of what we talked about, the improvements we made.

However in the face of the costs that we face, take natural gas for example. Sometimes we forget that post-Katrina was a very difficult period. Natural gas went from $4 to $14 per thousand cubic feet. Natural gas is an input in our business.

It didn't stay at $14, it settled out at $8.50. So we went from $4 to $8.50 on natural gas. That's a lot in less than a year period of time.

In a normal market you would expect that that could be passed along in time to your customer base. What do you do when you have Chinese imports that are being bid that don't reflect that? You can't then raise your price.

So you have all these costs going up. The energy, you look at what's oil derivatives. Our packaging materials, most plastics are oil derivatives. In fact all plastics are oil derivatives. So you have raw material costs going up, packaging costs going up. You know what benefit costs do in today's environment. We've made a number of changes to control the costs but they still go up. We can't pass that along in pricing so we've gotten some modest price increases but we haven't even come close to passing on our cost increases.

CHAIRMAN PEARSON: Mr. O'Brien, did you have anything that you would add?

MR. O'BRIEN: As I mentioned before,

sometimes my frame of reference in history is maybe too long. But starting in 1991, if you asked the question how do you look at the information over the last three years and how do you interpret that as to whether injury has occurred to the domestic industry as a result of the Chinese imports?

Going back to 1991, we were an extremely profitable company. Starting in 1991 was the first year we began to see Chinese carbon on the radar screen coming in. And we've been fighting against the Chinese since then. It may not be every year gets worse, but if you certainly drew a line every year would get worse from a very profitable company in 1991 to where we find ourselves today. Even though as we mentioned we have tried many many things to continue to improve our operations.

These last three years are the bottom. It's been a long ride getting there, one that we did not want to take and one that we've been fighting against, but we've gone from an extremely profitable company to one that's hanging on. Certainly in my view as one that's experienced it day in and day out for the last 17 years, our situation is due to the pricing of the Chinese imports. No if's, and's or but's. Exacerbated by the last three years of extremely high costs brought on by high energy, and everything we do to make this product is energy intensive. We buy coal. We buy pitch which is a by-product of coal or petroleum, and we use a ton of natural gas to heat it up.

So we are completely tied to the energy costs. Low prices combined with that fact have made the last three years extremely poor. Certainly for Calgon Carbon Corporation.

CHAIRMAN PEARSON: Thank you.

With the indulgence of the Vice Chairman I would just observe that I at one time was very familiar with a major U.S. industry that had been profitable and got into a cyclical downturn where it went through a number of years of frankly not being profitable. This particular industry also uses a great deal of activated carbon so this would be a customer of yours.

I know from experience what it's like to go through that. So I'm pushing you a bit here to comment on this but I want you to understand that the record is not, as I see it, is not quite as clear as one might wish it would be as our learned counsel Mr. Hartquist might wish. That's why I played devil's advocate. We have no Respondents today. You needed me, right?

Enough, enough. Madame Vice Chairman?

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman.

Let me start by going back to my question about the bidding process from the first round, which I'm shocked to see that none of my colleagues picked up on. I guess it's not that interesting maybe.

I had been asking how the bidding process works for municipalities that take bids for water treatment and we had talked about how long it covers and at what times of year people bid and how many people you usually bid against, so we'd gotten to all of that.

My next question was, are these winner take all bids?

MR. O'BRIEN: Almost 100 percent of the time that would be the case, yes.

VICE CHAIRMAN ARANOFF: You don't see a case where a municipality -- With some products we see purchasers who want to maintain multiple sources so they'll split their purchases. That's not typically the case here?

MR. O'BRIEN: Again, you'd see that perhaps in the industrial arena which I think you had mentioned before, but municipalities, it may not be 100 percent but it would be pretty close to 100 percent that it's winner take all, for whatever quantity they specified in the bid.

VICE CHAIRMAN ARANOFF: Is it a one-round bidding process? They request bids, you give them a price, they pick the lowest one, done. Or do they go back to everyone and say here's the lowest one, does anybody want to do better?

MR. O'BRIEN: We would hope they wouldn't do that. I can't count on the legalities of doing that, but it's one bid. You get a chance. They may specify bids open at 2:00 p.m. March 2nd. You have your bid in. 2:00 p.m. they open and the lowest responsive bidder is the winner. Responsive meaning they have products that meet the spec and they supplied all the necessary information along with the bid.

VICE CHAIRMAN ARANOFF: And it's done on paper, over the internet, how's the bide made?

MR. O'BRIEN: Paper.

VICE CHAIRMAN ARANOFF: That's government for you, kind of still in the dark ages.

Let me ask, now that we've gone through how the bidding would work for municipalities, when you're dealing with a private industrial customer can you tell me how is that different in terms of how often they purchase, whether the bidding's public, whether the bidding process itself works the same way?

MR. THOMPSON: When we look at that there are so many different variations. What's typical would be, take for example Mr. Pearson's experience elsewhere. They may go out typically every two to three years, but it could be every year. In fact the industry dictates some of that with them based on what stability may be in the marketplace and what they can get from their business.

We would bid in that situation against Calgon, importers and others. Normally there's not a lot of feedback from the customer, but each customer has a different approach. Some will be winner take all, one round; others will go back for multiple bids. Some will go and say well, such and such bid this, do you want to change your offer? There are even a few that will try reverse auctions, so they're on-line, you can see what people are bidding, you don't know who, and you can then decide what you want to do.

The typical route would be to place a bid. You might get limited feedback and then they may come back and say give us your final offer.

