UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	Investigation Nos.:
	)	701-TA-474
DRILL PIPE AND DRILL COLLARS	)	731-TA-1176
FROM CHINA	)	(Preliminary)

Pages: 1 through 210

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Thursday,
January 21, 2010

Courtroom A
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:50 a.m., at the United States International Trade Commission, CATHERINE DEFILIPPO, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

CATHERINE DEFILIPPO, DIRECTOR OF INVESTIGATIONS
DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR
ANGELA NEWELL, INVESTIGATOR
ELIZABETH DUALL, ATTORNEY/ADVISOR
NANCY BRYAN, ECONOMIST
DAVID BOYLAND, AUDITOR
NORMAN VAN TOAI, INDUSTRY ANALYST

APPEARANCE: (Cont'd.)

In Support of the Imposition of Antidumping and Countervailing Duties:

On behalf of VAM Drilling, Texas Steel Conversion, Inc., Rotary Drilling Tools, TMK IPSCO, United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Services Workers Union, AFL-CIO-CLC:

DOUG FIELDS, President,
VAM Drilling USA

KEVIN PARKS, Vice President of Sales,
VAM Drilling USA

STEVE WILLIAMSON, Director, Strategic Development,
VAM Drilling USA

JAMES BRAND, Product Manager,
Texas Steel Conversion, Inc.

SEALY MORRIS, President,
Rotary Drilling Tools

MIKE RAMSEY, Product Manager, Seamless Industrial Products
TMK IPSCO

LINDA ANDROS, Legislative Counsel,
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC

ROGER B. SCHAGRIN, Esquire
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Schagrin Associates
Washington, D.C.

APPEARANCE (Cont'd)

In Opposition to the Imposition of Antidumping and Countervailing Duties:

On behalf of Command Energy Services, Ltd., Downhole Pipe and Equipment, L.P.

CHARLIE GARVEY, CEO,
Command Energy Services, Ltd.

JIM MOSTOWAY, VP Product Control,
Command Energy Services, Ltd.

DAVID LESCO, General Manager,
Downhole Pipe and Equipment, L.P.

BRUCE P. MALASHEVICH, President,
Economic Consulting Services, LLC

MARK B. LEHNARDT, Esquire
MARK D. DAVIS, Esquire
IRENE H. CHEN, Esquire
Lehnardt & Lehnardt, LLC

I N D E X

P R O C E E D I N G S

(9:50 a.m.)

MS. DEFILIPPO: Good morning, and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of countervailing duty investigation number 701-TA-474, and antidumping duty investigation number 731-TA-1176, concerning imports of drill pipe and drill collars from China.

My name is Catherine DeFilippo, and I am the Commission's Director of Investigations, and I will preside at this conference. Among those present from the Commission staff are from my far right, Mr. Norman Van toai, the Industry Analyst; Douglas Corkran, the Supervisory Investigator; Angela newell, the Investigator; Elizabeth Duall, the Attorney Advisor; Nancy Bryan, the Economist; and David Boyland, the Auditor.

I understand that the parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information, and to speak directly into the microphones.

We also ask that you state your name and affiliation for the record before beginning your

presentations. Are there any questions?

(No Response.)

MS. DEFILIPPO: If not, welcome, Mr. Schagrin, and please proceed with your opening statement.

MR. SCHAGRIN: Good morning, Director DeFilippo, and Members of the Commission Staff. For the record, Roger Schagrin, counsel for the Petitioners.

The record in this investigation will demonstrate beyond any doubt that the domestic industry producing drill pipe has suffered material injury by reason of dumped and subsidized imports from China.

During this conference and in our post-conference brief, we will demonstrate that based upon the Commission's traditional like product analysis that green tube's finished drill pipe, heavy weight drill pipe, and drill collars form one continuum of products, essential to drilling for oil and gas with drilling rigs.

The increase in imports from China by both Volume and market share during the POI is nothing short of astounding even by China case standards. Between 2006 and 2008, imports from China more than

doubled by volume and market share, and they more than doubled again by volume between the first three quarters of 2008 and the first three quarters of 2009, notwithstanding a significant dropping consumption.

We urge the Commission not to underestimate Chinese market share by double counting imports or domestic shipments of unfinished drill pipe when the finished drill pipe industry is reporting the same shipments.

The injurious effect of this import surge from China has been clear. Production and shipments in the first three quarters of 2009 have plummeted. All employment indicators have declined dramatically, including the number of employees, hours worked, and wages paid.

Profits have gone from healthy margins to losses for many companies. It should be noted in the Commission's injury considerations that interim 2009 data is not one-quarter, not one-half of a year, but three-quarters of a year.

It is also worth noting that the Respondents' certain attempts to blame this injury on declining demand must fail in the face of information that U.S. industry indicators have fallen much further than the decline in demand because of the increased

market share, and the inventory overhang created by these unfairly traded Chinese imports.

Order books, the surest sign of both present health and future activity, have just dried up for this industry as the Chinese aggressively took most of the new orders for drill pipe.

The U.S. drill pipe industry is the preeminent drill pipe industry in the world. We invented oil drilling in this country and we invented drill pipe.

You will note that over the POI that U.S. exports, as a share of production, were very high. This is in-part due to the fact that one of the conditions of competition in this industry is that U.S. drill pipe companies have patented products far in excess of API grade material that is sought after for deep water drilling worldwide.

Thus far the Chinese have made few inroads into this premium segment of the market. However, the Chinese have and are destroying the API grade drill pipe market in the United States and in the world.

As I stated, this is fundamentally an injury case, but if the Commission determines to look at threat, the threat case is overwhelming. First, the U.S. industry is extremely vulnerable and in a

weakened state.

Second, the disease of Chinese over-capacity has certainly infected the Chinese drill pipe industry. The number of rigs operating in China is probably not one-quarter of the number of rigs operating in the United States.

Of course, this information seems to be impossible to gather because the Chinese government considers the rig count in China to be a state secret. Chinese drill pipe capacity, measured by well lines, is at least three times that of the U.S. industry.

Think about it. They have three times the capacity that we do in the United States, with less than one-quarter our demand.

Third, it is doubtful that you will get significant foreign producer cooperation in this preliminary investigation, but it is clear that the U.S. is China's largest export market, and that their exports to other major markets, such as Russia, and more modest markets such as the E.U., have been cut off by unfair trade duties.

Fourth, we believe that Chinese capacity utilization rates are extremely low, and that many Chinese drill pipe producers are not even operating at present.

It is clear that the Chinese are so hungry for more business that they will take all available U.S. business at whatever price it takes to get those orders.

Finally, we believe that inventories of Chinese product in the U.S. are very high. Unfortunately, and you can ask any of these industry witnesses this morning, failure by the U.S. Government to act against this unfair trade will probably result in the complete elimination of a world class U.S. industry within as little as two or three years.

We ask this Commission not to let that happen and we ask you to make affirmative injury determinations. Thank you.

MS. DEFILIPPO: Thank you, Mr. Schagrin. We will next hear from those in opposition to imposition of anti-dumping duties. Ms. Chen, please proceed when you are ready and welcome.

MS. CHEN: Good morning, Director DeFilippo, and Members of the Commission Staff, my name is Irene Chen. I am here with my colleagues, Mark Davis, Nithya Nagarajan and Mark Lehnardt.

Having worked in the GC's office here at the Commission some years ago, it is great to be back. We are appearing here today on behalf of two importers of

drill pipe, Downhole Pipe and Equipment, and Command Energy Services.

We have several industry witnesses here, including David Lesco, here from Downhole Pipe; as well as Charlie Garvey, and Jim Mostoway, from Command Energy.

Also here with us today is Bruce Malashevich -- I'm sorry if I butchered that -- of Economic Consulting Services, LLC.

Our industry witnesses represent a significant majority of Chinese drill pipe imports in the United States, and we would just like to make a few points right now, which we will elaborate further on in our affirmative presentation.

As a preliminary matter, we would like to inform the Commission Staff of a very compelling issue that affects the entire nature and direction of this case, namely the scope issue.

The Petitioners have defined the drill pipe scope as covering green tube. As we pointed out in our filings at the Department of Commerce, this green tube is already covered by the scope of OCTG in both the AD and CVD investigations, which the Commission just conducted.

Imports can't be used as injury for one

product and used again as injury for a second product. That is not permitted under the law, the statute, and the Courts have upheld that.

Therefore, green tube related data for both domestic production and subject imports should be disregarded in these investigations. In light of this scope issue for the domestic like product, the Commission should find one domestic like product consisting of drill pipe.

Now, the Petitioners blame subject imports for their asserted industry over the POI. Now, as far as the domestic industry has experienced any problems in the last year or so, this is attributable to the market conditions unrelated to subject imports. Specifically, the sharply reduced demand for natural gas and oil.

As we all know the U.S. has experienced a terrible recession in the last year-and-a-half, and this has greatly affected demand for oil and natural gas.

Further, some of our witnesses will testify today, as all of our witnesses will testify today, subject imports don't even compete with the U.S. producers for the same customers. This is a very important point that we will be further elaborating on

in our affirmative presentation. Thank you very much.

MS. DEFILIPPO: Thank you, Ms. Chen. We will now move to direct presentation and testimony for those in support of the imposition of antidumping duties. Mr. Schagrin, if you and your panel would like to come up.

I would just like to say thank you for coming today, and again I apologize for the delay, and when you are ready to proceed, Mr. Schagrin, please do.

MR. SCHAGRIN: Good morning again, Director DeFilippo, and Members of the Commission Staff. Again, I am Roger Schagrin, counsel to the Petitioners.

And we are very pleased to be here with you this morning, and even if we start a little bit late, that's okay. It is always better late than never. The same applies to obtaining relief from unfairly traded imports.

We are so pleased today to have half-a-dozen executives from the U.S. industry. We apologize for our age collectively, because as I think you will hear, we have over 150 years of experience in this industry before you today, and I think that will be very beneficial for the Commission.

We are also pleased to be joined by Linda Andros of the United Steel Workers, who fortunately does not have that many years of experience, but is very much a valued member of the USW team here in Washington, and they have organized the plants at some of the U.S. producers of these products.

And with that, I would like to introduce our first witness, Doug Fields, who is the President of VAM Drilling. Doug.

MR. FIELDS: Good morning, Director DeFilippo, and Members of the Commission Staff. My name is Doug Fields, and I am President of VAM Drilling USA.

I have been in the energy tubular industry for 23 years, and have been President of VAM Drilling USA since November of 2008. I am joined today by Kevin Parks, our Vice President of Sales, who has 30 years of experience in the drilling industry; and Steve Williamson, our Director of Strategic Development, with 38 years of experience in the drilling industry.

Vallourec entered the drill pipe business in the United States when it purchased Armsco in October of 2005. We subsequently renamed the company VAM Drilling USA.

We have two welding lines in Houston, Texas, where we perform as many as 18 different operations to combine purchased green tubes and tool joints into drill pipe.

These include various heat treatments upsetting application of treads, and friction welding of the tool joints to the drill pipe and heavyweight drill pipe.

In the same facility, we also product drill collars by treat painting bar and in heat treating in application of treaded connections. We produce the complete range of all sizes and outside diameters of all drill pipe products used in the drill stem, which includes drill pipe, heavyweight drill pipe, and the drill collar.

Most of our sales are to drilling contractors who combine these products with drill bites, and other drilling equipment, with the rigs that they rent to exploration companies to drill for oil and gas.

In addition to the API products that we produce, VAM Drilling USA also produces premium drill pipe products, and these include proprietary grades and patented connections. We estimate that these premium drill pipe products represent only about 15

percent of the total U.S. market for drill pipe products.

This premium drill pipe market is dominated by Grant-Pabco, and we understand that the Chinese are aggressively working towards premium grades and connections.

However, this Commission should understand that imports from China are absolutely destroying the U.S. market for API grade drill pipe products, which we must sell to maintain reasonable capacity utilization rates.

The Chinese came into the market heavily in 2008 and offered drill pipe at prices that were 30 or 40 percent less than our prices. Simple economics can lead you to the result. The Chinese started taking new orders and our order books dried up.

Our company only produces drill pipe products to order. The Chinese began shipping product into the United States markets to store them in inventories so that they could sell to U.S. drilling contractors through distributors who represent the Chinese, like the two here today.

We are now competing with Chinese inventory, which is still being sold at 30 to 40 percent below our prices. We simply cannot compete against this

inventory of Chinese drill pipe being sold at prices below our costs, and that includes the drill pipe, heavyweight, and the drill collars.

The Commission should not doubt VAM Drilling USA or the U.S. industry's competitiveness. We are very export oriented, and a world-class competitive company, but we are also facing massive subsidized and dumped Chinese competition in our export markets because of their over-capacity, the Chinese reading of market share, and the North American markets, the South American markets, the Middle East, and Africa.

While recounts declined in the United States in the fall of 2008 through the summer of 2009, drilling outside the U.S. was stable during that period. Thus, with our export markets also being flooded with unfair Chinese competition, we will be more dependent on sales in the U.S. market.

Let me detail the injury caused to our company. We started layoffs at our Houston facility in February of 2009. We had another round in June, and another round just this past November. In total, we have laid off one-third of our workforce.

For the remaining workforce, we have eliminated all overtime, and we are struggling to give our workers a 32 hour work week, which is probably the

minimum that they can afford to live on and stay in our employment.

It is important to understand that many of our workers are highly skilled. For example, lathe operators, machinists, and technicians. For many of these highly skilled positions, and with the need for training to ensure a safe working environment, we are looking at months, and sometimes more than a year, of training.

Management has shared the pain with our workers. During 2009, every white collar employee of VAM Drilling USA had three weeks of unpaid furlough. I have already told you of the impact on our employment, and hauling out of our order book.

You can obviously assume that our production and shipments have fallen dramatically, and the Chinese have forced significant price erosion and losses.

There is no doubt that our business simply cannot survive without relief against Chinese unfair trade practices. On behalf of all of our workers at VAM Drilling USA, I ask this Commission to make an affirmative injury determination. Thank you.

MR. SCHAGRIN: Thank you, Doug. Our next guest is James Brand of Texas Steel Conversion. Jim.

MR. FIELDS: Good morning, Director DeFilippo, and Members of the Commission Staff. My name is Jim Brand, and I am a product manager for Texas Steel Conversion.

I have 35 years of experience in the energy tubular business, including the last 10 years at Texas Steel Conversion. Texas Steel Conversion is a private, family-owned company, that was founded in 1975, and began production of drill pipe in 2000.

We have two weld lines in Houston, Texas, where we manufacture drill pipe. This includes our own processing of rough tool joint forgings to produce finished tool joints, which we connected to purchased green tubes, which Texas Steel further processes to make drill pipe.

Smith International, which is a multinational supplier of a complete line of drilling products, is our commercial and sales arm. Smith manufactures heavyweight drill pipe and drill collars, and combines their products it manufacturers with our products to offer a full line of drill stem products to the drilling community.

We doubled our capacity in 2006 by adding a second weld line and expanding our product range by being able to make larger sizes than we could on the

original line.

We have absolutely been walloped by imports from China. If Smith is not able to get orders, then we do not have anything to produce. We have seen our order book plummet over the last year.

As a result, we have had significant layoffs at the plant, and I know that pricing for drill pipe has fallen below our costs. We are obviously a well run company, because in the 34 years that Texas Steel Conversion has been in existence, it has weathered some incredible cycles in the energy industry.

However, the massive entry of Chinese in the United States drill pipe market has been a complete game changer. We are not talking about the up and out cycle of the ring cam. We are talking about the persistent presence of unfairly traded foreign competition that has the capacity to supply the entire U.S. market, and they are out there every day taking every available order.

We have a sense within our company that despite our high productivity and world-class equipment, we cannot survive in competition with unfairly traded imports from China.

And that is why a family-owned company that has never participated in trade litigation before is

here to participate in this process. We are fighting for our survival, and we ask you for an affirmative determination so that the Department of Commerce can impose countervailing duty and antidumping duties against imports from China.

MR. SCHAGRIN: Thanks, Jim. Our next witness is Sealy Morris, the President of Rotary Drilling Tools. Sealy.

MR. MORRIS: Good morning, Ma'am, and Directors of the Commission. My name is Sealy Morris. I am the current acting president and managing director of Rotary Drilling Tools, and as we call RDT.

I come from a third generation of making these tools. My father and myself started Pabco, which later became Grant-Pabco, and after leaving Grant, I was also involved in the distribution of these drilling tools in 2006, which is when we decided to start rotary drilling tools, because I thought that the growth and the demand for these products, including drill pipe in the U.S., would increase.

We installed all new equipment at the time when we started the company, and started producing heavy well drill pipe, drill collars, and drill pipe. We turned out to be correct about our forecast of increased demand for pipe, and we believe that we

contributed to the growth of the domestic capacity, and help serve America's drilling needs, along with becoming a major exporter.

Our customer base are the drilling contractors, rental companies, and national oil companies, such as PMAGS, Petrovaca, Petro-Ross, and others.

Drilling contractors and rental companies also operate internationally. For drilling contractors, every rig must have these tools for rental to exploration companies.

Drill stems are composed of collars on the bottom, attached to the drill pit, for weight, and followed by a heavyweight drill pipe, which is a transition between the collars and the drill pipe, but the majority of it is drill pipe.

They are all used together and I do not know any other way to drill these wells without these products. There is many rigs running here in the U.S. as there is in the rest of the world combined. This makes the United States the largest market in the world for these products.

In addition, the trend towards horizontal drilling in the shale areas has also increased the demand for drill pipe, and the drilling in the most

difficult environments has meant that drill pipe, which can be reused and refinished to last for several years, will wear out faster than in the traditional vertical drilling.

The surge in dumped drill pipe imports from China has had a very negative impact on RDT in a number of different ways. First, in 2008, we placed an order for a second weld line, but the surge of imports from China, and the massive inventory buildup of these products in the U.S. led us to delay the delivery of the weld line.

This has obviously increased our costs, and we needed to put down a deposit on this machinery at the time that we placed the order, and the delay in delivery cost us money.

The equipment supplier finally told us that we had to take delivery and pay the rest of what they were owed, or completely lose our deposit. We took the delivery, but we cannot use the equipment thanks to the Chinese.

Second, we cut our operations from a seven days a week, 20 hours a day, to half that level. We have laid off about one-fifth of our workforce, and the rest of our workers are seeing an end to overtime and severely reduced hours.

We had to pay off additional workers just last Friday. These workers are folks that I know and not just statistics.

Third, the Chinese made the decision to sell at any price. Every customer just pounds our sales force every day with information on how cheap they can buy Chinese drill pipe and products out of inventory in the United States.

Even though our lead times are down to 60 days, we do not produce products for inventory, and so it is difficult to compete with Chinese inventory just sitting at the port.

I have been to China several times and have visited many of the drill pipe producers in China. They have way too much capacity and I have told them that these constant massive additions to capacity are just crazy.

The Chinese industry has more than enough capacity to supply the entire world demand for API drill pipe. The Chinese government and government-owned banks continue to invest money in the drill pipe industry, and within every two to three year period, they add as much capacity as the whole United States industry.

I know that a lot of the drill pipe

facilities in China are mostly sitting idle now, and most of the Chinese producers will do basically anything to get a drill pipe order, and be able to operate their facilities.

I have grown up and spent my entire life in this industry. Whatever anyone wants to say about American manufacturing, I can assure you, this Commission, that the United States drill pipe industry is without question the finest in the world.

We invented these products and we invented the premium connections, and for decades, we have supplied the world market. We don't sit back on our laurels and let foreign competitors leap frog us with new technology or better products.

My own new company is evidence of the fact that this industry continues to stay competitive and reinvests. I am an entrepreneur and I do not, nor do I, want the U.S. government to bail me out.

But there is no way that I can compete against the government of China. I understand from Ms. Andros that your job, and that of the Department of Commerce, is to level things out so that competition against the Chinese imports becomes fair.

If you do not, I will not be able to rehire laid off workers, and install and start my new weld

line, and hire additional workers. I can survive the ups and down cycles in the drilling market. I have done it many times in the past.

But nobody in the U.S. drill pipe industry can survive unfair competition with China. Thank you very much for your time.

MR. SCHAGRIN: Thank you, Sealy. And our next witness is Mike Ramsey, product manager for Seamless Industrial Products, at TMK IPSCO. Mike.

MR. RAMSEY: Good morning, Director DeFilippo. My name is Mike Ramsey, and I am the product manager for seamless industrial products for TMK IPSCO.