VICE CHAIRMAN ARANOFF: When you're bidding on the municipal water contracts all the bids are public so you know what your competitors bid. That's not true when you're bidding industrial, but do the prices in the municipal market because there's so much transparency, do they affect the way that you bid and you think your competitors are bidding when you're in these non-transparent situations?

MR. THOMPSON: I can tell you what we do. The municipal market gives us a great piece of information on what the marketplace and what the current market value of activated carbon is doing against a wide range of competitors.

Because it is transparent, I'll see what Calgon does, Jacobi does, many Chinese importers, and be able to gauge what they're doing at that moment in time for those type of volume,s those regions of the country and the type of product.

We then use that information as we look at upcoming bids, whether it be industrial bids or municipal bids. It's a data piece that you take and you use that in terms of how you're establishing what the current market place is.

VICE CHAIRMAN ARANOFF: Are there individual purchasers particularly in the industrial market who are large enough that by using methods like reverse auctions are able to drive prices down significantly below these levels that you see in the open bids?

MR. THOMPSON: We don't have so many reverse auctions that that's true, but you do see there are a few very large customers who will drive very good prices based on their volume. As we mentioned, we're a volume sensitive business. Everything goes in different business cycles, so in that situation the answer has been in the past, yes.

With the imposition of the preliminary duties we have seen that change to some degree.

VICE CHAIRMAN ARANOFF: I'm sort of joining the Chairman in an attempt to play devil's advocate here since there's no one to ask questions to on another panel.

But I'm looking at the pricing data in this case which don't show remarkably clear trends, and that's one of the reasons why you based your case on a strong price suppression argument.

I'm looking at possible alternate explanations for what we've seen in pricing and in some cases we do see that there's a lot of powerful purchasers who are using all kinds of new fangled and aggressive ways to bargain down prices through auctions and things like that. So I'm trying to, anything that you can provide confidentially in your brief to address the extent to which that's happening in this industry would be very helpful.

MR. HARTQUIST: We will endeavor to do so although I think this is a pretty old fashioned system that we're dealing with here.

VICE CHAIRMAN ARANOFF: Okay. I appreciate that.

Let me turn to another issue and this goes to the issue of non-subject imports but non-subject imports that are not coconut-based non-subject imports. So coal-based, steam activated products not made in the U.S.. I understand, well, I guess I'm trying to get a sense, I know that one of the domestic producers is a producer of that product in Europe. For purposes of our Bratsk analysis and the possibilities of replacement, assuming that I were to believe you, that coconut-based products aren't really a good substitute for various reasons, I still have to look a non-subject imports that are coal-based and steam activated and I don't think we have on the record a sense of everywhere in the world where these products are made and how much production there is.

Is there anything the gentlemen in industry can add to just give me a sense of how much coal-based product is produced in the world, who uses it? Is the only product coming into the U.S. now produced by one of you or is there other non-subject coal-based product coming into the U.S.?

MR. O'BRIEN: I'm sure we could put a list together. But coal-based products are basically produced in the United States and China, and really, not any significance in volume outside of that, at least from a bituminous coal standpoint.

VICE CHAIRMAN ARANOFF: Mr. Wruble did mention producing coal-based product in Europe.

MR. THOMPSON: Let me answer that.

We do produce coal-based product in our one operation called Klazinaveen. That's a coal product out of German. That total operation, what we import into the U.S. was basically negligible during the period of investigation.

The other coal-activated from a non-subject country would be, there's very limited amounts coming in from Australia. I believe in the three million pound range, something like that, so it's very small amounts.

VICE CHAIRMAN ARANOFF: I guess I'm trying to get a sense, is there global demand for the coal-based steam activated product? Is everybody buying it from China and the United States? Or are people just using something different outside of this market?

MR. O'BRIEN: It is a global market. The vast majority, closing in on 100 percent, but the vast majority of coal-based products are made in the United States and China. We export, as does NORIT, outside of the U.S. some of our product. The Chinese are exporting all over the world now. So those applications that are using coal-based carbons are essentially getting their product either from the United States or China.

In some other parts of the world such as in the actual coconut growing regions, countries like Indonesia, Philippines, Sri Lanka, India, because they make activated carbon from their indigenous raw materials which are coconut, it's very difficult to sell them coal-based products. There may be barriers that they have from a trade standpoint. Also just the location and the physical proximity of the manufacture of coconut carbon means that those countries where they use carbon in their applications for processing various raw materials, they would use coconut.

But pretty much worldwide the bulk of the coal-based products that are used are either coming from the U.S. and the majority of them would be coming from China.

VICE CHAIRMAN ARANOFF: Let me with my colleagues' indulgence follow up with one question for you for post-hearing.

If you could help me out on the issue of non-subject coal-based, both on the supply side which is what we've been exploring, and also on the demand side, I'm thinking in my mind major industrialized countries that would probably have a higher demand for this product because there are probably a number of countries that don't clean their drinking water, for example.

So Japan, Korea, just thinking off the top of my head to countries that probably need this product, don't have coal, are they using your product, are they using the Chinese product, are they using a coconut-based product? That's the question that I'm trying to get at.

MR. HARTQUIST: We'll be happy to put that together for you.

VICE CHAIRMAN ARANOFF: Thank you very much.

Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Okun?

COMMISSIONER OKUN: Thank you. Hopefully just a couple of final things.

To follow along the lines of the Vice Chairman, looking at this market again and seeing the rise in demand during the period and looking at domestic capacities to supply the market. Is it correct to infer from looking at this that even if a duty were imposed on Chinese CAC that there would still have to be product, coal-based, chemically activated coal-based product in the market to supply demand? Coming from somewhere other than the United States. Or would you be able to capture the growth in demand with capacity?

MR. THOMPSON: We see that there's always going to continue being a demand for imported activated carbon. It's a matter of the price at which it is sold. So the market, clearly we couldn't absorb the 85 million pounds today. So it's going to continue being imported, it is right now, but what we would hope is with the passing of the order that it would be at a price that we can remain competitive.

COMMISSIONER OKUN: Mr. O'Brien, did you want to add something?

MR. O'BRIEN: Yes. As I mentioned we have closed some of our production lines. One of them we could restart. We'd have to make some capital investment to get it completely back into operation.

There are some environmental additions we need to make on the furnaces. If we could see that the demand was going to be there and we could sell it at prices that were attractive we would certainly consider investing to restart one of our production lines. So we could, with that, absorb the growing demand that is in the U.S.. Certainly that would be something we would be considering. But as Ron mentioned, our Board of Directors obviously would be looking for some assurance that if we made that investment we'd be able to generate a return.

COMMISSIONER OKUN: We have fairly good coverage in the pricing data both for domestics and for subject imports, but to the extent there has been discussion about the AUVs in particular with regard to the non-subject import, how much weight should we put on AUVs in looking at whether there are product mix issues in this case? Mr. Hartquist or Mr. Luberda, would you give me a sense of that? AUVs, how much weight to place on them.

MR. HUDGENS: Do you want us to address that in the post-hearing brief or --

COMMISSIONER OKUN: If you can briefly here, that would be great. But you can do it in post-hearing.

MR. HUDGENS: We'll do both.

We have some secondary data for pricing data of coconut-based product that we'll supply on the record.

Also we believe that the AUVs are accurately portraying a higher priced product of the coconut-based product. The AUVs are an accurate reflection of the market.

There's not much of a product mix in this. As you can see we had three products which accounted for the majority of the shipments so there's not a huge product mix in this category so AUVs are a good barometer.

COMMISSIONER OKUN: There's no reason to doubt that, but I have a curiosity question about the coconut-based carbons. Mr. Rester I'm going to go back to you one more time, which as I understand, the way you describe it is the fact, it's the way it has to be processed which makes a coconut-based product more expensive than a coal-based. I'm just trying to understand the raw material costs. In other words, if I'm using coconuts as my raw material versus coal, it seems like they should be cheaper. I know nothing about the coconut market, but it's a curiosity question.

MR. O'BRIEN: Can I comment on that?

COMMISSIONER OKUN: Yes.

MR. O'BRIEN: Coconut shells actually compete as fuel in the developing world so you would have coconut grove regions of the world and there would be coconut processing plants there where they would be harvesting the oil and the meat and then the shell is a by-product.

What is done with those shells? Many industries burn them like wood for fuel. As a result, with the oil prices going up some of those countries actually in the past have subsidized the value of oil. Now they're taking the subsidies away so oil is becoming very expensive and more and more of those countries, people are burning the coconut shells for fuel so there's a competing need. What's the value of the coconut shell for fuel versus does someone take it and turn it into activated carbon?

It's a very labor-intensive process in those countries. I can tell you no one on the Commission panel would want a job turning coconut shells into activated carbon. I do not want that job. It is very manpower intensive and it is more expensive than to collect the shells, turn it into char, take it to a plant that activates it, and the raw material basically has the fuel value.

COMMISSIONER OKUN: That's why I guess I was curious, and again maybe it's do we have a historical perspective, which is has it always been the case that it has been more expensive than the coal or is that more a recent phenomenon based on changes in fuel?

MR. O'BRIEN: That history is certainly as long as I go back which is 30-some years. So historically coconut carbon has been more expensive.

COMMISSIONER OKUN: You've been very helpful and I appreciate everything. I will look forward to the post-hearing briefs.

Thank you, Mr. Chairman. I have no further questions.

CHAIRMAN PEARSON: Commissioner Lane?

COMMISSIONER LANE: I have a couple of follow-up questions first.

When you say that you run your facilities 24 hours a day, basically seven days a week, except when you have it shut down for maintenance, does that mean that you have people working 24 hours a day and you are producing product 24 hours a day?

MR. O'BRIEN: Correct.

COMMISSIONER LANE: Mr. Thompson, a follow-up on something you said. That NORIT produces its own electricity in one of its plants and you're going to do that in another plant. Do you also use natural gas?

MR. THOMPSON: Yes.

COMMISSIONER LANE: So you produce your own electricity but natural gas is a separate process that you're using in your production. Okay.

What percentage of your energy costs are electricity and what percentage are natural gas?

MR. THOMPSON: We will put that in our post-conference brief.

COMMISSIONER LANE: Okay.

You refer to strong demand for activated carbon in the United States. What is creating that strong demand and is it proportionate throughout the various markets for activated carbon, or would you say it is disproportionate?

MR. O'BRIEN: We've seen a growth of carbon sales in the U.S. basically tracking the growth of the economy. It's a few percentage points a year over the last three or four years.

There may be certain industries that are moving a little faster. The water treatment industry, as we've talked about, is probably moving a little faster. But in general, the growth of the carbon in the last four years has been fairly close to the growth in the overall economy.

COMMISSIONER LANE: Mr. Thompson, did you want to add anything to that?

MR. THOMPSON: No, I agree with what Bob said.

COMMISSIONER LANE: Okay.

What is your best projection of the impact of mercury removal requirements at domestic coal-fired power plants? Do you see any developments that would increase the demand for activated carbon at those power plants in the immediate future?

MR. THOMPSON: NORIT's been a leader in promoting the use of activated carbon for removing mercury for nearly 20 years starting with the waste incineration market in Europe followed by the U.S..