I have been in the steel pipe industry for over 30 years, and have been with TMK IPSCO and its predecessor, Koppel Steel Corporation, for the past 17 years.

We produce steel billets at our melt shop located in Koppel, Pennsylvania, after which we rotary pierce those billets into green tube for drill pipe at our tube mill in Ambridge, Pennsylvania.

We also produce OCTG as our major product line, as well as seamless line pipe, and I wish to express our thanks to the Commission for all its hard work on those cases, and their successful outcomes

thus far.

All of these cases are critical to the continued success of our company our ability to reinvest in this extremely capital intensive industry, and most importantly, our ability to keep our highly valued workforce gainfully employed.

In regards to capital investment, TMK IPSCO completed a major capital investment in early 2008 that increased our capacity and allowed us to increase our green tube size range from 2-3/8s outside diameter to 5-1/2 inch outside diameter. Our previous size range stopped at five inch outside diameter, 5.0.

Despite the capital investment that we committed to expanding our tube size range, we have yet to receive an order in 5-1/2 inch green tube due to in large part because of import drill pipe from China.

Drill pipe is an extremely important product for our company. Green tube is an excellent supplement to operations, because unlike OCTG, that requires an extensive amount of finishing, our customers of green tube perform the finishing operations themselves for drill pipe.

Thus, combining the manufacture of green tube with the manufacture of tubing and casing for our

own finishing operation, this significantly adds both through put and mill utilization.

As you can see from our questionnaire response in 2008, we shipped significant amounts, volumes, of green tube, and this product was a significant contributor to our overall company profitability. We probably sold green tube to virtually all U.S. producers of finished drill pipe.

While most of the imports of drill pipe are a finished drill pipe, these imports directly affect our business, because Chinese finished drill pipe imports take away from our customers, who then buy fewer green tubes from us.

Our order book collapsed in the fourth quarter of 2008, as imports of finished drill pipe from China overwhelmed the market. We experienced a decline in our order book in the magnitude of 90 percent, which is incredible, when measured against what we perceive as a reduction in a 2009 demand for drill pipe of about 25 percent.

As 2009 went on, particularly after we filed the OCTG cases, we started hearing much more about offers of green tube from China to the U.S. drill pipe producers.

The Chinese OCTG industry is just like TMK

IPSCO, in that they can product OCTG or green tube in the same facilities. Because they cannot ship OCTG to the United States due to the imposition of antidumping and countervailing duties, they have every incentive to ship production to green tube.

We have furnished a number of lost sales allegations in 2009 in the petition. You should also know that these lost sales occurred even as we were dropping our prices to try to remain competitive, and capture some business in order to keep our melt shop and our tube pipe mill operating.

We have experienced a number of layoffs in late 2008, and throughout 2009, in both our melt shop and our tube pipe mill. The loss of green tube business was directly responsible for many of these layoffs.

TMK IPSCO and its predecessor, Koppel Steel, has always been committed to the drill pipe industry. We have had a continuous history of production and participation in sales to this industry. TMK IPSCO and its predecessor has also been an active member in the drilling industry association known as IADC.

It is for these reasons that we are a petitioner in this investigation. This is an extremely important product for our company, and in

order to remain a competitive supplier to the U.S. drill pipe industry, we need to continue to make significant investments in our steel making and pipe making facilities.

Unfairly traded imports from China have both already injured us, and are robbing us of our ability to make reinvestments necessary to remain a competitive U.S. producer.

On behalf of our company, and all of our employees, we ask the Commission make an affirmative determination. Thank you.

MR. SCHAGRIN: Thank you, Mike. And now we are happy to be joined by Linda Andros of the USW. Linda.

MS. ANDROS: Thank you. Good morning, Director DeFilippo, and Members of the Commission Staff. My name is Linda Andros. I am the legislative counsel at the United Steel Workers.

We are the largest industrial union in North America, and we represent workers really in a wide swath of industrial manufacturing, in sectors like steel, obviously, in the pipe at issue today; and in chemicals, oil and gas, uranium, paper, forestry. So we have a pretty broad range.

And for this particular case, the United

Steel Workers represent workers at TMK IPSCO, and also at the United States Steel Corporation, and Timken. It is my understanding that each of these companies operates steel facilities where the companies produce raw steel. They transform it into steel billets, and then produce unfinished drill pipe at rotary piercing pipe facilities.

Thereafter, the unfinished drill pipes are connected with tool joints to produce finished drill pipe. I would note that the Timken Company, which is where we also have members, that they are likely the largest producer of specialized bar used by companies like General Dynamic to manufacture tool joints.

Throughout 2009 the United Steel Workers suffered substantial layoffs in the drill pipe sector, which unfortunately are continuing into the present at all three companies, and which are directly related to the massive surge of imports of drill pipe coming in from China.

In fact, imports of drill pipe from China more than doubled from 2006 to 2008, from 31 thousand to 65 thousand tons; and nearly doubled again comparing the first three quarters of 2008 to the first three quarters of 2009. So up from 34 thousand tons to 61 thousand tons.

This import surge occurred despite the weakening demand in the United States market, and I think that is something that is really important to consider.

Even though the United Steel Workers do not represent workers at drill finishing plants at issue, some of the people that you have heard from today, these workers also face obviously the same negative consequences of unfairly traded drill pipe from China.

Certainly as we have stated in previous hearings involving many other cases against Chinese imports, our members, and our workers, endure the brunt of China's unfairly subsidized and dumped goods into our market.

In general, this nation in the last 24 months, every month has lost manufacturing jobs straight for 24 months, and since 2000, we have lost over 5 million manufacturing jobs.

So obviously you know now that unemployment is over or is at 10 percent, and we have a disproportionately larger percentage of employment. So we are over 10 percent in the manufacturing sector.

So we think that it is critically important for the United States Government to vigorously enforce the Nation's trade laws that are on the books against

unfairly traded imports.

As you are aware the Commission recently rendered the unanimously decision against Chinese imports of OCTG. We are hopeful that this affirmative decision should bring back thousands of workers from layoff to produce OCTG in the coming months and years.

We were a part of that case, the United Steel Workers. We were petitioners, and we testified before the Commission, and obviously we were very pleased with the results, and we hope that it is going to result in bringing back workers.

However, the same Chinese companies often make both OCTG and the drill pipe at issue here, and they would have, it seems to us, every incentive to shift from OCTG now there is orders against OCTG, to producing drill pipe to maintain their own subsidized employment levels, because basically they are exporting their unemployment here.

So this case also matters, and it matters to all our members, and all the workers in the industry. So on behalf of the United Steel Workers and all these laid off workers in the United States industry producing drill pipe, we respectfully request that the Commission would render an affirmative preliminary determination. Thank you.

MR. SCHAGRIN: Thank you, Ms. Andros. Before we open ourselves up to questions, which of course we are anxious to get into to answer as well, I would like to address a couple of technical issues that seem to be somewhat unique in this product area.

While I don't believe that the Commission was served by the filings that Ms. Chen commented on in her opening statement that were filed with Commerce on as she said the scope issue, of course I note that we are at the Commission now, and not at the Department of Commerce.

I don't know if you all are aware at the Commission that Respondents can't file comments on petitions at the Department of Commerce until initiation.

But given that our worthy adversaries -- and I am so pleased to see so many bright young people who used to work at the Commission, or at the Department of Commerce, that are now gainfully employed representing Respondents and importers.

Interestingly enough here before the Commission, they have only signed up to represent two importers, and I don't know why they did not enter an appearance at the Commission on behalf of two Chinese producers.

But at the Department of Commerce, they were also counsel to two major Chinese producers and exporters of the products to the United States. But, anyway, they were able to make these filings at the Department of Commerce because they said that they were on the standing issue and not on the scope issue, and those are accepted.

We will have another chance to comment on scope at the Department, but what the reasoning at the Department of Commerce is the scope, and I think they are trying to say here as to injury some type of double counting for both import volumes and maybe double counting of the injury to the United States, is jus not factually correct.

Between 1994 and 2007, we had orders in effect on OCTG and drill pipe from Japan. Both of those orders had right in the language that green tubes were covered, whether the products were finished or unfinished.

I can tell you that within those 13 years of working on those orders there was never any problem for Customs enforcement. I never remember before this Commission any issue in either the investigation stage in 1994, nor in the first or second Sunset Reviews with any difficultly with differentiating green tubes

for drill pipe imports from Japan, or differentiating green tubes for casing and tubing, or differentiating on the part of the domestic industry.

And we will not have that here as well. In fact, as Mr. Ramsey testified to, since the OCTG cases were filed the Chinese have in fact been switching to more sales of green tube for drill pipe.

Clearly, their importers are not paying antidumping and countervailing duties on those imports. They would not be arriving if they were subject to those duties.

In fact, the duties, the antidumping duties in effect for several months now, have been at the 96 percent level, and countervailing duties of approximately 15 percent.

So there is clearly no issue right now for Customs about entry of green tubes for drill pipe. When it comes to injury, there is also no issue, and that will be a red herring for the Commission.

I represented TMK IPSCO in both the OCTG case and the drill pipe case. I am sure that you can ask Mr. Ramsey, since he is in charge of green tube sales, but is not in charge of casing and tubing sales, that at TMK IPSCO, they look upon this as a different product, and they keep it separately,

separate information on the product.

I work with the CFO of TMK IPSCO, who sends your questionnaires. I have no doubt in my mind that there is no information on green tubes for drill pipe in TMK IPSCO's questionnaire responses to the ITC in the OCTG case.

I am also confident that there is no information about their casing and tubing sales in the information that they have given you in this case. Skadden Arps, I believe they were present. They are an interested party in this proceeding, and does similar work with U.S. Steel, and I am sure that they can verify to the Commission that U.S. Steel has no problem differentiating those products.

So there is no injury overlap. It is an interesting issue though because there is some extra complexity in this case, which is going to be compounded by a failure of the Chinese Respondents to participate in the investigation.

And that is what are the complexities about drill pipe, be it unfinished or finished, or drill collars, is the complexity of the HTS schedules. I mean, no one has ever really known.

There has been an assumption on the part of Customs, and it definitely does not take place in

terms of importations, that finished drill pipe with a tool joint attached should be entered in a specific HTS number in Chapter 84 with oil field equipment.

Now in that chapter for that particular HTS, those products are entered by pieces, not by kilograms. But it is pretty clear, and I have been working in this industry for a long time -- and I wasn't even grey when I first started working with this industry -- that traditionally people haven't entered the products in the right categories.

And so that does make your job -- and in effect my job -- more difficult to try to get the right information on import volumes and import market share before this Commission.

That could be cleaned up if we had full participation by the importers, and I think that will suggest to you, and just in case I forget, because I do forget things periodically know, probably suggests to you then in your final injury questionnaires, that you actually ask importers please tell us where you classify in the HTS schedules all of your different imports, whether they be green tube, finished drill pipe, drill collars.

Because it is not always clear where these products are coming, and if you don't get the

cooperation of the foreign producers, we all are going to have to do our best with the import data we have, because you won't know from the Chinese industry how much they exported of these products to the U.S., and it appears that we are not going to get an overwhelming amount of cooperation from the Chinese.

Finally, as you are going to hear today, API grade drill pipe is a commodity product. In the opening statement, there were statements that the U.S. industry and the Chinese industry aren't competing for the same customers.

And I think what you are likely to hear today, and it will be very interesting, particularly with Mr. Malashevich, who is an expert economist, is an argument about, oh, totally different channels of distribution, and levels of trade.

And I presume that you will hear from these gentlemen from these distributors that they have come up with a brighter idea about how to sell this product in the United States, and that these guys, who have been in this industry for the past 35 years, aren't smart enough to recognize that drill pipe products shouldn't be sold directly to drilling companies, but instead should be sold to distributors.

But the fact is that for the companies at

this table, with the exception of TMK IPSCO, who sells to the companies at this table the green tubes, their traditional sales pattern has been to drilling contractors and rental rig companies.

Unlike OCTG, and I am very cognizant, as is the Commission, because we have worked on OCTG for the past year, OCTG is a distributor business. It always has been, and the folks who were drilling the exploration companies, go to drilling contractors. They get a drill rig with a drill stem.

The exploration companies then have to go to distributors and they buy casing and tubing. They bring the casing and tubing to the wells. The drilling companies bring the drill stem to the wells. That is part of the rental rate for the daily rate for rig.

So the U.S. drill pipe industry has traditionally sold directly to drilling contractors, and to rental companies, and not so much distributors. So to the extent that these folks aren't competing every day for sales to command energy and downhole pipe with the Chinese producers, that would certainly be true.

But the fact is that the Chinese have decided to approach this market primarily through

distributors, and I think you can find that from the domestic industry, that there is about a half-a-dozen major distributors of Chinese drill pipe in the United States.

They are essentially handling the marketing for the entire Chinese drill pipe industry, at least at the present time. But they are, in-turn, selling every day to the customers of the U.S. drill pipe industry. That is where the competition is.

And so, Ms. Bryan, I know that we have given you a lot of work as the economist in this case, and because these sales are to the contractors, we have given you a lot of lost sales and lost revenue allegations.

I hope that those contractors, who we think love buying super cheap dumped and subsidized drill pipe products from China, are going to cooperate with the Commission.

Sometimes it is tough for this Commission to really enforce things against customers in lost sales and lost revenues, and as people who have worked here know, they don't really have any reason to cooperate with you.

Cooperating with you means they are helping themselves cut off their access to unfairly traded

products and lower priced products, but we do hope that you will get that cooperation because in this case, because it is not a distributor market, our clients -- and I believe others in the industry -- have worked really hard to put together this lost sales and lost revenue allegations.

And, of course, that is another sign of the injury to this industry. So I just wanted to -- I am sure that you are going to ask questions about most of those things.

But because they are fairly technical issues, I didn't want to just address them during our time for affirmative presentation. And at this point, we would be happy to answer any question the staff's questions. Thank you very much.

MS. DEFILIPPO: Thank you, Mr. Schagrin, and again, thank you to the industry witnesses, and to Ms. Andros for coming today. It is always very helpful to have people who are very knowledgeable about the industry here. It makes our job a little easier.

So I appreciate that very much, and we will start the staff questions today with the Investigator, Angela Newell.

MS. NEWELL: I would also like to thank you for appearing here today. I have just a few

questions. The first one is are your employees able to transfer from drill pipe, drill collars, and heavy weight drill pipe, on the production line?

MR. FIELDS: Yes, and especially now, given that our order book is as weak as it is. Absolutely. There are lathe operators that can cut the treads, regardless of whatever product it is.

We have one heat treat line, and so the material goes through the same line. It is the same people.

MR. MORRIS: The way that we operate, we actually have cells, and because of the decreased demand for business, we actually move these people cells to cells.

So my folks basically are counter-trained on the machines so that we move them around. The facility is not fully staffed anymore.

MR. BRAND: Our company produces standard drill pipe only, and not heavy weight nor collars, and so it would not apply in the same way.

MS. NEWELL: Okay. Thank you. My next question is do any of your companies produce high chrome drill pipe, and if you don't, do you know who would supply that?

MR. WILLIAMSON: Ms. Newell, I am Steve

Williamson with VM Drilling. I take your question when you say high chrome to be similar to alloys that are used in OCTG, so-called high chrome materials for OCTG. We do not use those products in the drilling environment.

MR. NEWELL: Okay. Thank you.

MR. MORRIS: I'd like to make a comment on that, because drill collars, there are stainless steel, and what we call non-mag drill collars, and yes, we do produce and supply those.

MS. NEWELL: Okay. So generally if you produce drill collars, then you would also produce like the stainless drill collars if you were a producer of drill collars. Is that correct?

MR. MORRIS: Not necessarily.

MS. NEWELL: Not necessarily? Okay. Thank you, and that is all the questions that I have for now.

MS. DEFILIPPO: Thank you, Ms. Newell. We will next have questions from our attorney, Elizabeth Duall.

MS. DUALL: Good morning. I would again like to echo the thanks for being here today, and for educating those of us who don't know as much about this industry.

I have a few questions. Can you talk a little bit about the drill string, and what other components maybe within the drill string, other than the product that we have been talking about, heavyweight drill pipe, drill collars, and standard drill pipe. Are there other elements or components of the drill string?

MR. MORRIS: Yes, there are. There are several. I mean, you have stabilizers. You have reamers. You have shock subs. You have downhole motors. So there are a lot of accessories that go along with these products; crossover subs, bit subs, pup joints.

MS. DUALL: That actually -- for example, a pup joint or a crossover sub, could you explain a little bit about how they are used, and are they manufactured by the same companies that would manufacture drill pipe?

MR. MORRIS: At our facility, yes. We manufacture all three products, and including these accessories, and it is interesting to note that like a drill collar, it is used to make heavywall drill pipe tool joints. It is used to make pup joints. It is used to make crossover subs.

So the drill collar is not necessarily just

make into a drill collar. It can be made into all these other products also, including stabilizers. So, basically you have the collars for the weight on the bit, and then you have got to go to your heavywall pipe, and then you lay your crossover right there, because there are different sizes and connections.

And then you will go up and then you will have another one in between the heavyweights and the drill pipe, and these stabilizers and reamers, and so forth, are all depending on what kind of well they are drilling, because they are all a little different, and that will determine what you put in and the string.

MS. DUALL: And a pup joint, my understanding is that is basically a shorter length of drill pipe that is used to get to a certain length of a drill string; is that correct?

MR. MORRIS: That is correct, and that can be made in two ways. They can be made out of tube, and welded, or in my facility, we make them integral out of the drill collars.

MS. DUALL: Okay. And what percentage of the drill string might be comprised of these accessories? Are pup jumps, are they one or two per drill string, or not always?

MR. MORRIS: I would say maybe three or four

percent of the total string. It is very, very small.

MS. DUALL: Are there any companies in the U.S. that you are aware of that manufacture both the finished pipe and the green tube, or unfinished pipe?

MR. MORRIS: The mills will produce the green tubes and then we basically take them and upset them, heat treat them, and make the tool joints, and then weld them on.

MS. DUALL: Yeah, that is my question. Just as a lay person, is green tube used interchangeably with unfinished pipe? We have talked about unfinished pipe being drill pipe without a tool joint. Is that sometimes used interchangeably, green tube and unfinished?

MR. MORRIS: Well, you have to have one to do the other. So you can buy them like we buy tubes from Koppel. Sometimes upsetted and heat treated, and then sometimes we buy them from Elm Green. So you can go both ways. But you cannot put green tubes on finished drill pipe, if that is what you are asking.

MS. DUALL: It was more a terminology question, just because it is a little confusing to someone who doesn't know the product as well. So I just wanted to clarify that unfinished generally means the drill pipe without the tool joint.

MR. MORRIS: Or upsetting or heat treated.

MS. DUALL: Okay. Thank you. Do you have a sense of how much of the green tube or unfinished pipe is coming into the United States from China?

MR. SCHAGRIN: We believe that the vast majority of imports from China are a finished product. Once again, because we really do not have in the HTS categories a differentiation that is recognizable between the unfinished and finished drill pipe.

You know, we have to speculate, but we believe based upon our information from the industry that the vast majority of the import volume from China has been of finished drill pipe.

However, we also believe that in the past, particularly the past 12 to 18 months, that there has been significant increases in imports of green tube from China.

And since we are just talking about statistical, but I would like to clarify one thing in response to Ms. Newell's earlier question, because it is something that has perplexed us from the beginning of research on this case, and that is that in the changes made to the HTS at the beginning of 2007 made through the HTS -- well, I guess really higher ups who are in Brussels, they decided in every pipe and tube

category in the HTS to add stainless, even in areas where we have thought that there is no such thing as a stainless product.

As to stainless drill pipe, where there is a lot of reported imports from China, unlike drill collars, because I think Mr. Morris answered your question as to drill collars, I am not sure that you got a clear answer and understanding as to drill pipe.

To our knowledge there is no such thing as stainless drill pipe being produced. So we wouldn't want you to think that, oh, the domestic industry doesn't make stainless drill pipe.

There is hugh quantities of imports in the stainless drill pipe categories from China that ought to be excluded, because we don't think when you find out from importers -- and I guess you can ask these gentlemen today, but we don't think that drill pipe is coming in with the over 12.5 percent chrome that would enable to be called stainless products.

So we think once again that there is just mistakes. Everything in steel is duty free, and so nobody really has an incentive anymore to get it right, and we think that those products are just plain misclassified, in terms of what they actually are, and that they are not stainless finished drill pipe.