We see a growth that's going to occur in the marketplace. As you're obviously aware, the EPA is regulating mercury starting in 2010 with the final rule that goes in place in 2018.

The first wave of that rule is primarily aimed at mercury reduction as a result of co-benefits from other scrubbing. So for example if you add a scrubber onto an Eastern bituminous coal-fired power plant, you'll also remove your mercury in that technology so that would not require activated carbon.

The final rule is a 70 percent reduction and it will be a combination of activated carbon, scrubber technologies, as well as there's numerous Department of Energy projects going in right now trying to come up with better technology. So activated carbon will have a role.

What's the growth? It depends on a number of assumptions. People in industry, some people in the power industry will put out very large numbers, but we are the ones that are seeing the largest amount of activity in that area. We don't see that being substantial over the next three to four years, and over the 12 years period, to 2018, if we take some of the initial estimates and we start looking at alternative scrubber technologies or even the work that's going on in Department of Energy, we expect it could be maybe up to 150 million pounds over a 12 year period. So there will need to be capacity added to the marketplace if it was served domestically.

If we look at that growth, that comes out and comes very close to our historical growth rate of activated carbon, so it to me looks very reasonable to assume that we can handle that growth but it will need to be addressed and it's a very uncertain and a very changing marketplace.

COMMISSIONER LANE: Thank you. That was a very good answer and very thorough. I appreciate that.

I think with that I will quit while I'm ahead. Thank you, Mr. Chairman.

CHAIRMAN PEARSON: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Mr. Chairman. Just a few additional questions.

Mr. O'Brien, you indicated that EU duties on activated carbon imports have had little affect on your granular sales. To what extent do powdered and granular products compete? And if they do compete why wouldn't the higher price for the powdered AC resulting from the antidumping duties in the EU have some affect on your sales in the EU?

MR. O'BRIEN: We do not make very much powdered activated carbon. If the price of powdered activated carbon is rising in the EU we're not really able to take advantage of that because we don't make significant powdered carbons, at this point in time anyway.

COMMISSIONER WILLIAMSON: Do the powdered and the granular compete at all?

MR. O'BRIEN: They compete, when an

application is developing, let's say a perspective customer has a problem and they are trying to decide how will I solve the problem? If they believe activated carbon is a viable solution they may consider should I use carbon in a powdered form or should I use carbon in a granular form, and there are advantages and disadvantages to each.

Again, the powdered carbon tends to be used such as in water treatment where you have seasonal issues. You just have to use it occasionally. Or batch-type processes. So they would go through that analysis.

Once they made a commitment how they're going to go, if they're using powder then they're always going to buy powdered. If they're using granular they're always going to buy granular.

So they don't really compete once the customer has made a decision as to how I'm going to solve a given problem and that's usually, there are a number of factors that go into that.

COMMISSIONER WILLIAMSON: Thank you.

Mr. Hudgens, you mentioned, well first off, are there any product mix issues that might affect the weight placed on the UAV analysis, in other words the price affects? And in particular, you indicated that the AUVs are an accurate measure of relative prices yet I think in Table 6-2 of the staff report ***** ** ***********************. I was wondering if in a post-hearing brief you could discuss the difference.

CHAIRMAN PEARSON: Commissioner, just be careful with --

COMMISSIONER WILLIAMSON: Okay. Can you discuss the issue?

MR. HUDGENS: We will address that in the post-hearing brief.

COMMISSIONER WILLIAMSON: Thank you.

Lastly, Mr. Thompson, Mr. O'Brien talked about employment, particularly employment in the production of the HAC but I don't think you discussed the employment affects of the dumping. Is there anything from the employment data or your experience that would help us understand this question of injury?

I realize that a lot of your costs are related to, it's a capital intensive industry, but I was just wondering whether there was anything in terms of the employment trend that would help us understand.

MR. THOMPSON: During the period of investigation from 2003 to 2005 we reduced our work force approximately 20 percent during that period.

COMMISSIONER WILLIAMSON: What would happen if the duties are imposed? What might result in a change in employment?

MR. THOMPSON: For us to change employment levels will require, because at the same time that's occurring we're working all the time to improve our productivity as a business. Would we rehire 20 people tomorrow? No. For us it will be if there's an ability for our company to take advantage in the growth in the market by adding capacity in a future timeframe, that's when you'll see growth for us.

We are working on, the employment levels in our business are I think where they need to be today. We've learned to manage with the level we're at.

COMMISSIONER WILLIAMSON: Mr. O'Brien, did you want to add anything?

MR. O'BRIEN: I mentioned that if the tariffs are put into place and the market certainly continues to grow we have the ability to add production capacity back on line. As we add that and make the financial decision to do that, we would be hiring more people in the order of magnitude of 30 to 40 additional persons to operate the facility.

CHAIRMAN PEARSON: Commissioner Pinkert?

COMMISSIONER PINKERT: I have a few

questions about investment. I believe Mr. O'Brien talked about the possibility of new investment, perhaps Mr. Thompson did as well.

When you contemplate such investment, you said that it has to generate a return. Over what period of time are you looking when you make that decision?

MR. O'BRIEN: When we run our economic analysis we look over a ten year period and calculate a return on investments.

COMMISSIONER PINKERT: Mr. Thompson?

MR. THOMPSON: Much the same thing. We look at a ten year period, looking at cash flows. We can provide you what our internal requirements are confidentially, but I think almost every business would look at it the same way.

COMMISSIONER PINKERT: How much time typically would you anticipate would be from the decision to make that investment until the production is actually on line?

MR. O'BRIEN: We estimate now it to be about 18 months. Part of that is a permitting process that we would have to reestablish some permits to operate the line so we'd have to go through the Kentucky EPA in order to get that approved. Then probably about a year, we'd be doing some design during that time, and then about a year construction. So we have about an 18 month period to bring that on line.

MR. THOMPSON: For us it's a different scenario than I think what Mr. O'Brien's referring to. In their case it's starting up an existing line with quite a bit of work that has to occur to that. For us to expand it's adding new capacity.

We can do it in that same timeframe which is roughly 18 months, from the time we have an environmental permit.

If an affirmative decision is reached it could generate the possibility of looking, you know, if there's the return that we can see our way through then we would look at future growth.

COMMISSIONER PINKERT: My final question concerns some issues that Commissioner Aranoff raised about the non-subject imports. What I'm wondering is what prevents new non-coconut-based activated carbon production from coming on line in these other countries? The non-subject countries.

Mr. O'Brien?

MR. O'BRIEN: Just like for our production it takes a very long time to bring major new facilities on line. You also have to have adequate sources of the raw materials to be able to make product from. Then of course the financial wherewithal to do that.

So we don't foresee that the establishment of tariffs frankly would generate the situation where coal-based manufacturers would be starting up in other countries just because of the complexity of the investment and the time required to do it. Not over the short term.

Just like us, anybody who would be contemplating that would have to have confidence that it was an extremely good long term investment.

COMMISSIONER PINKERT: Mr. Thompson?

MR. THOMPSON: Let me answer that from a different angle. Knowing the way we manufacture activated carbon, I would challenge you in a country which requires environmental control, which remember a lot of our products are going for environmental control. So in a country like ours where we have reasonable standards of environmental control and you're providing employees with benefits, I would challenge you to produce activated carbon at a cost that we're doing it for today.

If you go and design a brand new plant, you're going to be similar designs I think to what we have today, plus you've got capital costs to consider which are probably much higher than what we have in place.

I think it defies logic to think I'm going to build a brand new plant in say Australia where there is coal and then export that in a very large way to the U.S. and replace the Chinese.

MR. HARTQUIST: And if I may add to that, Commissioner Pinkert, you have the reality of the Chinese being major producers of this product, lots of capacity in Japan, and with a dumping case against them in Europe and potentially an anti-dumping finding in the United States as well, they're going to be looking for perhaps other markets to serve. So it's going to be tough for new companies in other countries to start up in the face of that kind of competition from the Chinese.

COMMISSIONER PINKERT: Thank you. I have nothing further.

CHAIRMAN PEARSON: From the record we know that activated carbon has at least some characteristics of a commodity product, although perhaps less so now than prior to the Bratsk decision. But we also know that there's a fair degree of substitutability between Chinese product and U.S.

product.

What I'm wondering is what is it about the U.S. market for this product that has allowed such a meaningful price spread to remain between U.S. product and Chinese product? To me it's somewhat striking, the gap that we see. And of course you've testified to that. The Chinese product sells for less.

What's going on in the marketplace that allows that gap rather than converging the prices?

MR. O'BRIEN: From our perspective they are converging, but we try hard to have our customers value, technical service, overall knowledge, ability to help customers solve problems as an advantage that we might bring to one of our customers. Twenty years ago perhaps that was more valuable than it is today. It still has some value today but it gets less and less and less every day as price continues to be more of a driver. But if there is a difference I think that's probably the reason.

CHAIRMAN PEARSON: Do you agree, Mr. Thompson?

MR. THOMPSON: Yes, there are some customers that still value technical service, albeit fewer and fewer. Some customers still will look at a NORIT or a Calgon from I think history and say I would prefer that product. But at the end of the day those are getting fewer and fewer.

So the way we see it is they're definitely converging.

CHAIRMAN PEARSON: But reputation and technical service would explain at least some of the premium that the domestic product has continued to be able to achieve in many sales.

So are there enough concerns in the marketplace about quality of some Chinese imports that that is acting as kind of a depressing factor that doesn't allow Chinese prices to rise to the level of domestic product?

MR. O'BRIEN: That concern I think is going away. As I testified, certainly 15 years ago there would have been a lot of concern about the quality of the Chinese material but they've improved their products, they're improved their processes. The exporters and the importers have learned to work together to get consistent product from a given manufacturer to a given end user.

I think by and large the concerns about quality have certainly diminished substantially. Again, from our view the pricing is converging so the marketplace does not seem to be giving us much in the way of a premium for perceived better quality.

MR. LUBERDA: Mr. Chairman, if I could just add, the testimony of the purchasers as we have it in the questionnaire responses was that quality was not the issue, price was the issue.

The data shows that purchaser and importers turned away from domestic and went toward the imports because of price and that overwhelmingly the quality issues were found to be comparable for the products.

I know the importers and the purchasers aren't here to testify but they did submit questionnaire responses that support our case.

CHAIRMAN PEARSON: Right, although there is also the issue of qualification for many buyers and quality may enter into the whole question of whether a product is qualified, but I don't know that we need to go into that now unless someone wants to.

But once a product is qualified then price is important. I accept that.

Going back to the Vice Chairman's question about the bidding process. I'm just slow, it takes me a while to get there.

Of the 250 bids a year that were mentioned, how many would you normally expect to win? I assume you can't win them all because you probably don't have enough capacity to serve them all.

MR. THOMPSON: That was the data that I had threw out and we will be happy to provide that in our brief.

CHAIRMAN PEARSON: That's very fine. I respect that.