MS. DUALL: Thank you. Do most producers of drill pipe produce the standard drill pipe, the heavyweight, and the drill collar? Or is it more common to have them produce standard, and then the heavyweight and drill collar is produced by other producers? Do you have a sense of the industry of how that plays out?

MR. FIELDS: Yes, we produce all three. Grant does. It is common to produce all three.

MR. BRAND: It is common, but it is not a hundred percent. We have produced standard drill pipe only, and there is other smaller manufacturers of drill pipe not represented here today that only do drill pipe, I believe.

MR. SCHAGRIN: The answer is that it is common. Most of the industry produces all of the products, and for Texas Steel Conversion, which only produces drill pipe, they actually go to market in conjunction with the Company Smith, that then makes the heavyweight drill pipe and the drill collars.

So essentially even Texas Steel Conversion, which only makes standard weight drill pipe, goes to market as a package through a company that can sell the entire package for the drill stem.

MS. DUALL: Does the drill collar have any

use outside of the drill string? Would it be used in any other applications?

MR. MORRIS: Yes, it is. I mean, we use it to make tool joints for heavyweight, and we use it to make these accessories that I was telling you about, the subs, and the pup joints, and those types of items. So, yes, it is used for other things besides just a drill collar.

MS. DUALL: Could a customer ever substitute or do they ever substitute between heavyweight and standard, or is heavyweight always used just for the drill collar, and there would be no substitutions between them?

MR. MORRIS: Well, with this unconventional shell fight that is going on right now, they actually use the drill collars, and they call it push pipe. It is not used for weight on bit.

So you have the drill pipe first, the heavyweight second, and the drill collar is on top. So it really depends on what type of well you are drilling.

MS. DUALL: I'm sorry, just to clarify. So were you saying that sometimes they will use the heavyweight in place of the drill collar?

MR. MORRIS: Well, they can. They use

motors and they will put the collars in a different part of the hole.

MS. DUALL: Okay.

MR. MORRIS: Instead of them being right on the bottom of the hole, they will actually be at the very top of the hole. It just depends on what type of well you are drilling.

MS. DUALL: What is a rig package? Can you describe that for me? Is that when all of the components are sold as a package or as a set?

MR. MORRIS: Yes, typically what you will -- well, when there is a new build, or a contractor buys a new rig, he will have to buy all these components to run the rig. So they will come in and they will buy all the components all at the same time.

MS. DUALL: Okay.

MR. MORRIS: And then after a new rig goes to commission, then it gets to be a replacement, or if they do a different type of well, they will have to buy a completely different assembly to accommodate the customer.

MS. DUALL: And it is actually sold and priced as a package, as opposed to the individual components?

MR. MORRIS: They are usually priced

separately, but they will look at the total package.

MS. DUALL: Can you talk a little bit about the differences in the production processes for drill pipe, both the standard versus the heavyweight, and for drill collar, I understand that they all go through a heat treatment process, but that it can be very different for standard versus the heavyweight and drill collar.

So can you talk a little bit about the specifics of the production process?

MR. WILLIAMSON: This is Steve Williamson again.

MS. DUALL: I'm sorry, the mike isn't on.

MR. WILLIAMSON: Is that better? Okay. In answer to your question, there are many of the processes that are very, very similar in all these products.

As you indicated, they all are heat treated. They all are threaded in very similar equipment, and have hard facing materials to try to minimize the wear downhole.

So many of the processes and the skill sets of the people as we indicated earlier are applied in all of these products, and some of the same people will be doing or making each of these products. So

they are very similar in that regard.

MS. DUALL: So the same machinery can be used for the different products?

MR. WILLIAMSON: Yes. If you are threading heavyweight, or threading drill pipe, or threading a drill collar, the same similar type equipment is being used for each.

At the end of the day, these things have to screw together, and so these connections are similar in design, and sometimes identical. We did indicate if you have different sizes of drill pipe within the string, or different sizes of the heavyweight and the drill collars, you may have an accessory that does a crossover, but they are very similar in their design and their use.

MS. DUALL: Are there additional production processes that are applied to drill collars? For example, the spiraling?

MR. WILLIAMSON: There are some differences, sure. We indicated that a drill collar is made from a bar, and its hole, and all of them have to transmit drilling mud through the drill string. They are all identical in that regard.

So you have to have a central passageway for the drilling bud. For a drill collar, you form that

hole by drilling a hole or pre-pending a hole in it. So there is a small difference there.

But there are spiraled heavyweights. You mentioned spiraled for drill collars, and those are done of the same equipment.

MS. DUALL: And is there spiraling on standard drill pipe as well?

MR. WILLIAMSON: No, not at this time.

MS. DUALL: Are heavyweight and standard drill pipe always produced from green tube? Some of the questionnaire responses seem to suggest that heavyweight drill pipe could be produced from the drill collar material.

And this may be what Mr. Morris was referring to earlier. Can you confirm if I am understanding that correctly?

MR. WILLIAMSON: Absolutely. The original design and manufacture of heavyweight was from taking a drill collar bar, and turning it into the shape of the heavyweight.

So that is still done in certain cases today. It is a matter of economics. Sometimes you will make it from bar stock, and sometimes you will make it in a similar manner to drill pipe, with a tube and then welding the tool joints on the ends.

But you can do it both ways, and it is still done today both ways.

MR. SCHAGRIN: And, Ms. Duall, I don't know if you were one of the folks who were able to visit Novasota, but I have been in that facility a number of times during my career, and I think you would see there -- and really these gentlemen's facilities are similar, just on a much smaller scale, how many of the processes there are in common.

And, of course, as you all -- and it is in the General Counsel Office folks, a lot of unlike product, and there is always this issue of can you find a clear dividing line.

Well, you get into heavyweight drill pipe, which an be made either the way that you make drill pipe, or it can be made the same way that you make drill collars.

And so clearly having these products, which are all connected together in their usage, which are made in the same facilities, even though there are some differences -- there are both some differences and a lot of similarities, but then you know what strikes me, as I have worked on like product issues for a long time here, is that how can you draw a clear dividing line when you are able to make the same

product that is in between two other products either of two ways.

I mean, heavyweight drill pipe is really the crossover, literally and figuratively between the normal way and the drill collar, because it is generally used in between them, and in fact it is made from both ways.

You can go at it starting with green tube, or you can go at it starting with drill collar bar. So, of course, we think that is a critical issue as you are looking at drawing lines, that you really can't draw lines.

I mean, to be honest, and we will get to this later, if you find multiple like products here, you are just going to make multiple affirmative injury determinations, because the Chinese are just destroying -- they make all the stuff in China, just like we make it all here, and they are killing everybody here. It doesn't matter the product.

But we also are very focused on intellectual and legal issues of can you draw lines, and I think the fact that you can't draw them, argues for making them one like product.

MS. DUALL: Thank you. Just a couple of more questions. Do you have a sense of how much drill

pipe is coming in from non-subject countries, and if so, can you tell me which countries the majority is coming from?

MR. FIELDS: There's very little finished drill pipe coming in from other countries. What comes in is green tube. So very little finished drill pipe is coming in from China.

MS. DUALL: Where is the green tube coming from?

MR. FIELDS: You get green tube -- coming from countries is what you are asking?

MS. DUALL: Yes.

MR. FIELDS: Germany, France, Brazil, Austria, Japan as well.

MS. DUALL: Thank you. Do appropriate circumstances exist to exclude any producers from the domestic industry?

MR. SCHAGRIN: Ms. Duall, I don't think we would address that issue at the conference. If we are going to address it, it would be in the post-conference brief.

MS. DUALL: That's fine. Thank you. That's all I have for now. Thank you.

MS. DEFILIPPO: Thank you, Ms. Duall. We will now move to our Economist, Nancy Bryan. Ms.

Bryan.

MS. BRYAN: Thank you. Again, thank you all for coming this morning, and so far it has been very educational for me. I want to explore the issue of the premium grades that was touched on earlier a little bit.

First of all, just to clarify. Currently the Chinese producers do not produce the premium grades; is that correct?

MR. PARKS: I would say that premium grade represents 15 to 20 percent of our total sales. Chinese manufacturers are trying to gain better manufacturing capabilities to try to catch up to our manufacturing. Right now, they are not.

MR. MORRIS: When you say premium, the grades is one part of it being premium, which is done through the chemistry of these green tubes in the heat treating process.

And then the connections is another premium component of the puzzle. Yes, they do supply premium connections out of China. They are producing premium grades still out of China. They have not gotten to some of the higher, higher levels, but they are doing it now, yes.

MS. BRYAN: Okay. And are the premium

grades -- what are they used for? I think you mentioned the deep shore drilling. Are there any other uses that necessitates the use of premium grades?

MR. MORRIS: Yes. Up in Canada, you either get real, real high grades for the deep, deep wells for higher tensile strings, or you go the opposite way and you want to have the grades very, very low, so they are a sour service.

So when the environment is real sour service, and those are used quite commonly up in Canada, and in Mexico, and here.

MS. BRYAN: So those lower grades, what segment of the market do you say they account for?

MR. MORRIS: It's a small percentage here in the United States. I would say maybe five percent. A lot of it is used up in Canada and Mexico.

MR. PARKS: This is Kevin Parks. The sour service in the U.S. is much less than five percent. We figure it is 2 to 3 maximum, because it is usually just run in the West Texas area for sour service.

MS. BRYAN: Okay. Thank you.

MS. DEFILIPPO: Did you want to add something?

MR. BRAND: Only that for us, the premium

grades, including sour service, our connections combine would be maybe half or less than what the VAM Drilling facility is doing.

MS. BRYAN: Okay, great.

MR. SCHAGRIN: Ms. Bryan, just to add, in this area of premium, you know, premium as the -- the word means obviously that the very high end products, which you've heard is a small part. And, yet, even within that, there's patented products. But, of course, the way patents work, for good reason, is that patents are only good for a certain amount of time. And then once that patent expires, anyone is free to copy that. And that, in fact, happens, as its supposed to happen, that sole purpose. And then maybe even something higher than that is covered by new patents. And that's the case in this premium grade. So right now, some American companies, as well as some Chinese companies, are essentially making premium products by copying over expired patents, which they're legally allowed to do. So, that's how they can get into it.

And, of course, there always has to be a concern with the Chinese about them actually copying existing patents. And we think they won't get into that. And then, of course, some patent holders can

also have production both here and in China. You essentially have a patent that's been produced, international products in China as well as in the United States.

So thus far certainly the Chinese entry into the premium grade of the market has been relatively small, particularly as compared to their absolute dominating role in the API grade market. But, one of the reasons it's covered by the case, instead of arguing that premium was a separate like product from API grade, and one could certainly make some of those arguments, particularly given the patents involved, is, you know, certainly the Chinese are getting into that into the market, as well.

MS. BRYAN: Okay, thank you. And could you give me an estimate of maybe the price difference between an API grade and a premium grade, in percentage terms roughly?

MR. SCHAGRIN: Yeah. Just because it's pricing information --

MS. BRYAN: Okay.

MR. SCHAGRIN: -- can we answer that in a post-conference brief, please?

MS. BRYAN: Oh, sure; sure, that's fine.

MR. SCHAGRIN: We'll give you that

information in our post-conference.

MS. BRYAN: And, also, just to clarify, are any of the pricing products, as defined, do they cover any premium grades?

MR. SCHAGRIN: No. The pricing products do not cover any premium grades.

MS. BRYAN: Okay, thank you. Also, are you aware of any grades out there that do not meet the API specification, that are lower than those?

MR. SCHAGRIN: I'd say the API has a standard and there are several products that exceed the API standards.

MS. BRYAN: But any that come below it?

MR. SCHAGRIN: No.

MS. BRYAN: No, okay. Thank you. Also, this might be related to the deep shore drilling, I'm not sure, but the horizontal or directional drilling, does that also necessitate the use of a special grade?

MR. SCHAGRIN: No. The API standards you can use.

MS. BRYAN: Okay, thank you. And do you happen to know of any of the non-subject countries produce the premium grades?

MR. FIELDS: Yes. The Japanese do.

MS. BRYAN: Okay.

MR. FIELDS: And in Europe, as well, yes, Royce, Germany.

MS. BRYAN: Okay, thank you.

MR. FIELDS: Austria.

MS. BRYAN: I would also like to ask about the role of used product in the market. If you just kind of want to -- kind of open that up to discussion, what kind of presence to used product sales have and what kind of impact might they have on pricing of new product and why might a customer choose used versus new?

MR. MORRIS: We're actually in that business. We refurbish these products by taking in, cutting the doors, and putting new ones on there, and taking used row collars and making them into re-certified heavyweight and taking used grill collars and making subs and joints. So, yes, it's a very large part of my business. Some of the larger manufacturers have a hard time because of liability issues involved with not being API certified and that sort. But, it's a large market for the smaller land drilling guys. The offshore guys will not use those type of products. Typically, you'll see it with shallow land drillers. It's probably 15 percent. It's a replacement business. It's not usually for new

builds or that sort.

MS. BRYAN: Okay. Is that 15 percent of the total market or just the land?

MR. MORRIS: Just the land; just the land guys.

MS. BRYAN: Okay, the land guys.

MR. MORRIS: It might actually be smaller than that now.

MR. PARKS: For the record, VAM Drilling produces and manufacturers and sells only new products, no re-manufactured products.

MS. BRYAN: Okay, thank you.

MR. BRAND: And likewise, Texas Steel only produces new product.

MS. BRYAN: Okay.

MR. SCHAGRIN: Ms. Bryan, I know you're getting at competition between literally used products that are refurbished and new product. But one thing to understand, which is why inventories in this product area are even more worrisome than in a product area such as OCTG, where, of course, we knew they were worrisome enough, is that the nature of drill pipe, which I think has already been elucidated in the past ITC determinations and reports on this product, is it is a product that gets reused by the drilling

contractor. So, the normal life of drill pipe, inclusive of all the products, is about three to five years with the drilling rig. And so, you know, you're just not talking about a product that gets made everyday. And so, these folks are definitely in the cyclical business and they have to do well when new rigs are coming on and then replacing the used on a normal pattern that they're aware of because their experience in this industry. But, it's almost as if, you know, them losing out on sales of new product for a new rig means that they're next chance to make that sale may not be for another three years. And I think that is a very unique condition of competition to this industry. It's not very normal for the products that the Commission normally considers. So, I know it may not have been the real intent of your question, again, used competing with new, but the fact that this is a reusable product, unlike casing and tubing, which go in the well once and stay there, this product with the drilling rig moves along and gets used every week as they're drilling a new well.

MS. BRYAN: Okay, thank you. Actually, I'm going to have a question right off of that. You mentioned that the life span is three to five years. Is that for an active rig? I mean, I think rigs can

go inactive, as well. So, if it's been inactive, can it still be reused?

MR. FIELDS: Yeah. It's active, being used for three, four, five years. So, think about when the rig count drops, then you've got drill strings available to be used in other rigs, too.

MS. BRYAN: Okay. So is that how it typically works? Like if a rig is inactive, it won't just sit there; you'll move it to an active --

MR. FIELDS: Yeah. See, if a rig is stacked and there's a need for -- let's say, you've got 10 rigs and you stack one and you need to get another drill string, you can pull the one off the stacked rig and use it instead of buying new.

MS. BRYAN: Okay, thank you. Are there any possible substitutes for drill pipe?

MR. PARKS: For the record, no. The only way that drill pipe is to bring mud down to the bit to cool the bit and that's the umbilical cord to drill the well. So, there's no other way to drill a well without drill pipe.

MS. BRYAN: Okay, thank you. Could you potentially replace the drill pipe -- the drill pipe as all heavyweight drill pipe?

MR. MORRIS: You could, but it would be cost

prohibitive.

MS. BRYAN: Okay, thank you. Also, I want to talk about how the prices are typically set in the market. Would you say that the prices of drill pipe closely track the prices of your raw materials?

MR. FIELDS: No and that's a problem today. When we've got cost increasing and there's no -- there's nothing we can do. We're pressured to lower prices and increasing cost is a terrible squeeze for us.

MS. BRYAN: Okay, thank you. Also, in terms of when you're negotiating contracts with customers, do you typically bundle together the drill pipe and the drill collars into one contract?

MR. PARKS: We try to put them all as a package. We start from the bit saver sub, all the crossovers, to drill collars, to the heavyweight drill pipe, top drops, saver subs --

MS. BRYAN: Okay.

MR. PARKS: -- complete string.

MS. BRYAN: And then in that case, are the prices negotiated for the total package or for each individual product?

MR. PARKS: Usually, they're per individual product. That's how they're spelled out.

MS. BRYAN: Okay, thank you.

MR. MORRIS: I'd like to comment on that.

MS. BRYAN: Yes.

MR. MORRIS: Yes, we all try to get a total package. It's really a customer -- sometimes you can get a cheaper price on each individual item and he'll separate them out and buy them separately. So just because you quote a package does not mean you're going to get the package.

MS. BRYAN: Okay. Yes?

MR. BRAND: I'd like to add that Smith International, which does our marketing, will also try to package. But, we negotiate drill pipe separately. They may be awarded an order for some of these various products, heavyweight or collar, and we lose the drill pipe because of competitiveness and vice versa.

MS. BRYAN: Okay, thank you. I did want to talk about the effect of the inventory buildup and how this is possibly affecting your lead times. It sounds like for the most part what I've heard today is you produce mostly to order. So, how is this changing that situation? Are you now more selling from inventory than you have in the past?

MR. PARKS: We still produce to order right now. Our current deliveries are still running six to

eight weeks from all to finish product.

MR. BRAND: Our situation is exactly the same. We produce only to order with a similar lead time to the VAM Drilling.

MR. MORRIS: My situation is a little different. I don't have the luxury of having excess capital. We've had so many orders canceled. We are actually able to keep my people busy, so I don't have to just send everybody home. We are making inventory now.

MS. BRYAN: Okay. Yes?

MR. SCHAGRIN: And, Ms. Bryan, once again, we believe that the U.S. industry has traditionally a very long period of time in a produced to order business and, yet, produced to order doesn't mean, as I think you just heard from Mr. Parks, mean that you're going to get it next week. Even if nobody is working today, it doesn't mean you're going to get it. As you may have learned at Navasota, they're so many processes that even having the raw materials in stock, it's about six to eight weeks to go through these 18 processes with all the workers doing all the things they need to do and inspecting these products. And, yet, think about the competition from these distributors, who you're going to hear from later,

having all these inventories Chinese product that they can offer to customers tomorrow out of inventory versus domestic industry, even when they have no present orders, it's a six- to eight-week lead time.

You would think probably, because you're an economist and I studied a little bit of economics, myself, that, well, gee, you know, it's going to be great for customers. Everybody would rather get something tomorrow rather than six to eight weeks from now. You would also think you get a premium, not offered a discount, but that's the Chinese way of doing things. You get it cheaper than everybody even when you get better delivery.

But, really, we haven't touched on this yet, these guys businesses weren't organized in the wrong way for last 50 years. They don't need to produce product for inventory in order to satisfy customer demands of having just-in-time delivery. The drilling contracting business is not like the auto production business because if you think about the way the products are used, a drill stem goes with a drill rig. The drilling contractor during a period when drilling is expanding and demand for their products are going up orders from a rig production company. The drilling contractors don't make their own rigs. There are

other companies in the United States that produce rigs and companies around the world. They order them and those will be delivered in six months, nine months, 12 months, 18 months. They, then, know for me to rent that rig to an exploration company, I need to give them both a rig and a drill stem and all the rig equipment. They would then turn around to U.S. producers, before they add all in unfair Chinese competition, and say, I need to order products. In fact, they wouldn't -- if they're not getting a new rig for six months, they don't want the new drill stem tomorrow. That's just tying up their capital needlessly for six months. They would actually go to the U.S. industry and say, I want new drill stem product. I want so much of it in six months, so much of it in nine months, so much of in a year, because they want to get it when they get the drill rigs.

So, it's another very interesting -- I mean, this is a very unique industry and I really think -- I mean, we have a lot to learn maybe from command capitalism, as I've heard Secretary Reich -- former Secretary Reich described the Chinese economic system as command capitalism. But, I don't think we ought to throw out what democratic capitalism and American ingenuity have invented. I really think these folks

came up with a pretty good business model that fit the demands and requirements of their customer base.

MS. BRYAN: Okay, thank you. I just have a couple more questions. I'm just trying to get a better understanding of how demand is driven. I understand it's based on the number of rig counts. How much would you say of your sales go for new rigs, as opposed to replacement pipes for existing rigs? If you want to comment in a post-conference brief, also, that's fine.