I assume it's correct, and we may wait to find out, that you don't expect to win every bid and that there are some, but you have in mind some percentage of the bids for these public water system contracts. Some percentage you need to get in order to maintain your market share. And some others are going to go to that nasty competitor sitting not far from you at the table and some will go to the Japanese.

MR. O'BRIEN: That's why we're separated.

(Laughter).

MR. THOMPSON: We don't expect to win every bid. It's also a marketing tool that you can use to kind of signal, if you will, because it's a public forum, where prices ought to be. So you don't go in trying to win every single bid. But I will say if you look at most of our bids they are extremely competitive. If we started winning an extremely high percentage we'd have to raise price and back off.

CHAIRMAN PEARSON: I hear you.

Part of what I'm trying to understand, you had indicated that 15 bids were lost in one of the previous years so I'm just trying to put that into the context of how many bids you normally expect to win and lose.

So to the extent that both your firms could provide some elaboration on that in post-hearing, that would be helpful to me.

If there's anything more you'd like to say in public I'm happy to hear it.

Okay, post-hearing sounds good.

This might be more a question for counsel, but what I'm trying to understand is whether we should view a lost sale or a lost revenue, in this case a lost sale only, whether we should view that differently in the case of a public bidding process than we would in some of the other cases that we have in front of us where most of the lost sales or revenues are between two private parties in a contract negotiation and longstanding customer relationship gets severed by imported product coming in.

The reason for wondering about this, it seems to me that in a public bidding process if you are anticipating losing some percentage of the bids that maybe it's not the, counting all of the bids as lost sales, all of the ones that go to the Chinese, it's not the same as the type of analysis we would use in other cases. I'm kind of stumbling around here, but if that's the case we might need to evaluate differently what the lost sales mean in this investigation compared to other investigations.

Mr. Hartquist or someone else from the legal team, do you have thoughts? Or Mr. Hudgens?

MR. HARTQUIST: I would observe initially, and we may want to comment on this in the brief, Mr. Chairman, as far as the impact on the producer is concerned a lost sale is a lost sale no matter how you get there. You lost the business.

CHAIRMAN PEARSON: I understand. Unless the business plan was such that we knew we were going to lose a bunch anyway and the question is do we lose them to our domestic competitor or do we lose them to a Chinese import.

MR. HARTQUIST: Right. I think in the post-hearing brief we'll want to comment about whether every bid is a serious bid. Are you really trying to win every one? Or are some of them just for fun? I don't mean to be facetious, but we'll comment on that as well.

But also in non-public contractual situations you're similarly competing perhaps against the same competitors, not just one on one as you have described it. But you may be competing against four or five others to get that contract as well.

So off-hand I would not see a distinction between, if you will, public and private contractual situations, but we'll be happy to consider that further and comment on it in the brief.

CHAIRMAN PEARSON: I actually think you raise a good point. I don't think I expressed myself as well as I ought to have because perhaps the real issue is the question of longstanding customer relationships. I had the impression from the discussion of the municipal water systems that those relationships may not be quite so longstanding. They might shift back year to year based on the bidding, and that might have been happening for 50 years. Whereas if you're working hard to serve a major customer where it's a quieter discussion and you want that business for whatever reason, and you've had it historically, then losing it becomes in some respects a bigger deal.

MR. HARTQUIST: May I invite my colleagues as to whether you want to comment on that now or in the brief?

MR. THOMPSON: We can comment on it in the brief but what I would tell you is you take some close to our Marshall facility, for example, in the Dallas area. A municipal water account. A customer that we served for 15 to 20 years at least in terms of providing product every day, day in, day out, and with the Chinese pricing coming in switches that business away from NORIT to a Chinese competitor for one cent a pound.

I would challenge you if you were in my shoes not to take that personally.

CHAIRMAN PEARSON: I think your point is well made.

To the extent you can in the post-hearing brief if you can augment what you've just said with some discussion of perhaps the other 14 lost sales. Give a sense of what there had been in terms of longstanding relationship so that at least I can understand this case, this municipal bidding process more in the context of how we have viewed lost sales in other investigations.

I've run on far too long. My light's changed.

Let me turn now to the Vice Chairman.

VICE CHAIRMAN ARANOFF: Thank you, Mr. Chairman.

One more question going to some of the Bratsk issues and then I want to ask a whole bunch of questions about reactivated carbon that I haven't gotten to yet today.

Mr. Hartquist, your argument in your brief about why the triggering factors for Bratsk aren't satisfied with respect to the coconut-based product. It's not interchangeable with the subject imports because it's used for different end uses, and also that it's not cost competitive because it's more expensive.

But when we do a Bratsk analysis we're not looking at the market now, we're supposed to be looking at what would happen if there were an order in place. It seems to me that some of those things might change, particularly the cost issue because if domestic prices rise then the cost gap between the coconut-based and the coal-based is going to theoretically narrow.

If you want to comment on that.

I also thought I heard testimony that in countries that have coconut-based production they may use coconut-based product for uses we wouldn't use it for here so that also goes to the interchangeability.

MR. HARTQUIST: Let me if I may invite Mr. Luberda or Ms. Staley who looked at the Bratsk issue more closely. Do either of you want to comment on that?

MR. LUBERDA: In the first instance I would say that if you look at what happened in Europe, I think Mr. Thompson can testify to this, but if you look at what happened in Europe when they put an order in place on the powdered carbon it was not replaced in a significant degree by coconut-based. I think we could expect, from that example, expect the same to occur here.

VICE CHAIRMAN ARANOFF: Was it replaced by granular or pelletized which wouldn't be available here because they're inside the scope?