MR. PARKS: That's a very interesting and difficult question to answer. When the increase in rig count came up, we were talking to contractors and we were scheduling ourselves out to meet those demands for those rigs. I can honestly say not one time in my 30 years of doing this has drill pipe ever held up the rig going to work. Other components to the rig might delay the rig and the work, but not one time have I ever seen tubulars delay a rig to go to work.

MS. BRYAN: Okay, thank you. Yes?

MR. MORRIS: I'd like to make a comment about that because Kevin made a good point. My family has been doing this over 100 years now. I can't recall ever a rig not running because it didn't have these products. If they get in a situation -- that's

why these rental companies are in business -- they'll go rent it, if they don't have it. But as far as replacement goes, these contractors have surplus inventory of their own. They don't -- they always have backup pipe. So, the replacement is an annual, biannual. Right now, it's probably going to be another two years before we ever see replacement. So, it comes in cycles. If all the rigs are running, then the replacement cycle is increased. If they're not running like they are right now, we've got half the rigs running, they probably have a two-year supply of pipe of their own inventory. So, we will not see any replacement pipe.

MS. BRYAN: Okay, thank you. This is something Mr. Schagrin brought up about the, I guess it's the same customers or lack of the same customers, or customer overlap. It was brought up earlier. Could you just sort of rehash? I just want to kind of make sure I'm getting this correctly. The customers that the U.S. producers are selling to include the drill contractors and the rental companies and who else?

MR. SCHAGRIN: That's basically it. All sales by U.S. producers to distributors, but this has not historically been a very significant distributor

product, so that you have, at least in the U.S. market, and they differ for other markets, Canada and other places, but the customer base for everyone in this industry is drilling contractors, because they're the only users. There's no other user of this product in the U.S. other than the drilling contractor. And then there is a whole separate business of rental companies and their whole business model is to have all these products that are used in drilling available when somebody doesn't have enough of what they need at any particular time. They will rent it to them, so that, you know, if you have a short-term situation where you don't have it, but you don't want to go out and buy all new pumps, et cetera, because you've ordered it, you just go get it from a rental company. And that's basically the -- that's the market for these products in the U.S.

MS. BRYAN: Okay. And are the sales prices to both the drilling contractors and the rental companies, are they similar?

MR. SCHAGRIN: I think we'll answer that in our post-conference brief. I don't know the answer, but we'll find out the answers and put it in the post-conference brief. Of course, one thing you would expect is that, once again simple economics, is that a

normal channel distribution from producers to end users, that if those end users were buying it from distributors, because distributors do need a markup -- they carry inventory, they have employees, they have costs -- you would think that for an end-use customer, a purchase price from a distributor would be higher than a purchase price from a producer. But, in fact, the wonder of the business model you're going to hear about later today is distributors are able to sell Chinese product as distributors at prices lower than prices charged by producers. That's not the normal rules of economics. The reason that we have those economics in this industry is because of subsidization and dumping of the product going to these distributors.

MS. BRYAN: Okay. And I guess we'll find out more about this, this afternoon. But, are the distributors also the importers or is there another level here?

MR. SCHAGRIN: I do not know. You would have to ask them.

MS. BRYAN: Okay. Thank you. Those are all of my questions now. Thank you.

MS. DEFILIPPO: Thank you, Ms. Bryan. Mr. Boyland, do you have any questions?

MR. BOYLAND: Yes, I do. Thank you for your testimony. First question, and I realize the industry, there's a whole range of products being produced, but as a general matter, did the product mix, itself, for each company change significantly during the period?

MR. FIELDS: Not significantly. We might have seen a shift to smaller ODs, but not -- there was really no significant change.

MR. BOYLAND: Is that true for the other producers?

MR. MORRIS: For us, we mainly concentrate in the smaller sizes. But as far as the difference between heavyweight and percentage of sales, it's basically about the same and has not really changed.

MR. BRAND: Our mix has been stable through the years.

MR. FIELDS: Just one thing to add, we did see a shift out of API because we couldn't -- we were priced out of the API market. So, that was a shift in our mix.

MR. BOYLAND: Okay. So, I guess the other question, too, is during the period, if, in fact, product mix was essentially the same with some change or shift towards more premium, if the average sales

value is increasing as an overall matter, I should attribute that to higher actual sales prices.

MR. SCHAGRIN: That's correct, Mr. Boyland. There's no question that over the POI probably for the entire U.S. industry, as the Chinese were taking significant shares of the API grade, that the U.S. industry's product mix has shifted as a share of total sales more towards premium products. And given the price differentials between premium and API grade, you would see higher average unit values and that's probably not representative of pricing of products, but more representative of a change of product mix.

MR. BOYLAND: Okay, thank you. And I realize the interim 2009 period may be different, but prior to the collapse in demand, was raw material price or the actual cost of the imports driving part of the increase, notwithstanding the shift in product mix? The input, itself, was more expensive? And I'm assuming you've passed through that to the customer.

MR. FIELDS: Yeah. We saw fluctuations in our raw material costs and that drove -- yeah, and input cost, so that impacted us, too.

MR. BOYLAND: Okay.

MR. BRAND: The situation was the same for us, raw material costs did impact our final cost.

MR. BOYLAND: Okay. Surcharges, were those separate or the base price just increased to reflect the raw material?

MR. FIELDS: We didn't have any surcharges during the period.

MR. BRAND: We were subject to surcharges on the raw materials, but were not able to pass that on to the final customer.

MR. BOYLAND: Okay. MR. Morris?

MR. MORRIS: Same for us. We were sometimes able to pass the surcharges on and sometimes not.

MR. BOYLAND: Okay. In terms of services that the company provides, are there specific -- and not the re-manufacturing -- but do the companies actually provide service to the drill contractors for anything other than just the pipe, itself? Technical support?

MR. PARKS: We have a MTS, we call it marketing technical sales support team that exceeds two dozen people, not only U.S., but around the world, that actually goes to a rig site, if they have any questions with our products. We put on training seminars, presentations at no charge, literally at any office, anywhere in the world, any rig site anywhere in the world. We've increased our presence to try to

help our customers.

MR. FIELDS: And maybe just to add one thing along with the M&D, we have an R&D group that is designing new connections, new grades, working directly with end users when they've got a difficult project and the current solutions don't fit.

MR. BOYLAND: So, prospectively, trying to develop a solution?

MR. FIELDS: Right.

MR. BOYLAND: I guess the question, too, is just simply that that's a service that you provide. It's not included in the price. It's not something that the customer is going to directly pay or --

MR. FIELDS: Sometimes they do.

MR. BOYLAND: Okay.

MR. FIELDS: If it's a big project and we know there's a huge R&D effort up front, sometimes there's an agreement up front and they pay a part of that.

MR. BOYLAND: Okay. So, in other words, sharing the burden of the research and development. I guess where I'm coming from is the sales that are being reported are the sell of the plate. There's no separate component.

MR. FIELDS: Correct.

MR. BOYLAND: Okay.

MR. BRAND: That's not the case for us. Texas Steel does not provide those types of services to the industry.

MR. MORRIS: We're not -- don't have the capacity that VAM and two of the other bigger manufacturers have, but we do do engineering work when they come up with different projects to help redesign. And then they, also, share the cost for tooling. If some of these new products that require new tooling, they will help with that, either through the final price and/or up front.

MR. BOYLAND: Okay, thank you. And just to clarify, in terms of the production of the tool joints, themselves, one company indicated that they produce tool joints. I'm not sure who that was. Was that VAM?

MR. FIELDS: Well, for VAM, we purchase through our forgings and then we finish the tool joint.

MR. BOYLAND: Okay.

MR. BRAND: For Texas Steel, we purchase forgings and finish the product ourselves, the same as VAM.

MR. BOYLAND: Okay.

MR. MORRIS: We'll use the drill collars to make heavyweight tool joints. Okay, we will -- we use drill collar material to make heavyweight tool joints. And we are the same way, we'll buy the forgings and then we'll do the finishing work. For these API specification, whoever threads the tool joints is actually the manufacturer.

MR. BOYLAND: Okay. I realize each company indicated that there were significant layoffs in order to account for the decline in demand. What other steps has the industry taken in terms of adjusting its cost structure or is that the main step?

MR. SCHAGRIN: I'll let the others answer, but I just wanted to correct on the record. Mr. Boyland, you said 'layoffs in order to account for decline in demand.' It was also to account for the increase in import --

MR. BOYLAND: Excuse me. I was not --

MR. SCHAGRIN: That's okay. I know that nobody -- everybody is fair and objective all the time; but, you know, lawyers, we're very sensitive to word choices. And then I'll let each of these gentlemen answer it, but I do have a comment because I was thinking about this as preparation, you know, was for taking place for the hearing, and it's the only

way the ITC can really do this. But, you get in your questionnaires an average number of production workers for a nine-month period. In these industries, and I remember preparing for the OCTG final hearing, you know, often during the downturn and the big increase in import market share, the number of employees at the end of the period can be significantly, I mean very significantly fewer people having jobs than the average during that nine months and there's no question that in this industry that is the case. Now, I'll let you answer, because I know these companies did do a lot to save costs other than just reducing worker time and laying off workers. Mr. Fields?

MR. FIELDS: Yeah. So, in addition to laying off a third of our workforce, the people that remained, we severely cut back hours, many times 24 hours a week. So, you can imagine the impact on take-home pay.

We shut the plant down for a couple of weeks at a time, something that we hadn't normally done in the past, just because there's no demand.

Of course, a huge initiative to save cost in other areas besides labor, as well, was going on, everything from the materials that we purchased, to try and negotiate reductions on that end, to energy

savings, electricity savings. We left no stone unturned.

And for the salary group, we had three-week unpaid furloughs.

MR. BRAND: The situation is the same at Texas Steel. We've lot a larger percentage of our workforce because it's over half of our workforce. The remaining workforce has severely reduced hours and frozen wages. We've shut the facility down for extended period of time, as well.

MR. MORRIS: I came in the -- I'm the new player in this business. I would probably be in the same situation these gentlemen are if I would have been -- gotten started earlier. I just didn't get my capacity and we had to stop. And as far as costs go, our costs are continually to go up, insurance, utilities. So, it's a real burden.

MR. BOYLAND: And Mr. Morris, you did mention the weld line that was essentially -- you initiated the -- in 2008, you were planning on adding that. But, at this point, did you lose the deposit or you just took delivery of the equipment?

MR. MORRIS: No, we went ahead and took delivery. We have not installed it. We still own some monies, but we -- these weld lines are very

expensive and so, basically, I put cap X out, that I'm generating any revenue. It wasn't just the weld line. There were other equipments that we did lose deposits on.

MR. BOYLAND: Okay. But that would be a big chunk of it?

MR. MORRIS: A big chunk of it.

MR. BOYLAND: Okay. This is sort of skipping around, but with respect to the green tube producers, is it -- and I don't want to obviously talk about business proprietary information, but was there any difference in terms of the reaction time between the different segments of the industry, in terms of when declines were first impacting the companies?

MR. RAMSEY: No, no. There was no real impact.

MS. DEFILIPPO: Excuse me, Mr. Ramsey, could you, please, turn on your mike? Thank you.

MR. RAMSEY: No real impact there. There was no real difference in timing.

MR. BOYLAND: Okay.

MR. RAMSEY: The industries all went down together.

MR. BOYLAND: Okay. I guess I'm asking that because you're obviously providing input form someone

else and it's in terms of the ripple effect, who is going to feel it first. And so from your standpoint, it would be pretty much everybody was --

MR. RAMSEY: Very directly related.

MR. BOYLAND: -- simultaneous, okay. Those are all my questions. Thank you, very much.

MS. DEFILIPPO: Thank you, Mr. Boyland. Our industry analyst, Mr. Van Toai, do you have any questions for this panel?

MR. VAN TOAI: Yes, thank you. I have some questions, very quick questions. First, Mr. Schagrin and lady and gentlemen, I would like to thank you, very much, for appearing in front of us. I always find this, the staff conference a tremendous opportunity to learn very quickly and directly from the experts in the field.

Let me go quickly to my first question here, which is related to the person, who is not here. I notice that VAM Star is not represented today. Does that mean that the Young Star facility will not produce drill pipe?

MR. FIELDS: They don't produce drill pipe. They don't produce the size range we need for drill pipe right now.

MR. VAN TOAI: I see, only seamless pipe

for, say, tubing and casing and other --

MR. FIELDS: Correct.

MR. VAN TOAI: -- other product. I see, thank you. My second question is -- this is in regard to the standards -- the specification by the API. As you know very well that in 2001, the API issued the API specification seven, effective in 2002. And now they've just come out with a new specification and they split seven into 7-1 and 7-2. And what are the key difference between the API seven, the old one, and the current and upcoming 7-1, to be effective in, I think in October 2010? What are the key difference between them?

MR. WILLIAMSON: Everybody is looking this way. I've been, for many, many years, active in the API standards group and also more recently in the international organization for the ISO specifications. What you're seeing with the spec seven and eventually will be effected with what is currently API standard 5d is we're transitioning to what will be the ISO 11961. And at a future point, API will back adopt that. So, it's a migration to having one specification that will cover the entirety of the drill pipe. But, largely, the requirements are not very different. So, it's a restructuring and it's

putting it into a form that is more amenable to the international standards and that's what API is following. But, in terms of the actual part requirements, you know, do these guys, who are making the pipe, have to change that much and the answer is no.

MR. VAN TOAI: I see. Thank you. My next question is according to the way you answered, Mr. Fields, in the past, one of the past questions, countries that may benefit from a decrease in Chinese imports may be Germany, Brazil, Austria, Japan, and France. And I do not hear you say India. I just wonder whether you have any comments about India. You know, they are very aggressive, too, in terms of steel products and steel productions all around the world and in the United States, too.

MR. FIELDS: Yeah, India definitely should have been on the list.

MR. VAN TOAI: I see. Any other country that you --

MR. WILLIAMSON: Yeah. Can I add a word about India? The capacity for making these drill stem product in India is fairly small.

MR. VAN TOAI: Very small, I see.

MR. MORRIS: Yes. There are several other

countries. There's mills in Argentina, Mexico, Italy, that also do these products.

MR. SCHAGRIN: Can I just add, because I know sometimes the Commission past does look at, you know, benefits of relief to other countries. It is clear from the record evidence that imports in the United States of finished drill pipe from other countries are very, very small. It is also clear that given the market share of the U.S. industry before the big surge of imports from China, given the excess capacity in the U.S. industry, given the competitiveness of the U.S. industry, given the extremely weak dollar against almost all the countries you mentioned earlier, Mr. Van Toai, except China, which manipulates its currency to a rate that is not in accordance with market principles, nor with their IMF or WTO agreements, that the U.S. industry would clearly be not only the single largest beneficiary, but the overwhelming beneficiary of relief. And that's presently what we're seeing in OCTG products and we would expect to see that in drill pipe after relief would be granted.

Can I, also, as long as I have the floor momentarily, not to make further comments, but I would like to notify you, Ms. DeFilippo, and I guess for Mr.

Corkran, who yet to have questions, that Ms. Andros has to leave at noon. So, if it would be possible, if there are any questions for the USW, that maybe you can go out of order and ask Mr. Van Toai's patience, if you have any questions for Ms. Andros before noon. Thank you, very much.

MS. DEFILIPPO: Thank you for letting us know, Mr. Schagrin. I appreciate that and we will skip from Mr. Van Toai for a moment to Mr. Corkran, so he can ask Ms. Andros, so she doesn't miss her plane.

MR. CORKRAN: Thank you, very much, to everybody. And to Ms. Andros, I basically had just one clarification type question. You had mentioned the role of General Dynamics and I missed the particular relevance of General Dynamics. What is their role?

MS. DEFILIPPO: Excuse me, Ms. Andros, can you just turn on the mike? Sorry. Thank you.

MS. ANDROS: I said I think I might defer to Mr. Schagrin. But the point I was making, that Timken, which is one of our USW represented companies, is probably the largest producer of a specialized bar used by companies like General Dynamics to manufacture tool joints. So, I will leave it to them to make the connections for you.

MR. FIELDS: General Dynamics is the largest producer of tool joints in the U.S.

MR. CORKRAN: Perfect. Thank you, very much. That was exactly what I needed.

MS. DEFILIPPO: Thank you. We'll resume with questions by Mr. Van Toai.

MR. VAN TOAI: Thank you, very much. I have only one question left. This question is in regard to the investment of the Chinese, the seamless OCTG in Texas. There are two companies there, namely Tianjian and Wuzi. Do you think that they have potential for making drill pipe there, apart from the seamless OCTG?

MR. SCHAGRIN: I think the answer is no, because I understand that that is really a heat-treating facility in Houston for casing and tubing. As for Tianjian, I don't think anyone on this panel has the knowledge because our understanding is that entire -- that would be a steel mill, that it's just in the planning stages and is still going through environmental permitting. And so, I don't think anyone in the domestic industry knows what Tianjian's proposed product mix would be out of that potentially new steel facility in the Corpus Christi area.

MR. VAN TOAI: This is just a follow-up question with what you have just said. Have you heard

of any other information about further Chinese investment in the area of seamless pipe into the United States?

MR. SCHAGRIN: Believe it or not, even with all of these orders going into effect against seamless pipe exports from China around the world, we'll be giving you more information about more plans to increase capacity in China. But, we're not aware, other than Mr. Van Toai, what you referenced, the Wuzi and potential --

MR. VAN TOAI: Tianjian.

MR. SCHAGRIN: -- Tianjian plants, I have not seen in the press any other information about Chinese investments into the United States. It's great that we're a democracy and we welcome foreign investors into our country and they can employ Americans here, which we prefer. We're not against Chinese employment, only if it's subsidized. Thank you.

MR. VAN TOAI: Thank you, very much, for your replies. Thank you.

MS. DEFILIPPO: Thank you, Mr. Van Toai. And just as a formality, before we turn to Mr. Corkran, I would like to acknowledge, we have asked Ms. Andros any questions that we did have. So, you

can be dismissed and thank you, very much, for coming. We appreciate your attending the conference and answering our questions and providing testimony.

MS. ANDROS: Thank you, very much.

MS. DEFILIPPO: Thank you. And we'll now turn to our supervisory investigator, Mr. Corkran.

MR. CORKRAN: Thank you. Douglas Corkran from the Office of Investigations and I would like to echo all the thanks that you've heard today already for your presence here and your very helpful testimony. Please forgive me, I'll ask your indulgence in advance because my questions will now tend to sort of jump around a little bit.

One of the questions I had was to get maybe a more general sense about the demand environment for drill pipe and for drill collars during the period that we've collected data. And I'm particularly interested in 2008, from about midyear on. I was struck by the testimony about the prevalence of producing to order and it is helpful that we have order book data available to us. But, one of the things that that indicates is that order books had expanded quite a bit by June and September of 2008. So what was the demand environment like during that time?

MR. PARKS: Demand environment was obviously very strong. We, as a company, were trying to get capital expenditures approved, which we did add a new weld line. We took capital expenditures to improve our heat treat abilities. We added new shifts to keep up with that demand. We had continued -- we were going to continue those type of expansions and pricing kind of didn't help us on that, those instances.

MR. BRAND: I'd like to make a comment. Most of the demand in 2008 was driven by new rigs. So, I think there was, an estimate I've heard, around 300 rigs that basically had to buy all these products, which is really where the big demand came in that period. But us being in the business at the time, my lead times on these products never got over 90 days.

MR. CORKRAN: Okay, thank you. That is helpful. But, one of the things I'm wondering about is because these products are made to order, we have historic data and we see order books increasing by multiples. What does that say about the ability to fill the needs of your customers for drill pipe and even for drill collars in the latter portion of 2008?

MR. FIELDS: We can supply the needs, no problems. We increased shifts. We had capital investments. We've got the capacity that's needed to

supply what our customers need.

MR. BRAND: Possibly one bit of historical information that you refer to relate back to the early 1980s and late 1979. I believe the domestic industry supplied all the needs of the growing rig count, dramatically growing rig count that reached over 4,000 rigs, doubled the peak that we recently had.

MR. SCHAGRIN: The only think I would add, Mr. Corkran, it goes back to earlier comments I believe I made to Ms. Bryan, is that, right, the industry's order books would go up when drilling contractors are adding rigs. They don't add those rigs by just, you know, going down to Walmart and saying I'm going to bring out 50 more rigs. They have to order if we're not in a situation where the rigs are already in existence and then can be put into service. And that certainly was not the case in 2008. The drilling contractors were ordering new rigs from rig construction companies, at the same time placing orders with the drill pipe producers in the United States. Obviously with the huge increase in imports from China, they were placing orders with distributors of Chinese product, as well. And so, there was really, I think maybe Mr. Parks comment on it before, never any inability to supply the drilling contractors

with product.