MR. LUBERDA: I'd ask Mr. Thompson to comment since he's familiar with that market.

MR. THOMPSON: The market did switch to some imports of granular carbon and then milling and a large portion of it was retained with price improvement by NORIT.

MR. LUBERDA: Also Commissioner, if you look at the AUVs of coconut which reflect both its more expensive nature to produce and its prices in the market, if you were to -- Those are sufficiently above both a domestic cost and domestic price of coal-based as well as the import price that the opportunity for substitution is unlikely to be there.

I'm not sure, it was suggested today there's significant use of coconut-based activated carbon in some of those other countries in the same applications. It still comes down to you have to match the application to what you're doing.

The breadth of industry and use in the United States that uses a whole variety of different activated carbons along in the various different product groups and then within the spectrum within those groups is much different here and in Europe than it would be in the countries producing the coconut like Sri Lanka and the Philippines. It's not to say that they might not use, it might not be more efficient for them to use it sometimes, but a use that requires a pore structure that's based on coal is going to use that pretty much no matter what.

My colleagues from the industry should correct me if I'm wrong.

VICE CHAIRMAN ARANOFF: Okay. If you want to add to that in your post-hearing, I'm still struggling with the whole issue of the coconut-based product, but let me turn to the other issue that I'm still struggling with which is the reactivated carbon.

I think with no criticism intended of my colleagues, they have all blindly accepted your assertion that the production process for reactivated carbon is the stage at which it's reactivated, whereas I would posit to you that the production is when the virgin carbon is produced and then you just keep cleaning it.

Does that change the way we look at the like product issue?

MR. LUBERDA: Let me make sure I understand the question. You're asking whether we should start looking at the production process for reactivated carbon from the time it starts out as coal and it's activated, then it's reactivated.

VICE CHAIRMAN ARANOFF: Right.

MR. LUBERDA: Part of that goes to what I testified to earlier which is that once you reactivate it the first time you have given it its essential characteristic. It is activated carbon at that point.

Reactivation is not the production of activated carbon. It is simply the process of cleaning it out to reuse it. So you already had activated carbon. We would argue that you are not, somebody who reactivates is not a producer of activated carbon, they are simply reusing it.

Much in the same way, for example take the steel industry when they use rolls to roll steel. As you roll steel over time the rolls start to change shape and they have to be ground down and reconditioned in order to make sure the coils don't crown and you get evenness in your roll.

When a steel mill takes that roll and reconditions it so that it's now again useable for its intended purpose, it's not producing a roll. And on other orders of magnitude, how expensive it is to reactivate versus condition a roll.

But what I'm saying is the essential characteristic of the product was imparted when it was made activated carbon. When you're reactivating it you're not producing activated carbon, you're simply using your facilities to be able to reuse it. Which is why a lot of people internally do that. Some of the, not a lot, but some of the industry, the Cargills of the world and some of the water folks reuse some of their own. They're not producing activated carbon because of the intense capital structure it takes to do that, they're simply putting enough in place that they can reuse what they purchased.

MR. HARTQUIST: So it's like fixing a car that's been in an accident. It's not useable.

VICE CHAIRMAN ARANOFF: That's one way to look at it and I know that Commissioner Okun has asked you to look and see if we have other cases that involve recycled or reconditioned products that might be instructive.

Another way to look at it might be to fit it into the box of cases we look at where someone other than the principal manufacturer performs finishing operations on the product. So the product does have its essential characteristics when it comes out of your plant, but someone else, in this case it's used in the interim and then the finishing operation or this additional operation is performed. But in that case in looking at whether that other operation is still part of domestic production, we would look at things like value added and all those other factors that we look at in determining whether it's sufficient to be part of the domestic production.

Is it just the intervening use that makes that not a good way to look at it?

MR. HARTQUIST: I think the analogy that you've chosen, Madame Vice Chairman, is really not apt in that, and I've been involved in cases where you're talking about finishing operations. Where you have that situation you have a product where value is being added to create a further processed product so it's something different than what it was before.

Here it's essentially restoring a product to its original form, although I think as Mr. O'Brien testified, at a lower level of quality than it was to begin with. It's an inferior product although some restoration has occurred so the customer can reuse the product. But that's why we would argue it's really not appropriate to include reactivated material in the like product.

MR. LUBERDA: Vice Chairman, if I could just add one thing.

Look at the reason why people choose to reactivate carbon. One of the reasons they do it is they're looking at, it has a lower cost, obviously, to reactivate it. But the other thing is they now have a product that oftentimes is a HAZMAT. They have an end product that's not only worthless but it's expensive to get rid of. It's been used up for its application. Now you have a choice. We can either reactivate it which prevents us having to pay somebody to haul off a HAZMAT and bury it in a landfill where we might get sued later under an EPA statute, or they can reactivate it.

So what they're doing, the decisionmaking process is very very different. They're not looking to be producers. They're not really producing something. They are looking both to what's the cheapest way that I take all of this into account, both cost of replacement and cost of disposal.

VICE CHAIRMAN ARANOFF: Just to wrap up my questions, for Mr. Thompson and Mr. O'Brien. When your companies reactivate, engage in reactivation, do you reactivate only product that you originally produced and sold or will you take anyone's product for reactivation?

MR. THOMPSON: I'll start.

We focus not on who manufactures it but on the products of that, each reactivated carbon coming in has a qualification step where we test it, inspect it, to make sure we know what's on the material. That's what determines whether we accept it or not, not whether it's Calgon or our material. Or Chinese.

VICE CHAIRMAN ARANOFF: So it's whether it's a kind of contaminant that you're prepared to deal with or one that you're not.