So, in this case, increased order books may be information you look at in other cases where companies might be refusing orders, which would mean that we can't make any more, so we're refusing orders. That would be a sign that you couldn't presently supply the requested demand in the market.

In the drill pipe industry, increasing order books are actually a sign that the U.S. industry is supplying the marketplace because the drilling contractors are placing the orders knowing they're going to get the product when they need it. If they weren't placing orders, it would mean they didn't need the product. And the extent that they get the product maybe faster from China, with its over capacity, didn't mean they needed the product faster and the Chinese had some big advantage because somebody said, well, we're bringing on 300 new rigs, we need more product than the U.S. industry could make. The U.S. industry was making the product, as the contractors needed it. And then what happened is the Chinese were taking a bigger share of the market because they were offering lower prices. And like I say, it just makes no economic sense to me that we'll give you faster delivery and we'll also give you lower prices. But,

we don't really think, and I guess you would find this out in purchaser questionnaires, we don't think the drilling contractors needed faster delivery in 2008 than the entirety of the U.S. industry. And you've got a blend of smaller and larger producers and different lead times among them than the industry as a whole could supply to the contractor base.

MR. CORKRAN: Okay, thank you. I appreciate that. My next question goes to the size of the domestic industry or rather the U.S. producers of drill pipe and drill collars. One of the sources we look at, for example, is the API composite list, who is certified to produce these particular products, who is identified as a manufacturer. And the number of companies on there is larger than the 10 to 12 that we have participating so far. Are you aware of -- are there other large-scale producers or even medium-sized producers of drill pipe or drill collars that are not present? And I'll exclude Grant Pride Co. right off the bat, obviously. But, are there others that you are aware of?

MR. MORRIS: Yes, there are. The drill collars, it's a very low entry barrier business. They can buy the bars, basically. And that API listing you have, there are a lot of shops that basically

refurbish and repair these products. They, also, have the capacity to make collars and heavyweights. But, they would not have the capacities to make drill pipe. So, there are a lot of medium and small players that make the drill collars and the heavyweights and these accessories, quite a few of them.

MR. WILLIAMSON: If I could just add a little more clarification on that. So, if I understand your question well, you've looked and you see the list of people, who are certified under the API specification, and you don't find that many people participating in this process. To echo what Sealy was saying and to amplify it a little more, since these products are used over and over and may have a life of three to five years, there's a large need for re-threading, repair, and those companies will then get an API license that says that the thread I'm going to refurbish will mate and work well with the new product that you have. So, that's -- a lot of those people are doing refurbishment, not new manufacturing.

MR. CORKRAN: Thank you. That's very helpful. I asked a little bit earlier about some of the historical market environment. What about the current market environment? It's been reported publicly that some of the seamless producers of at

least casing and tubing, and some of them overlap with drill pipe producers, have started off the new year by announcing price increases. Some of those same articles talk about changes in the inventory level now in the U.S. market, in many ways, a very different sense than what we may have heard just a few months ago. One of the questions I would like to ask right off the bat is for TMK IPSCO, is the price increase that's been announced for casing and tubing, does that cover drill pipe green tube?

MR. RAMSEY: That does not cover green tubular pipe. It's only associated to oil country tubular products. And that is also a cost-related issue.

MR. CORKRAN: And for those companies that are purchasing green tubes, have you seen any -- have you started to see any price increases for the domestically-produced green tubes that you're buying?

MR. MORRIS: We're not; we're not.

MR. FIELDS: We haven't had to buy material, so, no.

MR. CORKRAN: One of the challenges in this case, and it was actually alluded to right in the start of the opening statement, is trying to get an accurate count of the size of the market, the

composition of the market. Mr. Schagrin, you warned us about the perils of double counting. But I guess from a technical standpoint, I would ask you what is the role of unfinished drill pipe that enters the U.S. market? It doesn't simply cease to exist as it's incorporated into finished drill pipe. How do we think about and even present imports of unfinished drill pipe?

MR. SCHAGRIN: I believe that what would be appropriate is that as long as you know that the unfinished drill pipe that entered the U.S. market was produced into finished drill pipe by a company that has been reporting its information to the Commission, you would then deduct the unfinished drill pipe when you're determining the consumption of the like product in the U.S. market in determining import share, because, yes, you've got value added, significant value added in the chain and that will be taken into account by the finished responses. You can use the profitability information from the semi-finished producers, as well, because they have separate costs and revenue, certainly. But just from -- assuming we wind up doing this based on weight instead of pieces or joints, actually feet in the case of drill pipe and joints -- another strange thing, all drill pipe gets

sold by the foot. Both heavyweight drill pipe and drill collars get sold by the joint. But assuming we do it all by weight, it seems to me that the weight of the unfinished drill pipe that is then going into finished drill pipe -- and drill pipe, approximately two-thirds of the weight of the finished product is in pipe and about a third in the tool joints -- that you would deduct out the weight of the unfinished drill pipe. Otherwise, you're essentially counting the same kilograms of steel twice. And I think we did address this issue pretty successfully in the past and I think that we can do it here, as well. Obviously, the more information, the better. And I think in this particular product, as much as I think everybody in the Commission knows, nobody probably fights harder for shorter questionnaires than I do. But, I really do believe that, you know, there are certain cases that are different and that in this case, it would make sense for the Commission to ask for more information in the final questionnaire, in part to be able to most accurately assess the double counting issue, as well, as I say, the issue on the classification of imports.

I mean, we certainly have some issues here and there's no reason that anybody should be denied

trade relief because some cases are more difficult than other cases. But, there's no doubt in my mind that this is a more difficult case. I'm not saying that OCTG was super easy, but a lot of the issues were actually very easy as compared to this case.

MR. CORKRAN: One of the things that we will see from our questionnaires we have, we can account for both finished and unfinished forms of standard weight and heavyweight drill pipe. I wonder, do you feel the same way if it does turn out contrary to your expectation, that there is more than a relatively small amount of drill pipe from China that is not finished?

MR. SCHAGRIN: How do we count that? That's subject merchandise.

MR. CORKRAN: Well, I mean, subject in the sense of within scope merchandise. Would the same hold true for that, that is simply disappears off the books by virtue of not being finished?

MR. SCHAGRIN: No. I think it can disappear. It's just the nature of the inquiry because it's in scope merchandise. However, there, in order not to double count, you might -- just in terms of purposes of U.S. consumption quantities, you might then deduct any unfinished imported by a U.S. company

that was making finished out of it, deduct the volume of finished because, once again, that's a way to prevent that double counting. You've got to count the Chinese import into import volume because it's in scope merchandise. But, it doesn't seem to me that there's anything wrong with deducting the quantity of final production in the equivalent amount of U.S. production, in order to prevent the double counting of the weight of the product.

MR. CORKRAN: One of the other interesting aspects we have here is the role of used drill pipe. We've already talked about in general, in terms of how it affects the market. Some of the effects are dated, too, though. The Chapter 84, HTS number that deals with -- or supposed to deal with finished drill pipe, tool joint drill pipe. There are fairly substantial entries of non-subject imports in those categories, the large majority of which originate in Mexico and have a very low average unit value associated with them. And I would -- that would be one possible explanation, that these are used drill pipes entering the United States. I assume that they simply are counted as imports of finished drill pipe.

MR. SCHAGRIN: I think we'll address that more in our post-hearing brief. But, we actually

think those imports from Mexico were more than likely given the very, very small number of rigs that operate in Mexico and the existence of a manufacturer of finished drill pipe in Mexico. We think those are more likely, Mr. Corkran, to be imports of finished drill pipe.

MR. CORKRAN: Finished new drill pipe?

MR. SCHAGRIN: New product produced in the country of Mexico.

MR. CORKRAN: Okay. That will definitely be one of the things that we're looking into, as well. Thank you. Oh, let me ask a related question with respect to drill collar. Is that also a reusable item in the same way that drill pipe is?

MR. WILLIAMSON: Drill collars will last five to seven years. The only reason a drill collar is rejected is because after you have to re-cut the connections, they become short and then they don't make a stand in the derrick. They're either cut short or lost down hole.

MR. MORRIS: I'd like to make a comment on that. Drill collars, there's usually not a cat pick item for these people and they, also, can be repaired over and over and over and over again. Typically, they lose them in the hole and then they've got to

replace them.

MR. CORKRAN: I did have a question about one of the drill stem products. Can somebody give me a good explanation of what a Kelly is?

MR. WILLIAMSON: To turn the drilling string to eventually turn the rock pit and drill the earth, you need a way to convey the torque to the drilling string. So, the drill rig in a conventional rig with a conventional drive will have a rotary table, a Kelly bushing, and then a splined member, which is this Kelly that you're asking about. So, it has a shape, which may be square or hexagonal, to which you can put bearings and turn, twist the drilling string and transmit torque to it. These are -- the shape is along the lengths, so that you can also then, as you make hole in a drilling deeper, it can slide through these bearings that are transmitting the torque.

The use of Kellies is being reduced these days because we're using more and more top drive system, where a drilling motor is in line with the drilling string and that's how you transmit the torque. But, both are used and that's what a Kelly is and what it's used for.

MR. CORKRAN: Thank you. That was very helpful. And I have just a few additional questions.

One is, I wanted to follow up on the -- while it is possible to produce heavyweight drill pipe from drill collar, can you give me a sense, at least in your own operations, how common that is, as opposed to producing heavyweight drill pipe from a tubular product?

MR. MORRIS: Typically, it's a specification issue. Besides API, that's what we call an NS1 spec out there, which is a NORCE type of requirement. And really the only way to meet that specification is to make it integral to drill collars. So, it's more of a spec drive issue than anything. We do take these used drill collars and we do re-certify them and then we do use them to make heavyweight. But, you'll use a drill collar in a heavyweight process mainly for the tool joints. Five feet out of every bar is one joint of heavyweight. So, you'll get five, six sets of joints of heavyweight from one drill collar.

MR. PARKS: I was going to say, just to answer your question between the integral, it's a very small percentage. I would say it's in the single digit over welded versus an integral heavyweight.

MR. CORKRAN: Okay, thank you. My last two questions, the first one goes to analyzing demand. Among the other data that we look at are rig counts

and the amount of footage drilled. Are there other statistical series that you look at when you're analyzing demand?

MR. FIELDS: For us, those are the key indicators. Yeah, it really is.

MR. MORRIS: Yeah. We'll try to do it because we've got to come up with business plans. So, we try to figure out what the demands of these products are going to be every year and we use -- we're very similar in how we calculate it. We typically use 120 joints of drill pipe per rig is what we -- per active rig and 15 heavyweights and collars each. Everybody looks at it a little different.

MR. WILLIAMSON: And just to complete that, it's not only what is the count today or the footage today, but it changes. We talked about the demand stream coming from new rigs entering the market. So, that, then, leads us to what the demand stream will come from the new builds.

MR. CORKRAN: Thank you. My very last question is other applications for drill pipe, other than oil and gas drilling, and this is just something that's over the years has -- I've wondered about, when you drill, say, a water well, for example, are you using -- would you be using an API 5d drill pipe for

that or would you be using some other form of tubular product?

MR. WILLIAMSON: Well, there are all kinds of applications that you might have in water well drilling. A lot of it uses short pipe that's specifically designed for small rigs because they're not drilling very deep. There is some usage of standard drill pipe in water well drilling. But, typically, what they will do is they will take some of the almost totally worn out drill pipe from oil and gas and then perhaps use that in the water well. But, there are two kinds of products used. Some are very similar and would, in fact, use drill pipe, but the other is short pipe for specialized rigs used for oil well drilling.

MR. MORRIS: This pipe, also, is used for under -- HDD type applications, where they'll go under rivers and so forth and just leave it there. The same thing, they usually don't use new pipe.

MR. CORKRAN: So for this sort of application, we might be talking about the very last -- the final use of some of the used drill pipe we've been talking about. Well, thank you, very much. I appreciate all of your time and your questions have been -- and answers have been most helpful. Thank

you.

MS. DEFILIPPO: Thank you, Mr. Corkran. I do have a few questions. I hope I was successful in crossing all of them out, as staff had very good questions and some of them asked -- I hope I don't go back over something again. If I do, I apologize in advance.

To follow up on something that Mr. Corkran was just talking about, in terms of demand and the things you look at when you're trying to estimate or evaluate where demand goes, and tying back to something Mr. Schagrin talked about earlier, in terms of there's a length of time between which a drilling contractor will talk about when we're going to need the drill pipe, does that nature of that make demand predictions or estimates any easier for your companies? I mean, is it more well known than it would be in some other industries?

MR. WILLIAMSON: We do the same thing I'm sure that everybody else at the table does, we try to put a business plan together every year. We actually, at our company, we revise it almost monthly. Knowing the current inventory count of new material on the ground in the United States, it's going to be a very, very, very lean year. We just, as effective this last

week, reduced our -- what we feel we're going to sell new by an additional one-third last week. And so, we're looking for a very tough one, if not two-year time period.

MR. SCHAGRIN: I would just add, Ms. DeFilippo, it's obvious, it goes without saying that in addition of forecasting based on what drilling contractors are doing in terms of adding rigs, which gives them the ability to forecast, of course there is the whole issue in reverse, which we've seen in both the OCTG case and here, here even more pronounced, because the drilling goes on. We've got 1,200 rigs operating this week, somewhere between 1,200 and 1,250, and they're using up casing and tubing every time they're drilling a new hole. But, using 1,250 rigs today, but having, let's say, two years ago had 2,000 rigs operating, that means there's 750 stacked rigs. I'm not sure. These gentlemen can probably tell you more about it, whether it's possible that any rigs that were in the United States may have been moved to other countries. But to the extent that there are rigs stacked in the United States not being used, they all have drill stems and that's what the drilling contractors can then use their own existing inventory of drill stem products when they need to

replace it or if they bring another rig on line, instead of having to order new products. So, it's the reverse when the number of rigs being used is going down, that you then have this additional inventory.

And, of course, we have the inventories -- one thing we haven't talked that much about, inventories today. You know, OCTG --

MS. DEFILIPPO: That's my next question.

MR. SCHAGRIN: I'm sorry. You ask your question and we'll seen, then, if we can answer it.

MS. DEFILIPPO: But, actually, I will get to that. But, I just want to make sure I'm understanding sort of how this works, in terms of when you talk about new rigs. You know, you have sales of drill pipe for these new rigs. Once those are in place, is there additional sales for expansion or replacement on that specific rig?

MR. BRAND: I'd like to take this one. New rig builds do help us in forecasting our business plan, has in the past. But, it doesn't define the entire plane, because you do have a replacement business, where pipe, older pipe on older rigs is wearing out and you're replacing that pipe. The new rig buildup today and looking ahead might be helpful. It's certainly good information. But, the wildcard is

all the inventory that, you know, we're likely to lose business to it, I suppose.

MR. MORRIS: These contractors, they learned a valuable lesson back in the 1980s. So, they don't go -- when they go to order a new rig now, the operator -- they've already got a job for this rig and the operator is specifying to them that they're going to work, the type of hole they're going to drill. And so, no, once they put that rig into service, typically until the pipe wears out, they will not buy any more supplemental pipe for that job.

MS. DEFILIPPO: So would you say, in general, sales, in terms of how the market is divided, most of the sales of drill pipe are for new rigs?

MR. MORRIS: In the last two years it was. But, a typical cycle, it's a replacement cycle. They'll wear it out and then they've got to replace it.

MS. DEFILIPPO: So, would the fact that the Chinese tend to hold product in inventory in the U.S., as opposed to a made-to-order business, would that -- are they selling more to the replacement side of it because they can deliver it quicker or not necessarily?

MR. MORRIS: It's more of a price driven. I

mean, these are commodities. It's an API product. They're basically all the same and it is a commodity. So, it is a price driven purchase.

MR. SCHAGRIN: Ms. DeFilippo, even on the replacement side, it's not like all of a sudden the drilling company says, oh, I've got to replace this next week; gee, I never thought. I mean, I might have a transmission go out on the car and I'm saying, God, I can't believe my transmission went out. That's because I'm a ding-dong. But, drilling contractors aren't. So, it's not like they are all of a sudden surprised. They know the lead times. You know, they know operating because this is their business. They know that, gee, I've got a three- to five-year product, I'm seeing the wear. Don't forget, they're often paying these refurbishers to keep the product going and then they say, gee, I can't refurbish it any more. It's not sudden. So, the fact that the domestic industry is produced to order, doesn't mean they're at some natural disadvantage because contractors need things all of a sudden.

But, that's not to say that contractors don't need things all of a sudden. There's always unexpected things that happen in life and that's where the rental companies come in. Because if you think

about it, why even have rental companies if every contractor always had everything they needed? So, you have this whole separate business of rental companies for everything used in drilling and their business is to be kind of this stopgap between whatever is necessary. And so, as I said, I mean, bless their hearts, these folks are going to come up later, saying, well, we came up with a new business model. I just don't think their business model is anything other than one that is massively advantaged by having access to massive quantities of product at unfairly-traded prices that undersell the U.S. industry.

MS. DEFILIPPO: Thank you for that. We will touch on, I will ask about the inventory. We talked about it earlier that there was this buildup of inventory of Chinese product in the U.S. And what we heard earlier in response to some of Mr. Corkran's questions was that demand was very strong in 2008. I guess I'm trying to understand a little bit of the timing in terms of the inventories. Was that in response to -- were they bringing in a lot for this strong demand in 2008? Is that when you started to see it and now it's sort of the overhang? Any information that you would have on sort of the timing and where it stands right now, to the best of your

knowledge, would be helpful.

MR. MORRIS: They've been bringing pipe in since 2006. So, in my opinion, they were just -- the distributors could buy the pipe so cheap, that there was an opportunity there for them to make a lot of money.

MR. BRAND: For our company, we saw 2007 as the pivotal year when bookings initially during the earlier part of the year and later in the year production fell, which you'll see in our questionnaire. So, the timing for us and what was pivotal was 2007.

MS. DEFILIPPO: Mr. Schagrin?

MR. SCHAGRIN: Maybe now, it's an appropriate time for my comment on inventories. Fortunately, in OCTG, you have reports that give you months of inventory every month that come out from all kinds of forecasters. And I think the reason for that in OCTG and the reason it doesn't exist in drill pipe is all these monitors of the market there go to distributors. To my knowledge, you know, the pipe logics and Spears and Preston, when they come up with their information on inventories versus usage on months on end, they're getting that information from distributors. And because, except for these gentlemen

back here, half a dozen or so, you know, maybe a few more of distributors of drill pipe, because there's nobody, who goes to the rig operators, the drilling companies, and says, how many tons do you have of drill pipe on hand, we don't have similar information.

In a sense, a little bit of a proxy is, we know how many rigs that are operating, but that doesn't tell us how much drill pipe inventory. And I think you obviously get information from the domestic industry on their inventories, I would say because it's all one subject product. And this goes back a little bit to Mr. Corkran's earlier questions, the user in a produced order business, their inventories of drill pipe aren't finished drill pipe, but they hold inventories of unfinished, so they can respond faster, because the domestic industry doesn't produce for inventory and they tend not to sell the distributors to hold for inventory.

So, we're at a little bit of a disadvantage. We don't have any public information, like any information about inventories. But, what we believe, and this is what makes it so much more pernicious, is that because the orders of Chinese product weren't always produced to order, that unlike domestic product, you've got a lot of inventory of Chinese

product. And these gentlemen just try to assess that. They try to find out from people about how much inventory of drill pipe is there held by distributors of Chinese product in the port of Houston. And they would estimate that for the minimal amounts of future demand of drill pipe, there might be nine, 12, 18 months worth of just Chinese drill pipe inventory in the U.S. market. But, we just don't have really clean data on drill pipe inventory compared to purchases that we have in the OCTG case.

The other thing that I would add is, and it's only the nature of the connectedness of the U.S. and Canadian drilling industries, what you don't ask, and I think at least one if not both of the distributors who are going to testify here later have operations in Canada, there is and always has been a lot of Canada that can service drilling contractors up in the Rockies closer to Canada.

So now, they would normally buy from U.S. producers, but now they're able to access excess inventories of Chinese drill pipe in Canada as readily as they can excess inventories or Chinese drill pipe in Houston. And that's something, once again, you know, maybe for a final, not now, you obviously can ask these folks how much inventory of Chinese drill

pipe do you have in Canada. But we're aware that these companies are actually selling out of inventory in Canada directly to U.S. customers.

MS. DEFILIPPO: Thank you for that. Just a couple others, these are a little bit of clarification to make sure I understood and heard clearly. And Ms. Bryan asked some very good questions on the difference between premium and proprietary, and I believe Mr. Park had stated that the premium/proprietary, it's about 15 percent, and I think you were referring to your company, is that correct, as opposed to the whole U.S. market? Because I'd be interested in knowing if you have any idea for the whole U.S. market in terms of what percentage of that is this premium or proprietary product?

MR. FIELDS: Yeah, it's our belief it's for the whole U.S. market, the 15 percent of premium.

MS. DEFILIPPO: Okay. And one other sort of quick clarification, as you all talked about the layoffs that you've done I just wanted to clarify that those were workers that were producing just the subject product that we're talking about today, not other products in your operations?

MR. MORRIS: I'm in a little different situation because we service these products also, so

I've had it on both sides.

MR. FIELDS: For VAM Drilling it's these products, it's drill pipe.

MR. BRAND: For Texas Steel it's these products.

MS. DEFILIPPO: I thought so, I just wanted to clarify. And finally, Mr. Schagrin, you mentioned early on that if the Commission did not find material injury that you believed there was a threat of material injury, and so along that line are you aware of any other orders or cases, ongoing cases, on drill pipe in other markets outside of the U.S.?

MR. SCHAGRIN: Orders, we're aware of the E.U. order which went into effect in August of 2009. That order covered all seamless product, inclusive of drill pipe, from China. In addition it is our understanding -- you know, Russia's not a member of the WTO so they really, they don't notify folks -- but it's our understanding that the dumping duties that Russia imposed in late 2009 on imports of pipe and tube products from China included drill pipe imports from China as well. And Russia is a very, very big market for oil and gas drilling, and we think that Russia responded in fact because we know from data that there were very, very big increases in '08 and

'09 of imports from China into Russia.

MS. DEFILIPPO: Thank you. And along those lines of thoughts or practice that get evaluated or potentially evaluate any threat, I think you mentioned earlier that you believed there was a large amount of unused capacity in China. Are you aware of any new projects that are coming online, and you need not list them here, but if you are, if there are new plants or capacity expansions that are expected in the future in China, that would be helpful to know.

MR. SCHAGRIN: And we will give you all of that information in our postconference brief, Ms. DeFilippo.

MS. DEFILIPPO: Excellent, thank you very much. I believe that is all the questions, or are all the questions that I have. I'll turn quickly to staff to see if anyone has additional questions?

MS. DUALL: This is Elizabeth Duall from the DC's office. Mr. Schagrin, I think we touched on this a little bit factually today, but if you could perhaps in your postconference brief elaborate on this, are the U.S. operations used to turn unfinished drill pipe into finished drill pipe sufficient production related activities to warrant treating any resulting products as shipment of domestic merchandise rather than

shipments of merchandise from the country where the unfinished drill pipe is manufactured? And if you could, take a look at cases like thermal transfer ribbons and DRAMs and DRAM modules from Korea, that would be helpful.

MR. SCHAGRIN: We'll address that in our postconference brief.

MS. DUALL: Thank you.

MS. DEFILIPPO: I believe that is the end of our staff questions. Again I would like to thank all of you very much for coming and presenting your testimony and answering all of our questions, it's been extremely helpful in our understanding of the drill pipe industry. With that, we will take a break until quarter til, what is the hour, 12? 11:45 -- 12:45, I can't see the clock very well. Until 12:45, thank you.

(Whereupon a brief recess was taken.)

MS. DEFILIPPO: Welcome back, everyone. We will now resume the staff on drill pipe, and we will now hear from those in opposition to the imposition of antidumping duties. As a quick matter, Mr. Malashevich, would you like this included in the transcript as an exhibit?

MR. MALASHEVICH: Yes, please.

MS. DEFILIPPO: Okay, we will do that, thank you. Ms. Chen, are you going to start?

MS. CHEN: Yes.

MS. DEFILIPPO: Okay, please do.

MS. CHEN: Good afternoon. This is Irene Chen again, and we are here in opposition to the petition. We're appearing today on behalf of importers Downhole Pipe & Equipment and Command Energy Services. You know, the first point I'd like to make is you're going to hear a very different story about the state of the U.S. drill pipe industry than what Petitioners proffered earlier today.

The two importers here today represent the vast majority of all subject imports of drill pipe. Collectively they have vast industry knowledge regarding drill pipe, and they will be speaking from their own personal experience regarding pricing, lead times, demand, and the market in general. First I'd like to address a few issues regarding the scope issue. You've heard from Petitioners and Mr. Schagrin about greentube. Our position is greentube is a commodity product, it was clearly covered in the OCTG investigations.

As the Commission is aware, the countervailing duty order for OCTG has just been

published, and the AD investigation is ongoing with the final determination from Commerce due in April of this year. Greentube is a commodity product and this is a customs misclassification issue. To the extent that greentube may be misclassified coming in without the OCTG duties, that's something that Petitioners should raise with Customs, it's not something that they should fix by filing another case on the same product.

And I'll point to some testimony by U.S. Steel in the 2002 OCTG preliminary investigation, which talks extensively about drill pipe and greentube. U.S. Steel Tubular Products division, the general manager testified in the 2002 investigation that greentube is greentube, and I quote, "A greentube is a greentube until it becomes a piece of tubing, a piece of casing, or a piece of drill pipe. All three of them go the same route as the greentube from a producing mill to a processor or a converter."

So it's very clear if you look at the staff report and the view that the Commission from the 2002 OCTG investigation, this clarifies the greentube issue, it's already covered under another scope. And as we heard from Mr. Schagrin, his knowledge that the vast majority of subject imports from China is drill

pipe. So this case is really about drill pipe, not greentube. And when the greentube comes into the U.S. the domestic producers add significant value to produce the drill pipe.

Okay, now turning to the issues involving injury, Petitioner's claims of injury at the hands of subject imports, let's look at a condition of competition here. What drives demand for drill pipe? The prices of natural gas and oil. Why? Because they directly influence the amount of drilling activities. When natural gas and oil demand is low, as they have been in the last year and a half, drilling rigs sit idle.

With so little use, there's no need for drilling rigs to replace worn out existing drill pipe equipment. And Mr. Schagrin acknowledged that drillers go back to their existing inventories, they don't buy new drill pipe. Mr. Fields of VAM also testified that drill strings can be moved to other rigs when one rig goes inactive. So not only do orders for new rigs, drill pipe orders, not only do they stop, the existing drill pipe can be used from another rig that's been idled. So this causes demand to absolutely plummet.

So to blame subject imports for this

unprecedented drop in demand over the last year and a half is just simply not true. Compare this past year to the summer of 2008, when the United States was experiencing record oil prices. Now we all remember $4 a gallon for gas. Demand for drill pipe was at its peak and the domestic industry was doing exceedingly well. So you go from that period of time to 2009 when unemployment at a record high, the third and fourth quarters of 2008 with the fallout in the financial sector and throughout last year, naturally everyone's numbers suffered.

You know, turning to another key component of the drill pipe industry, as I pointed out in my opening statement, subject imports don't even compete with the U.S. producers for the same customers. I think that you did hear a little bit of that in Petitioner's testimony this morning. The U.S. producers completely dominate sales of drill pipe to the large drilling contractors. I believe there's only a few, a handful, about five or six, and their supply is locked up through long term, high volume contracts.

These contracts contain favorable pricing, frequently at prices lower than subject imports, as well as more favorable delivery times. So as these

drilling contractors cut orders when the economic downturn took hold, this is what caused domestic producers' U.S. shipments to decline, not competition from subject imports. Subject imports are competing in a different segment. They are supplying the smaller drilling companies who are shut out of these long term contracts with the large domestic producers. So without sourcing through the U.S. importers it would be impossible for these drill pipe customers to even compete in the market or to even source drill pipe.

Now turning to the volume issue, Petitioners claim a surge in subject imports. But again, you know, marrying this with the scope issue, they're including alleged subject imports of greentube which is already covered by another order, so that should be subtracted from any volume numbers. And we'd also like to note a very significant discrepancy regarding the surrogate subject import volume in the petition. I believe Mr. Schagrin also agreed that the HTS categories from the customs data was not completely clean or correct.

You know, according to the Piers data that we've obtained, which are derived from the actual bills of lading for imported product, subject import

volume is far lower than what is alleged in the petition. So we urge the Commission to look at the questionnaire data as the authoritative source rather than data submitted by Petitioners. So although we have not yet had time to review complete export import information from questionnaire responses, we suspect those numbers are going to be very different than the numbers presented in the petition, and we can submit in our postconference brief the relevant Piers data so that it can be cross referenced with the Customs HTS data.

Now turning to the Petitioner's claims of a huge overhang of subject import inventories, that was not due to any sudden surge in subject import volume. In 2008 when the U.S. importers anticipated large number of orders through the end of 2008 into 2009, they placed an order but they did not pay delivery of the drill pipe until three to six months later, which is a usual, an average lead time in production and shipment from China.

By then, after the bottom fell out of the U.S. economy, it was too late to cancel the purchase orders and turn the ship around. And as you will hear from the industry witnesses, a lot of these orders require cash, a cash deposit up front or cash in full

payment. If they had just decided not to take delivery they would have lost a lot of money, and that doesn't make any sense.

And finally, we have one very important legal issue to raise with the Commission. It's our understanding that Petitioner VAM has just closed a deal to acquire Longbright, a Chinese producer of the subject merchandise. This raises several interesting questions. You've heard from Mr. Doug Fields of VAM that they cut one third of their workforce, they had unpaid furloughs, they have engaged in all kinds of cost cutting, so if there's so much financial distress how can they make such a major capital investment at this time, acquiring a Chinese producer of the subject merchandise in China?

And you've also heard from VAM this morning that the Chinese drill pipe producers make a lower quality product, that they're not making API certified drill pipe, you know, hurting the U.S. market. So given this raises the question, if they had to go to China to somehow stay in business, why are they buying a presumably lower quality producing plant to fill out a higher premium line of products that they're saying that their orders are increasing on in the U.S.? So, given this suspect development, we really urge the

Commission to look very closely at this acquisition and to exclude VAM from the industry as a related party. Thank you very much, I believe that's all for now. We'll turn to our first industry witness, Mr. Charlie Garvey of Command Energy. Thank you.

MR. GARVEY: Good day. My name is Charlie Garvey, I've been in the oil and gas industry for 30 years. I began in the oil field inspection business with inspecting drill pipe tubing and casing and drill collars. I owned an inspection company for 15 years with 250 employees in Canada. In 1992 I also founded and still the owner of Command Energy Services, perhaps the industry's largest inventory holder of drilling tubular products, not just Chinese products, also a few other distributors.

We were one of the five distributors for Grand Pride Co, the leading drilling products manufacturer, for about 13 yrs. And for the past year and a half we had been a sole distributor for VAM Drilling Products. In this role as a distributor we were able to help these manufacturers meet the short term needs of their customers by buying inventory and have it readily available. Our customers generally are small, independently owned companies in Canada and the United States.

We have not been very successful in marketing to large drilling companies who buy directly from U.S. manufacturers primarily for two reasons. First, VAM and Grant Pride Co have complete control of the high end drill pipe market, that is, drill pipe specially manufactured for extreme drilling environments. High end premium drill pipe probably costs 10 to 15 percent more to manufacture than regular API pipe, but VAM and Grant can charge prices as high as 30 to 40 percent higher for these products.

The second reason we have not been successful with large drilling companies is that U.S. manufacturers offer them preferential delivery terms and pricing that we can't match. U.S. manufacturers' prices for the big drilling companies are at or below our cost of Chinese drill pipe, and that's even before shipping. I'd also estimate that our price is in the neighborhood of at least 20 percent higher than the preferential pricing offered by these producers, sometimes actually much higher.

The big drilling companies account for approximately 75 percent of all purchases of drill pipe and drill collars in the United States, and that's 75 percent of the market we really can't touch. Instead we focus on those customers who require quick

delivery and can't get what they need from the U.S. producers. We focus our efforts on service and on-the-ground inventory. This focus allows to help small drilling companies meet short term needs without having to wait months and months for delivery. Drill pipe sales are tied to drilling activity, which is tied to the prices of oil and gas.

As oil and gas goes up, drilling activity becomes more profitable and drilling activity increases. As the drilling activity increases it causes the demand for drill pipe and drill pipe sales to go up. The higher the demand, the greater the sales. And when production capacity tops off and the U.S. producers can no longer supply the current needs of drilling companies, delivery times stretch out and prices continue to increase, in contrast to when drilling activity declines, demand for drill pipe declines, typically production legs are a little behind the drilling activity, and there seems to be some oversupply when the drilling activity declines.

Prior to 2005, there was a shortage of drill pipe production globally. Demand exceeded production capacity and deliveries were being made up to 15 months after order. For drilling companies for which we sold drill pipe, this meant spending four to six

months to build a new drilling regarding and then waiting an additional six to ten months before they could take delivery of the product. They would have money invested in the rig and be unable to operate the rig.

Delivery, time, and service are the most important issues with the smaller drilling companies. They don't have the financial ability to build a rig and then wait six to ten months additionally for the drill pipe so they can start putting the rig to work. With high demand and resulting backlog, U.S. mills are raising prices quarterly. At that time we distributed exclusively a U.S. produced product, but the U.S. mill price increases meant we couldn't guarantee prices and when we sold the drill pipe to small drilling companies.

So we had to include price escalation clauses in our bids to which the drilling companies did not like. This often had our customers wait up to 15 months for delivery from U.S. producers. U.S. manufacturers' inability to supply our customers in a dependable, predictable manner led us to search for alternative options. That is why in 2005 we first began to import products from Austria, Ukraine, India, and finally China.

By sourcing in China we found we could prove an alternative quality product to our customers which allowed for much quicker delivery time and less downtime after a rig was built. The economic disaster of 2008 and 9 caused most of the rigs to be shut down and the sales of drill pipe to grind to a halt. Most large drilling companies have the luxury of holding a large backup inventory of their tubular products, so they don't have to purchase pipe in 2009.

I also believe that these large companies slashed their drilling budgets and were no longer buying from U.S. manufacturers, and that caused U.S. manufacturers to flood the market with more pipe. 75 percent of the market was buying directly from them, and they just suddenly stopped buying. Prices eroded through 2009 as drilling activity continued to decline and remain low. Most U.S. manufacturers dropped their prices to grab any business they could and forced us to lower our prices to survive.

This has severely affected us because we hold and sell inventory. In late 2009, U.S. producers were selling product at lower prices than our cost FOB China. Led by the domestic producers, market prices fell to a level where we could no longer make sales. Essentially this has been a race to the bottom driven

by the U.S. manufacturers trying to unload the excess capacity that large drilling contractors aren't buying because they've cut back, due to less activity.

I'd like to add a couple of thoughts about the scope of the investigation, particularly about tool joints. Tool joints were excluded from the scope. A tool joint allows different pieces of pipe to be connected together. Each piece of pipe has a tool joint friction welded at each end. The tool joint constitutes about 30 percent of the final cost of completed drill pipe. The interesting thing about tool joints being excluded is that some Petitioners import Chinese made tool joints to manufacture their drilling products. And is this not protecting 30 percent value added of Chinese made tool joints for U.S. product?

Finally, I'd like to point out that the import quantities that have been asserted by the petition are overstated. I think this is because the imports of greentubes destined for tubing and casing, or OCTG, have been classified as greentube for drill pipe. Greentube can be used to either produce OCTG or drill pipe, and to my knowledge there is very little production overlap between the producers of OCTG and drill pipe because they have different manufacturing

processes requiring completely different facilities. We will be providing our analysis of Piers data that demonstrates this with our postconference comments.

To sum up what I've said, Command Energy cannot compete with the U.S. manufacturers in 75 percent of the marketplace, that is sales to large drilling companies. When drilling activity dropped in 2008 and 9 those large drilling companies stopped taking delivery of drill pipe from the U.S. manufacturers. U.S. manufacturers in turn dropped their prices below the cost of pipe from China so they could capture whatever remained of the 25 percent of the market populated by the small drilling companies.

In conclusion, imports from China haven't injured U.S. manufacturers, it was a normal result of a severe drop in activity. We both benefitted when times are good, we both suffered just as much if not more than the U.S. manufacturers during the current economic downturn, but that's the cyclic nature of our business. For reasons I urge the Commission not to find injury by reason of imports from China. Thank you.

MS. CHEN: Now we will hear from Jim Mostoway of Command Energy Services.

MR. MOSTOWAY: Hello? Okay. Good

afternoon. My name is Jim Mostoway, I am currently the Vice President of Product Control at Command Energy Services. I've worked at Command for two and a half years. Prior to that, I worked at Cougar Tools, Superior Tube, and Grant Pride Co, which is the world's largest manufacturer of drill pipe. At Grant Pride Co one of my job responsibilities was to negotiation contracts, long term supply contracts, with the largest customers in the world, which include the largest drilling companies, rental companies, and distributors for Grant Pride Co products.

My testimony today will be focused primarily upon the terms of those long term supply arrangements with large drilling companies, rental companies, distributors. The terms of these arrangements are common to most U.S. companies if not all manufacturers. At Grant Pride Co we had what we called an alliance customer base. I'm sure that most of the other manufacturers have the same customer base.

These alliance customers included the largest land drilling contractors in North America, which were Nabors Drilling, H&P, Paterson UTI, Unit. They also included some of the largest offshore drilling contractors in the world, which were

TransOcean, Noble, Ensco, a rental company which was Weathorford International, and one of the largest probably three was a distributor which was Matsui which is now known as Champions Pipe.

Alliance customers buy up more than half of the production volume at Grant Pride Co, which provides a base plant load. This production volume Grant Pride Co can depend on to keep a consistent pace of manufacturing. They negotiate a year long supply contract with these alliance customers. Because of the volume individual alliance customers buy they receive preferential pricing, anywhere from 18 to 45 percent off the published price list.

Published prices are really only used for the smaller companies. For example, if a published price was $60 a foot for 5-inch outside diameter G-105 drill pipe, an alliance customer would be paying someplace between $36 to $49 depending on the volume that they purchase and the agreement that they came to. Grant Pride Co's alliance customers get prices that are at least 20 to 25 percent below what Commands selling prices are today, and at many times even more than that.

The key for alliance customers is purchase volume. Volume is the biggest factor affecting price.

A large order, which would say be 2,000 tons, would attract preferential pricing that could be 40 to 45 percent off that published price list. Alliance customers also receive preferential delivery times. That means they take delivery of their orders before you could deliver spot market sales. Other U.S. manufacturers have similar sales practices that supply about 75 percent of the U.S. market at heavily discounted prices.

A third aspect of these contracts are that alliance customers can adjust their orders monthly, that adjustment may go up and down depending on market conditions. Small drilling companies typically don't get those adjustments regardless of what the market does. Smaller drilling companies or non-alliance customers get regular prices. Smaller drilling companies also take delivery after the alliance customers, which has meant up to 18 months after placing their orders.

Occasionally when U.S. manufacturers' production is at 100 percent dedicated to long term supply contract customers they'll buy Chinese made pipe to fill spot orders, or we may be able to sell to some of the bigger drilling contractors when they can't get the products from the U.S. in time. U.S.

manufacturers mostly produce the order as we've heard and seldom carry finished inventory that are sold to different types of customers -- oh, sorry.

Contract changes that increase demand, new rentals, force everyone to look at an alternate supply. But Command cannot compete on price with U.S. manufacturers for business on the largest drilling companies. We can't purchase from China at the prices alliance customers get from U.S. manufacturers. Small drilling companies know this, and they know the prices that the alliance customers get, so they come to us looking for alternative ways.

They buy from us because the relationships, services, and trust that we've established with them. What we can do is give them better delivery times, quality product, and competitive prices, even though our prices are higher than the heavily discounted prices obtained by the biggest drilling companies. So we focus on that 25 percent of the market made up of smaller drilling contractors who aren't big enough to buy drill pipe at these heavily discounted prices.

Buying from us allows them to adjust to changing drilling operations or new rig builds without carrying a large amount of inventory. I wanted to add a couple thoughts about drill pipe with tool joints

attached and pipe without tool joints attached. They are completely two different products that are sold to different customers. A tool joint is a connection that's welded on to the drill pipe. Drilling companies buy drill pipe with tool joints already attached, they can't use pipe without tool joints.