MR. THOMPSON: Exactly.

VICE CHAIRMAN ARANOFF: Is that the same, Mr. O'Brien?

MR. O'BRIEN: Generally. Most of the carbon that we do reactivate is our own. As Mr. Thompson said, we have to make sure that we can safely handle the material we're bringing back also because of the different types of materials that might be on it. We can reactivate it safely, we can reactivate it and meet all air pollution requirements. And it's of the proper raw material that it gives us a finished product that we have some place to sell it, frankly. Those are all considerations.

VICE CHAIRMAN ARANOFF: Okay. Thank you.

Mr. Chairman, I have one more questions. I can do it now or I can wait for another round.

CHAIRMAN PEARSON: Please go ahead and proceed now, that would be fine.

VICE CHAIRMAN ARANOFF: Thank you.

In terms of interchangeability, I notice because of the price of the Chinese product if you compare it to some of the price information we have for domestic, reactivated product, there have been times when the prices have been pretty close.

Are you aware of any customers who switched from using reactivated domestic product to using virgin Chinese product?

MR. THOMPSON: Yes. And let me make sure what you're asking is have customers switched from using reactivated to Chinese. The answer to that is yes.

Is it prevalent? No. Typically reactivated is at a lower cost than the product from China, but when dumping gets so severe that the prices come down you can in every case use virgin activated carbon to replace reactivated carbon.

If you get into an unfair or illogical market situation then yeah, that can happen.

VICE CHAIRMAN ARANOFF: Okay. If there are any specific examples of that that you can give in your post-hearing brief that would let me know sort of the magnitude of that phenomenon, that would be helpful.

With that I have no more questions, but thank the panel very much.

CHAIRMAN PEARSON: Excellent and efficient use of the red light I might say.

Commissioner Okun?

Commissioner Lane?

COMMISSIONER LANE: I do have one more question.

The scope of the subject imports refers to mixtures of steam and chemically activated carbon. The scope covers such mixtures if they contain 50 percent or more steam activated carbon.

Considering your arguments that the uses of steam and chemically activated carbon are considerably different, what is the importance of including the percentage limitation on chemically activated carbon in the scope of this investigation?

And if there is some importance, if the decision in this case is affirmative, what would prevent Chinese producers from simply moving to a mixture of 49 percent steam activated carbon and 51 percent chemically activated carbon to create a product that is outside the scope?

MR. LUBERDA: Commissioner, I'll start and then the industry can jump in.

The reason we did this was, as you obviously picked up on, was the potential for circumvention of the order.

Right now there isn't a lot in the marketplace of mixing or blending of these products, as I understand it at least. Again, the industry can correct me if I'm wrong. The problem, and we had to choose a bright line test that would be easily enforceable where it was clearly not economic for folks to mix this. But yes, right now mixing is not an issue. What we were concerned about was having an order that would be enforceable not only as we understand the products, but enforceable at the border by the folks at Customs who have to do it.

That's why it turned out the way it did in consultation with the Commerce Department.

Does anybody from the industry have anything to add to that?

MR. O'BRIEN: I don't have anything to add.

COMMISSIONER LANE: Thank you.

CHAIRMAN PEARSON: Commissioner Williamson?

Mr. Pinkert?

No further questions from the dais?

Let me express my thanks to all Commissioners for what I thought were very interesting questions. I certainly learned a lot.

Do members of the staff have any questions for this panel?

MR. McCLURE: Jim McClure, Office of Investigations. Yes, Mr. Chairman, just one or two.

You've both testified that it behooves you to run at or near full capacity. It's similar for your operations in Europe and around the world. I think you said it would be the same for Chinese producers. Is it the same for those firms who are producing the coconut-based? Is it just the nature of this industry that you've got to run at or near full capacity?

MR. O'BRIEN: All producers making the steam activated carbon are running at very high temperatures and any time you're running equipment at the high temperatures you're trying to operate it consistently and not go up or down, so I think the answer would be yes.

MR. McCLURE: Thank you.

One other thing, and this is for Mr. Hudgens or Mr. Hartquist and you can submit the information in the post-hearing brief.

Any information you've got with regard to capacity and capacity utilization in the non-subjects in particular would be deeply appreciated.

That finishes any questions I have.

MR. HARTQUIST: Than you. We will do that in the brief.

CHAIRMAN PEARSON: Okay. I understand that you have five minutes available for closing and no time for rebuttal because there's nothing to rebut.

I also note that Respondents have no questions for this panel.

(Laughter).

How do you wish to proceed, Mr. Hartquist? Would you like to go directly to closing where you're seated, surrounded by your colleagues who have made the presentations this morning? Or do you wish to go to the podium.

MR. HARTQUIST: No. Thank you, Mr. Chairman. Since I think I've won the bet with my colleagues as to what time this proceeding would conclude I don't want to endanger that by taking additional time.

(Laughter).

But seriously, we appreciate the attention of the Commission today and we'll conclude our testimony right now.

CHAIRMAN PEARSON: Thank you very much. That's perhaps the briefest closing statement I've heard during my time as a Commissioner.

Post-hearing briefs, statements responsive to questions and requests of the Commission and corrections to the transcript must be filed by March 6, 2007.

Closing of the record and final release of data to parties, March 22nd.

Final comments on March 26th.

Thank you very much. This hearing is adjourned.

(Whereupon, at 1:25 p.m. the hearing was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Activated Carbon from China

INVESTIGATION NOS.: 731-TA-1103 (Final)

HEARING DATE: February 27, 2007

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: February 27, 2007

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
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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).

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SIGNED: Christina Chesley
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