To summarize, Command Energy cannot compete on price with U.S. manufacturers when it comes to these larger drilling companies that accounts for about 75 percent of the market. We compete with U.S. manufacturers in 25 percent of the U.S. market, where U.S. manufacturers cannot meet demand in the market. We are not injuring U.S. manufacturers by decreasing their wages or making them unprofitable. Only a serious downswing in demands like we've seen at the end of 2008 can injure these U.S. manufacturers. For this reason, I urge the Commission not to find injury. Thank you.

MS. CHEN: Thank you. We'll now turn to David Lesco of Downhole Pipe & Equipment.

MR. LESCO: Good afternoon, Madam Director and fellow Commission members. My name is David Lesco, I am here representing Downhole Pipe & Equipment, LP, Limited Partnership, of Houston Texas. I am a co-owner and general manager. Downhole Pipe

has been an importer of record of Chinese drill pipe since 2006. Downhole Pipe has been a supplier of used and new drilling equipment and tubular goods used by drilling contractors since 1974.

While over the past 37 years our customer base has changed, we still maintain close relationships that were established 37 years ago. This small customer base has supported us through many energy cycles. We have experienced several boom periods and several down periods, one of which we're currently experiencing. Downhole Pipe & Equipment's expertise is directed solely to the drilling industry. Our inventory is solely for use in the drilling industry. We do not maintain inventory nor do we market to the production segment or the OCTG people of what is called the energy market.

The United States drilling contractor industry is composed of approximately 188 land drillers, drilling contractors, 15 offshore companies, and 9 companies that are classified as offshore/land contractors. In 2009, according to the International Association of Drilling Contractors statistics, these U.S. contractors owned approximately 2,761 land rigs capable of utilization. Of this count, approximately 1,347 rigs, or almost 50 percent of total rig count,

were owned by four drilling companies: Nabors Drilling, 649 rigs; Paterson UTI, 360 rigs; Helmerich & Payne, 210 rigs; and Unit Drilling, 128 rigs.

Now this leaves 184 land drilling contractors owning 1,414 rigs that were ready for utilization. Downhole Pipe has been unsuccessful in marketing pipe to any of these four major contractors. Each company has proprietary arrangements with the three top producers, Grant Pride Co, VAM, and Texas Steel Conversion through its marketing company Smith International.

Downhole Pipe has very close relationships with all four of these major companies. We market to them drilling equipment such as mud pumps, rotary tables, handling equipment, and blowout preventers. We do speak with authority when we say we could not sell them pipe. We have been told on numerous occasions, you cannot touch our prices currently in place.

I say this to illustrate my opinion only, the major contractors buy their product from the U.S. producers. The majority of the U.S. producers' production in my opinion is booked through the major land contractors, the offshore drilling companies, and major rental companies, who are also purchasers of

drill pipe. U.S. producers also have proprietary products sold exclusively to these customers. Downhole Pipe has not been a competitor of U.S. producers to these companies.

As stated previously, this leaves 184 companies classified as drilling contractors. This is the market that Downhole addresses. Of this number, Downhole has very close relationships with approximately 5 percent, and has a limited relationship or has marketed direct to only 30 percent of the total market since 2006. While we have not actually seen in writing fundamental forecasts for the upcoming two years, we do feel that the downturn of 2009 has bottomed and is slowly improving.

Last week, the number of rigs searching for oil and gas in the United States totaled 1,248 rigs. It represented the 12th gain in the last 13 weeks. The current rig count is 42 percent higher than the 2009 low of 876 set the weekend of June 12th, 2009. However, it is still down 783 rigs from its peak of August 29th, 2008. Rigs drilling for natural gas increased by 30 last week, to a ten-month high of 811 rigs after bottoming at 665 on July 17th, 2009, which was the lowest level since May 3rd, 2002.

However, rig count remains 50 percent lower

than its peak of 1,606 in late summer, 2008. Rig count trends are governed by oil company exploration and development spending, which in turn is influenced by the current and expected price of oil and natural gas. Downhole has been informed from its customers, who are hearing from their customers, the exploration companies, of new budget increases ranging from 40 percent to 100 percent. Producers seem to be betting that a colder winter and overall economic stabilization and recovery will spark a demand for fuel.

Natural gas is currently at $5.636 per million British units. This is far from its high in 2008 of $13, but is on the upturn from its September lows in 2009. Oil prices have jumped 75 percent, which followed a 54 percent dip in 2008. Also affecting future rig count trends are green drilling projects supported and funded by the U.S. government. Green projects are geothermal drilling and CO2 geologic storage. $90 million of U.S. funding has been designated for geothermal technology.

The geopolitical climate is also a key driver of the drill pipe market. The drive to lower energy cost is dependent on companies to source affordable components. In absence of that, energy

prices will spike. As the cost of being able to get to the reserve rises so does the cost passed to the consumer. Keeping in mind the volatility of key oil producing countries, the drill pipe market is one that can be down, as we have seen during 2009, but can overnight return to output 18 month backlogs of U.S. producers due to higher demand. Price will rise accordingly due to lower supply.

For example, a conflict in the Middle East involving Iran would lead to closure of the Straits of Hormuz, which would cut off 40 percent of the world's supply of crude. Oil prices would escalate as countries maneuver to secure fuel needed. In general, we feel the outlook for 2010 to 2011 is good. Referencing Downhole sales, the contrast of sales volume beginning in 2006, peaking in 2008, and falling 75 percent in 2009 has been a rollercoaster ride.

We have been through this cycle many times during the last 37 years. In fact, our experience forewarned the decline of 2009. We began curtailing our imports into the United States during the last of the third and all of the fourth quarter of stock inventory, stock inventory being defined as goods purchased for inventory and not previously committed for sale.

Our import volume dropped to 2,776 tons in 2009 from the 21,396 tons that we imported during 2007 to 2008. We recognized the economic laws of supply and demand, we did not want ourselves to contribute to lower prices and oversupply of goods. In addition we were financially limited to the amount of goods we could be fiscally responsible. Our sales were being down 75 percent contributed to lower importation. Sales were down as a result of the economic crisis, the worldwide recession, which caused lower oil and natural gas prices, further causing declines in drilling.

Contributing to lower sales was supply created outside our control. My partners from the other side of the table mentioned this, sounds like they wrote part of my deal by the way. Example supply created outside of control is a contractor utilizing 50 utilization rate has a 50 percent inventory source to borrow from if needed. If he needed pipe he could borrow from his own idle inventory rather than purchase from a supplier.

While judicious in solving temporary needs, any new uptick or increase in demand can create a greater need for the replacement of those idle goods. We also represent contractors who canceled their 2009

budget for tubular goods but are currently assessing 2010. While the life cycle of drill pipe in normal operations is four to five years, many contractors use an industry rule of thumb of one third joint of consumption per day per rig.

In other words, in assessing yearly budgets a company will figure an attrition of 100 joints of pipe times the number of rigs for annual replacement. Adjusting for 2009 cancellations, it is possible 2010 budgets will be approved exceeding this formula. Thank you for the opportunity to appear before you in opposition to this petition. I hope that I've been clear with my presentation. Thank you.

MR. MALASHEVICH: Good day. I'm Bruce Malashevich, President of Economic Consulting Services, LLC. I have been retained by counsel for the Respondents represented here, their economics expert, and have I frequently appeared before the Commission in this type of proceeding for more than three decades. But before I proceed, may I ask pause for a time check? I am the last presenter.

MS. DEFILIPPO: Sure, hold on one second. You have 23 minutes remaining.

MR. MALASHEVICH: More than ample, don't worry. The Commission of course has studied tubular

products used in oil and gas extraction many times over the last 25 years or so. I have participated in several of these cases and have followed the industry's fortunes over time. In each case, the basic conditions of competition have remained the same, that is U.S. demand and the condition of the domestic industry are determined by changes in the prices of oil and gas and the associated level of drilling activity. I don't think anyone in the room disputes that.

However, in its 2002 negative preliminary determination with respect to OCTG, the Commission refined this insight by noting demand's cyclical nature -- nothing new -- but what was new is they added its volatile behavior. To the economist the distinction is important because cyclical change is along the cycle. Volatility represents in my view the frequency and amplitude of changes within the cycle.

And that really is an important distinction that has served to make the industry's performance much more volatile on an arbitrary year to year basis. And at the same time the Commissioners recognized that drill pipe is distinct from other finished OCTG and greentube. Drill pipe was explicitly excluded from the scope of the OCTG case on which the Commission

voted just recently, and drill pipe likewise was excluded from the definition of relevant like product in that case.

Perspective is important. Drill pipe generally sells at a higher unit value than does most OCTG. Yet in terms of volume, the demand for drill pipe according to public documents released by the Commission, among other sources, is tiny, representing less than 2 percent of demand for all OCTG. In part for this reason, as well as for other reasons already addressed earlier by our witnesses, demand for drill pipe and the domestic industry's operations producing such pipe are even more volatile than for other OCTGs.

In short, think about this, drill pipe represents the very tip of the dog's tail, a tail that wags vigorously over the POI in this case. It is volatility in the extreme. As important as these conditions of competition are to the Commission's analysis, perhaps the more important issue for an economist is how the like product is defined in this case. That definition of course serves to mark the boundaries of the relevant market in which subject imports allegedly have caused or threaten to cause harm to the domestic industry.

In this case counsel to Respondents have

advised me that as a matter of law, imports of so called greentube must be excluded from the scope of DOC's investigation and, in any event, must not be included as subject imports for purposes of the Commission's injury analysis. Consequently, my injury analysis today focuses on gauging the impact only of subject finished drill pipe.

The Commission's analysis should carefully consider the conditions of competition I noted at the outset of my testimony. Of particular importance once again is the extreme volatility of U.S. and, I don't want to miss, U.S. export demand for the drill pipe. Again to give some perspective, during the POI in the 2002 case, the price of oil rose from $12 a barrel in January '99 to the peak of nearly $35 a barrel in November 2000, before abruptly declining to $19 a barrel in December 2001. Drilling activity behaved similarly.

If you would, please look at my exhibit 1 now before you. In this case, by contrast, the price of oil moved from $60 at the beginning of the POI to a dramatic $130 per barrel in July of 2008 before falling to $70 by September 30, 2009, the end of the statistical POI in your questionnaire. Drilling activities moved in sync, again look at exhibit 1. I

might add that since September 30 of '09 the price of oil has been trending upward again to approach $80 per barrel currently, portending a brightening future for OCTG and drill pipe producers generally.

On average, during the POI in 2002 -- in the 2002 case, excuse me -- the monthly price of oil was $25 per barrel and monthly drilling activity roughly 1,000 rigs. During the POI in this case oil averaged $75 a barrel and drilling activity came in at 1,627 operating rigs, and that's shown in exhibit 2. Now, why is this important? I think it is very important to the Commission's analysis in this case as well as the Commission thought OCTG producers were doing in voting negatively in the 2002 preliminary, the bounty gained by the industry was much much greater in recent years.

Generally speaking, drill pipe's value is a derived value, it's derived from the value it helps to create in the form of oil and gas. The higher the value of oil and gas, the higher the value and profitability assigned to drill pipe producers in the marketplace. And you will see that in spades when you examine the questionnaires that have been received to date, especially when the domestic industry's financial results for drill pipe are properly

isolated, this will be true.

In relation to net sales, the industry's reported rate of operating income speaks for itself. Income quite naturally declined, as you heard in great detail earlier this morning, in 2009, along with energy prices and associated drilling activity. But given the industry's acknowledged cyclicality and volatility, it makes sense for the Commission to weight average the industry's financial performance and certain other indicia over the POI as a whole. Year to year changes are meaningless in assessing the industry's condition.

Apart from making sense, what I have suggested, the Commission has similarly evaluated highly cyclical industries in this fashion in earlier cases, with the cement cases coming to mind as but one example. It is nothing new, it is something to be applied in precisely the circumstances we have now and would really understate the bounty that the domestic drill pipe industry has enjoyed because if you look back at exhibit 1, the POI in this case rather arbitrarily begins in 2006. They were on a good role for years before the POI even began in this case, but that bounty will not be capture by your questionnaires.

I also urge the Commission -- excuse me. My final point concerns the importance of the Commission staff evaluating carefully the industry testimony given earlier today by representatives of Respondent companies accounting for a very significant share of all imports of drill pipe during the POI in this case. The volume of such imports declined precipitously in 2009, contrary to what the petition suggests, and that's shown in the relevant questionnaires as well as in today's testimony, particularly that of Mr. Lesco.

As the Commission has noted in prior negative determinations, there simply is no correlation, as the Commission uses the term, between changes in the volume of subject imports and the domestic industry's overall condition. The causal link to subject imports of drill pipe does not exist in this case. Last point concerns Petitioner's allegations of adverse price effects attributable to subject imports.

More analysis of the questionnaire data on this score is necessary on my part at this point in time. A few observations, however, may be useful to condition now. First, with imports of drill pipe falling so precipitously roughly over the last year or so, it's difficult to assign a causal link to subject

imports on that score. Nor does domestic industry's performance over the entirety of the POI indicate an industry in distress taking into account, as the Commission has noted, its cyclical and volatile nature over time.

Second, you've heard industry testimony that domestic producers dominate the supply of drill pipe to the largest U.S. purchasers on terms that essentially deny significant inroads by Chinese suppliers. The latter suppliers essentially are relegated to the fringes of the U.S. drill pipe market under very different pricing terms and conditions. I respectfully reserve the right to expand or modify my testimony as more evidence is examined and studied between now and the time of the posthearing brief. Thank you very much.

MS. CHEN: That concludes our presentation, we'd be happy to answer any questions from the staff.

MS. DEFILIPPO: Thank you very much, and just to start I would like to thank the whole panel for being here, it is always very helpful to have industry witnesses on the Respondent's side as well as the domestic's side, as well as you too, Mr. Malashevich, so I appreciate that. So we'll start questions from the staff with Ms. Angela Newell.

MS. NEWELL: Hi, I also would like to thank you for coming today and answering our questions. There's been testimony on the premium drilling products, want to clarify, China at this time you're not importing any products -- or I mean premium drilling products -- is that correct?

MR. GARVEY: Yes, at this time we are.

MS. NEWELL: Okay, you're meaning you are not importing the premium drilling products?

MR. GARVEY: We're manufacturing but we're not importing them here actually, we're selling them internationally.

MS. NEWELL: Okay, and is it your understanding that China does not have the ability to produce these premium drilling products?

MR. GARVEY: No, contrary to earlier comments we have the ability to produce it (a), and some of the technology has been supplied by ourselves to the Chinese manufacturers, but they're well within the scope to be able to supply it.

MS. NEWELL: Okay, thank you. And so API certified drill pipe and drill collars and heavy weight drill pipes, whether produced in China or produced here, they are interchangeable, is that correct?

MR. GARVEY: Correct.

MS. NEWELL: Okay. And lastly, there has also been testimony that currently being brought into the U.S. from China is only finished drill pipe, is that correct as far as you're aware?

MR. GARVEY: I disagree, I believe there's some greentubes brought in by one of the larger manufacturers.

MS. NEWELL: Okay, could you give an estimate of all, like a sense of all the drill pipe being brought in how much would be greentube and how much would be finished?

MR. GARVEY: Yeah, what period?

MR. LESCO: During what period?

MS. NEWELL: The period of investigation, so 2006 through September 2009.

MR. GARVEY: We couldn't answer that right now.

MS. NEWELL: Okay, do you think that you could address it in the postconference brief?

MR. GARVEY: Yes.

MS. NEWELL: Okay, thank you. That's all I have.

MS. DEFILIPPO: Thank you, Ms. Newell. We'll now turn to Ms. Duall.

MS. DUALL: Thank you for your testimony today. To the extent that I asked a question earlier of the domestic industry to which you would like to respond at this point or in your brief, please feel free to do so if I don't ask you the same questions. I think you've talked about this but I just want to clarify, what do you propose as the definition of the domestic like product?

MS. CHEN: We propose one domestic like product consisting of drill pipe, and because we have these issues involving scope we would not -- we're operating under the assumption that DOC will correct the scope and not include greentube, so we're talking just about drill pipe and one like product.

MS. DUALL: Are you including drill collar in that?

MS. CHEN: Yes, drill pipe, heavy weight, and collar.

MS. DUALL: Thank you. Earlier Petitioners said that they believed that the greentube that's used for drill pipe as opposed to the OCTG is kept separately in records, is treated differently, or is not combined with the greentube for OCTG in their operations. Do you agree with the Petitioners' explanation or would you like to make a different

statement?

MS. CHEN: We would not agree with that. As we had stated, greentube is a commodity product. It comes in, it can be made into either OCTG or into drill pipe, and we'd urge the Commission to look at the 2002 OCTG prelim for further details, and if any of the industry witnesses want to comment as well. No, that's it.

MS. DUALL: I asked this question earlier of domestic --

MS. CHEN: Excuse me, I'm sorry, Mark Lenhardt my colleague, would like to add a little to that.

MR. LEHNARDT: Just one point, and that is --

MS. DUALL: Can you turn the microphone on?

MR. LEHNARDT: I need to pull closer, there we go, okay. What the domestic industry does with their books we can't say, but what we can point to is their testimony in the 2002 OCTG conference in which U.S. Steel emphatically argued that greentube is greentube. So whether they have a greentube order from a drill pipe company or a casing or tubing company it's the same greentube.

MS. DUALL: Earlier I asked a question about

the terminology of unfinished pipe. To my mind there's unfinished, which is the drill pipe without tool joints, and then greentube, and the terminology may or may not be interchangeable. Can you comment on that?

MR. MOSTOWAY: A greentube cannot be used -- it's not the same as drill pipe. A drill pipe has two connections which are friction welded, which are the tool joints, friction welded on to the drill pipe. So they are totally different products. They could have the same outside diameters and the same wall thicknesses as greentube tubing or casing, but they should not be classified the same.

MS. DUALL: So if I was referring to unfinished?

MR. MOSTOWAY: Has no tool joints on it.

MS. DUALL: Has no tool joints on it.

MR. LESCO: May I say something?

MS. DUALL: Absolutely.

MR. LESCO: Just to maybe help you out, because I'm kind of slow and don't quite understand sometimes when lawyers talk, Mr. Schagrin said that in 2009 from January to September the Chinese flooded the market with 60,000 tons of what he said we believed is finished drill pipe. So let's define finished drill

pipe, like Mr. Mostoway said. And so for your understanding, finished drill pipe would be pipe that would be entered into the United States and a customer could pick it up and put it on a drilling rig and start digging a hole with it, okay? Thank you.

MS. DUALL: Thank you. For apparent U.S. consumption, if we're going to aggregate all of the products, do you consider new expedition operations enough for us to call it the shipment of domestic product as opposed to a shipment from the country that it comes from?

MS. CHEN: Well I believe we have heard testimony about the addition of the tool joints, which is tool joint to unfinished drill pipe in the U.S., and the tool joint constitutes about 30 percent of the value of the drill pipe. So and also when greentube is brought in we also, it's our position that there's substantial value added to the greentube to turn it into drill pipe. We can elaborate further in our postconference brief.

MS. DUALL: Thank you, I would appreciate that. You end your testimony by mentioning that you believe that VAM should be excluded from the domestic industry. Are you aware of any other companies for which there are appropriate circumstances to exclude

them from the domestic industry?

MS. CHEN: Not at this point, but we would urge the Commission to follow up on this issue. Once we get all of the data and are able to look at the staff report we can make a more fulsome response to that.

MS. DUALL: Are you aware of how much drill collar as opposed to drill pipe is being imported?

MR. MALASHEVICH: This is Bruce Malashevich, I can speak to that on interim basis. No is the short answer, but only because we received a major release of APO questionnaire material yesterday, and some 20 somethings are working vigorously to compile that data, and consequently I haven't looked at it.

MS. DUALL: Okay, thank you. One last question. Can you identify for me some of the major distributors we've heard that the Chinese channel their distribution through distributors, are they also usually importers, and if you could also identify some of the major players that would be helpful.

MR. GARVEY: Yeah, I could offer a little opinion there. All right, well the major importers I believe of the Chinese product, is that your question really?

MS. DUALL: It's really trying to identify

the distributors and whether or not they are also importers usually, and just to get a sense of who the major players are.

MR. GARVEY: Yes, we're importers.

MS. DUALL: And distributors generally both?

MR. GARVEY: Yes, one and the same, exactly. And probably the two largest in the industry here are represented today, and then there's probably another two or three besides us importer. Thyssenkrupp is a large importer especially of the drill collar material.

MS. DUALL: Could you spell that for me?

MR. GARVEY: T-H-Y-S-S-E-N, krup, K-R-U-P-P.

MS. DUALL: Thank you.

MR. GARVEY: They have a division that they bring it in on and it might not necessarily be the Thyssenkrupp Group. The second largest importer I believe, or after us, number three or four would be probably Hi Long, which is a drill pipe manufacturer so they'd be exporter and importer of record. That's probably it unless David has another opinion or two.

MR. LESCO: And for the time period, I'm uncertain what time period you're talking about.

MS. DUALL: The period of investigation.

MR. LESCO: Okay. The beginning of 2006,

and there's one other Chinese manufacturer called Lomrite that I think they had maybe 1,000 tons, and I think that's what the VAM is trying to buy. Balsteel of America shipped some drill pipe over here, it's marketed through a company called Coastal Pipe, but it's been limited. And that's it.

MS. DUALL: Okay, thank you. I don't have any other questions right now.

MS. DEFILIPPO: Thank you. We'll now go to our economist, Nancy Bryan.

MS. BRYAN: Thank you, and good afternoon to this panel. Your testimony has been very enlightening so far. I just want to start off kind of getting a little bit more clarification on your firm's role in the market. Do your firm's office sell to rental companies?

MR. LESCO: Yes. And yes for them. Do you want me to speak for him, too?

(Laughter.)

MS. BRYAN: Okay. So if I get this, if I mischaracterize anything you said before, please correct me. But it sounds like then you sell to rental companies, small drilling companies, and also some large drilling companies?

MR. GARVEY: Yes, a few large ones actually,

yes. I can't give up all our secrets, but yes. And also the HDD drillers, which Mr. Morris mentioned earlier, the ones that drill under rivers for utilities, et cetera. That's a big part of our market.

And we sell them a considerable amount of new drill pipe for those projects, that the torque and the pole size in that is very tough on the drill pipe. And we sell new pipe to that that's generally used only in two or three drills because it's so abrasive to the drill pipe. So it's also a big part of our business.

MS. BRYAN: Okay.

MR. GARVEY: But the larger drilling contractors, our volume is very, very limited, because we don't have the ability to sell at the price of the manufacturers and supply the volume. So we're generally in really, probably a short-term need. That, hence, is why we carry inventory.

MS. BRYAN: Okay. And that small volume that you supply to the larger companies, is that all imported product?

MR. GARVEY: For our situation, not necessarily, because we both represented in the past them and Grant Pride Co.

MS. BRYAN: Okay. But the smaller companies, smaller drilling companies that you sell to, that sounds like it's mostly imports.

MR. GARVEY: Not necessarily for us, because for 13 years exclusively I was a Grant Pride Co. drilling contract, or distributor selling only to the smaller drilling contractors.

And as I mentioned earlier, you know, our ability to buy volume from someone like Grant gave us the ability to get better pricing. And we could take that better pricing to the smaller drilling contractors. So we're kind of an intermediate, the prices, where they would not be able to get from the larger manufacturers.

MS. BRYAN: Right. And then at what point did you shift to import sources?

MR. GARVEY: As I stated in my testimony, around 2005, when the backlogs were pushed back to 15, 18 months, and we couldn't get product in the short term. That's when we started searching for other alternatives.

MS. BRYAN: Okay. And the backlog, I guess I wasn't quite understanding why the backlog was created.

MR. GARVEY: Basically, supply and demand.

The reg activity was at its height, and the major producers were back up that far to produce drill pipe. And you'd have to ask them why, I guess, it was just the volume at the time.

MS. BRYAN: Okay. Do you know at what point in '05 that was? A more specific timeline, more specific timeframe, like at what point in 2005 this backlog occurred.

MR. GARVEY: Oh, it started throughout probably the second half of '05, continued through, and grew steadily through '05, '06, '07, and peaked in '08, probably. Halfway through '08.

MS. BRYAN: Okay, thank you. You had also mentioned in your testimony, Mr. Garvey, that some mills changed prices quarterly, and you started using price escalation clauses. Could you kind of fill that in more?

MR. GARVEY: Correct. Once the deliveries were out longer than six, maybe nine months, when we were working with Grant at a particular time, we would get a price estimate from our customer, or from the manufacturer. And then they'd also put in a clause that due to rising steel prices and other supplies, that they may need to apply an escalation clause at time of delivery. They couldn't guarantee the price.

So that was a lot of grief for especially small operators who were trying to work on a tighter budget.

And when you turn around and quote a product, and it could be five, 10, 15, 20 percent higher upon delivery, those are the issues we ran into at the time.

MS. BRYAN: Okay, thank you. So when you supply the smaller drilling companies, do you often tell them about price escalation clauses? I mean, is it at time of delivery still?

MR. GARVEY: Oh, for sure, we have to. If we're addressed by the manufacturer, we have to pass it on. We can't, it's not a fund you can surprise on delivery. You have to discuss it up front.

MS. BRYAN: Okay, thank you. Also, the nature of these smaller companies, what specific type of drilling are they engaged in? Is it a different type than the larger companies?

MR. GARVEY: That varies upon each company. But generally the smaller contractors probably would be more active in 75 percent of the main drilling business in North America, and then the larger contractors would take on the more critical, deeper, high-pressure wells.

MS. BRYAN: Okay. And those deeper, high-

pressure wells, some of those are the ones that require the premium grades that --

MR. GARVEY: In some aspects, yes.

MS. BRYAN: Okay, thanks. Also, to your knowledge, to the best of your knowledge, do the large drilling companies hold their own inventories?

MR. GARVEY: Yes.

MS. BRYAN: They do. And do small drilling contractors hold their own inventories?

MR. GARVEY: Generally can't, because of the economics. In comparison to rate count and everything, it would be a lot smaller percentage of inventory.

MR. MOSTOWAY: Can I just add to that a little bit? Basically, the larger drilling contractors have the ability to come in and negotiate, as I told you, a price.

So what they do is they'll come in and negotiate a price, sit down with the manufacturer and say okay, we need X amount a month. So they're able to buy one at better pricing and better deliveries. Also, that gives them the ability to carry back-up inventory.

So as we talked about a little bit earlier, what was discussed, right now they're sitting on quite

a bit of inventory and don't really need any, which they won't be placing any orders. So it's going to be kind of bleak in the next little while.

The only time we kind of come into that picture is if they absolutely don't have something in inventory, they give us a call. And we try to work with them to help them out.

MS. BRYAN: Okay, thank you. Okay. I also believe, Mr. Lesco, you mentioned the term stock inventory, which I guess is inventory not already committed to sale, as opposed to other inventory that already is committed to sale.

I was just wondering, how do you sort of go about determining how much stock inventory to carry?

MR. LESCO: Well, today it's real easy. There's no business, so I'm not buying anything for stock. I haven't been. And as I mentioned earlier, 2009 was slow.

You have basic sizes, popular, the most-used sizes and grades by the majority of your land contractors. And so in placing orders in China, we would normally stay to those particular popular sizes and grades. And it's just kind of a determination of quotations, what you use to base it on.

As I mentioned earlier, rig builds,

sometimes we took orders on rigs we knew were coming. We would speculate on the probability of a particular size of pipe being sold, if it was in our pipeyard ready to load on trucks, ready to go.

Many of our sales were, of course all our sales out of stock is availability. But, especially during the period 2006 to 2008, just having the pipe was, I mean, go back to the question you asked earlier. I actually got into looking for customers in 2005 for available drill pipe in China. Because we had been, we had been going into China about 2001, 2002, buying machinery, mud pumps, handling tools.

So our customers knew we were familiar with China, and urged us to source out supply for the very reasons that we're talking about, where we had customers that could not afford to pay the current list price for the major manufacturers. So they were running used pipe and/or they couldn't get delivery.

And we were able to provide them for, with quicker delivery, quality pipe at good prices. So the main key was delivery. I think we were getting new pipe instead of used.

MS. BRYAN: Okay. So your inventory, other than the stock inventory, is already committed to sales that you've already made?

MR. LESCO: I call stock inventory, when we first started buying material because we were unsure of the delivery. And we would buy the material, bring it to use in Texas, put it in our pipeyard. That was our stock inventory. Then we would offer it for sale to our customers.

That's why I'm calling it stock inventory. It's inventory that is currently in our pipeyards, available to you or to a contractor to buy, and to load on his truck, and go. To where he doesn't, I don't have to place an order at the mill for it.

MS. BRYAN: And does that comprise all of your sales?

MR. LESCO: Yes, ma'am. No, a large portion, probably 80, 90 percent of all my sales just basically out of stock.

MS. BRYAN: Okay, thank you. Also, this is for both Mr. Garvey and Mr. Lesco, and whoever else wants to come in on it. You said this morning that the drilling contractors know in advance when they're going to need the drill pipe, so that a lead time doesn't have to be immediate. Would you agree with that characterization?

MR. LESCO: Let me say something first. I know Charlie has a great answer, too.

When I listened to that, they don't always know. A lot of times you drop a string in the hole, you might have had, for whatever the conditions were, you literally lost the string in the hole.

A contractor sometimes, in fact some of the sales we've had recently is where the operators are telling the contractor to increase their volume, so they're actually having to change sizes and get larger, get larger pipe. They just found out. So now all of a sudden they've got to buy five-inch pipe instead of four-and-a-half-inch pipe.

Well, yes, ma'am, on a new rig build, where, you know, you go contract with a rig builder, and you might have 18 months to two years before that rig's ready to be shipped out. Well, then you have time. But while I, I had rig-build sales during that period of time, the majority of my sales were for people that didn't have time to wait; they needed it now.

MS. BRYAN: Okay, thank you.

MR. GARVEY: The larger drilling contractors generally had inventory and had a better idea of planning ahead, and they could take from their own inventory and supply, you know, either pipe for a depth, the hole size changed or something like that, or loss in hole. The smaller contractors really don't

have those opportunities. They don't have the inventories to pull from.

So our need is, we're there to basically help them in the short-term needs they can't sit there and plan. If they can build a new rig, definitely they can plan. But if they have these hole changes, size changes, depth changes, or lost in hole, generally the smaller contractors can't afford it.

Another role we play is also with the rental companies. The rental companies might be out of a certain product. That product, they might have another rental, long-term rental or something for that. So they would look to try to find something on the ground that someone could supply them, so they could secure the rental going forward.

So we play a big part in their existence, because in the short-term needs we can supply it to them.

MS. BRYAN: Okay, thank you. I also heard your characterization that the smaller drilling contractors weren't getting the same preferential low prices that the larger drilling companies were able to get. Which I guess makes sense on a quantity volume discount we've seen before.

But in terms of just sales to the smaller

drilling contractors, on a per-unit basis, I mean it's a smaller amount of product, but on a per-unit basis, I mean, are the import prices lower than the U.S. producers' price?

MR. MOSTOWAY: No, that's exactly what I pointed out in my, in my testimony. We can't import pipe, purchase pipe from China and bring it here, and compete with the prices that the major U.S., how could I say it, customers receive. We're probably 20 to 25 percent higher than that, if that helps you at all.

MS. BRYAN: And I understand the comparison between what the prices the larger companies are getting --

MR. MOSTOWAY: Right.

MS. BRYAN: -- relative to the smaller companies. But just in the universe of smaller companies, the smaller drilling companies.

MR. MOSTOWAY: I don't know how to answer that.

MR. GARVEY: You're asking the price of importer product and domestic product? They're basically the same because we've got a similar product in quality and everything else. So generally, on the smaller sizes, or the smaller contractors, it's a similar price.

MS. BRYAN: Okay, thanks. Oh, I also -- I think it's my last question -- I just wanted to get a feeling from your firms about how you set your price for drill pipe. You know, whether you do try to base it on raw material costs, and include escalation clauses. Or do you feel like it's more based on demand and, in particular, oil prices?

MR. GARVEY: Really, the gentlemen behind us, you know, they determine the prices going forward, the manufacturers do. And they generally react to the market. Their raw costs, their labor costs, et cetera, et cetera, determine the price. We can't determine what we're going to buy it from our suppliers for; they tell us what the price is.

For us to go sell it, it's basically what the market will bear. You know, again, because we're inventory carriers, our biggest selling point really is delivery. That's what we concentrate on. The price I think is secondary to most of the stuff that we do. Sure, we compete in the odd isolated area where we're going to have to compete with someone on price, but generally for us it's a delivery issue.

MS. BRYAN: Okay, thanks. Oh, I've got one more question, I just realized. Do you deal in used products?

MR. GARVEY: Yes, we do.

MR. LESCO: Yes.

MR. GARVEY: It's a big part of our business. Because as they explained earlier, some of the limited applications it can go into. We also have a trade program with a lot of our customers. We'll take their used product that they're not going to use, and we'll give them new product of equal value for it, you know, for trading dollar for dollar. And thus, we have a large inventory of used product. And it just fits different niches going forward.

MS. BRYAN: Okay, thank you. Probably in a post-conference brief, if you want to provide it there, if you could just give me more information about the differences in pricing between the used product and new product, and possibly if you could identify the sorts of customers or customer names to whom you sell the used product. That would be helpful.

MR. GARVEY: Sure, not a problem.

MS. BRYAN: Thanks. Now I'm done with my questions. Thank you.

MS. DeFILIPPO: Thank you, Ms. Bryan. Mr. Boyland, do you have any questions for this panel?

MR. BOYLAND: Nancy actually asked most of

the questions I was going to ask. But I have one question.

Mr. Lesco, you indicated that your inventory essentially is going to match what you think are the standard sizes that your customers are going to be needing. In other words, your product mix from period to period, is it -- essentially, it's representing what your customers are purchasing on a, you know, a regular basis, essentially.

MR. LESCO: Yes.

MR. BOYLAND: Okay. So when you purchase in advance, you're just, you're saying well, I'm going to apply that product that's going forward. And over the period, did that change at all? I mean, essentially what people were buying?

MR. LESCO: No, it didn't change.

MR. BOYLAND: Okay. Mr. Garvey, is that essentially the same way you purchase?

MR. GARVEY: Probably the majority of our product. We also have an engineering group involved with Command, where we will go out and design strings for some customers, design the premium connections. We've got some that we've got actually in the market today. So we're not just an API purchaser; we're actually looking at sour service grades for Canada.

We're buying those, too. And the premium connections that we talked earlier.

MR. BOYLAND: And those premium grades, are those coming from China, as well?

MR. GARVEY: Yes, sir.

MR. BOYLAND: Okay. So you're designing, you're sort of back and forth between your customers, what they need, specifications?

MR. GARVEY: Correct. And we're competing with some of the manufacturers here that were represented today, Grant Pride and Smith, and we need comparable products to go forward. So on the premium side, we have comparable connections to go and compete in the applications that are being used, or sour service grades to compete where they're at, also.

MR. BOYLAND: In terms of once you've imported the product, do you do any additional processing?

MR. GARVEY: No. The only additional that could happen is internal coating, which is used for, it's like a corrosion inhibitor applied to the ID of the pipe, or it also helps with the flow of the fluids on the inside of the pipe. And then I think the VAM representative has mentioned a little bit about hard facing that's put on the tool joints to minimize wear.

MR. BOYLAND: So you do the hard facing and the coating.

MR. GARVEY: Yeah, the coating is outsourced, and we do our own hard facing, yes.

MR. BOYLAND: Is that true for you, Mr. Lesco?

MR. LESCO: I do not do my own hard painting. I have to outsource it. But yes.

MR. BOYLAND: Okay, thank you. I have no further questions.

MS. DeFILIPPO: Thank you, Mr. Boyland.

Mr. Van Toai, do you have any questions for this panel?

MR. VAN TOAI: Yes, thank you. I have two very quick questions.

Well, thank you very much for coming over here and giving your presentations. I have two very quick questions, and very general questions that I have asked this morning. Number one is, have you heard of any overseas investment into the United States to make drill pipe or drill collars the last few years and currently?

MR. GARVEY: No.

MR. LESCO: No.

MR. VAN TOAI: Okay. My second question is

that if imports from China decrease in the future, as you understand that many U.S. producers are affiliates of overseas companies. And in the future, if Chinese import into the United States decrease, would there be any chance in the production schedule or imports into the United States from those countries, or from those companies, from the overseas companies, of companies in Canada and Mexico? Bearing in mind that there are companies here affiliated from overseas.

MR. LESCO: I'm sorry, I didn't quite understand your question.

MR. VAN TOAI: Let me rephrase it for you.

MR. LESCO: I didn't understand if you said decrease or increase. Please excuse me.

MR. VAN TOAI: Well, many U.S. companies affiliate to overseas producers. And in the future, if the Chinese imports into the United States decrease, would there be any change in the import from other countries, like Canada, Mexico?

MR. MALASHEVICH: Sir, may I just have a moment to explain what I think you're after?

MR. VAN TOAI: Sure.

MR. GARVEY: Can I answer in the meantime? Number one, there's no producers in Canada of drill bit. Yes, I believe there would be other

manufacturers that would be looking at a void in the market, because I believe at peak time, the U.S. producers probably can't meet 100 percent of the deliveries. So there will be an opportunity for external parties to probably import.

MR. VAN TOAI: I see, thank you. Well, thank you.

MR. LESCO: I would be, I don't think I can give a qualified answer to your question.

MR. VAN TOAI: Okay. Thank you very much, thank you.

MS. DeFILIPPO: Thank you, Mr. Van Toai. Mr. Corkran, questions for this panel?

MR. CORKRAN: Thank you, and thank you to all the panel for being here today and presenting us with very helpful testimony.

I'd like to open with a question directed to Mr. Lesco. You had indicated that in your view, the outlook for 2010 and 2011 is good, if I am characterizing your comments correctly.

What is your, what are the things that you look to to make a judgment like that? What informs your outlook?

MR. LESCO: I'd say it's good considering that it's been so bad, okay. I'm very encouraged with

watching the rig count increase steadily. Out of the last 13 weeks I think it's increased 12. For instance, natural gas has come up. There's a big natural gas place in Pennsylvania, in northeast Texas that are exciting people in bidding with our contractors.

I was recently encouraged because I was told that Exxon had a major purchase of XTO here a few months ago. The speculation is that they wouldn't have done that if they didn't feel like the price of gas was going to go up. But Chesapeake, I've been told Chesapeake, Sandridge, Forest Oil, some of the other players in the Hainesville area have voted, are probably going to increase their budget, as I said, 40 percent to 100 percent of last year. So that in itself would be an uptick in the drilling industry.

I'm always watching rig counts, oil prices, natural gas prices. I mean, these are the barometers that all of us, especially importers that are investing millions of dollars, that we have to be very careful of watching the flow of our money. But those are the trends that I always watch.

MR. CORKRAN: That was a helpful answer, and I very much appreciate it.

I wanted to follow up on something that we

heard this morning. To Ms. Chen, if you were representing Chinese producers at the, for the Department of Commerce, and if they have not already responded to us, if you could encourage their response, that would be helpful. I'm not sure exactly.

MS. CHEN: Yes, we will do that. Yes.

MR. CORKRAN: Thank you very much. And likewise, if there is available data originating in China that you are aware of or that your clients are aware of -- for example, maybe the China Steel Pipe Association or other research institutes -- if they drill down as deep as drill pipe numbers, if that's available. That would be very helpful. They may not go that specific, though.

MS. CHEN: We will look for that. Thank you.

MR. CORKRAN: The next question I have goes to, in part goes to your like product argument. But it also goes, but it's also an issue separate and apart from the legal argument.

And that is, the tonnage that was discussed this morning I believe is consistent with the data that appear in the official import statistics that should cover drill pipe.

I do understand your legal argument, but are you also saying that some, or maybe even a large portion, of the entries that we're seeing under those HTS numbers may not be drill pipe? Or are you saying that they are probably green tube?

MR. LEHNARDT: Our position is kind of a mixture of both, that the numbers are overstated for two reasons. One is because green tube, which is the commodity product for casing, tubing, and drill pipe, can come in under the HTS categories for either without being necessarily wrong, if you see what I mean. And the other is that there is green tube that comes in for drill pipe.

So we expect there would be a lesser amount of green tube for drill pipe, and then the rest of the volume would be filled in by other things, like green tube for casing and tubing, or perhaps a misclassified casing or tubing.

MR. MALASHEVICH: Mr. Corkran, if I may add one point from a statistical point of view, which is my world.

In preparing for this hearing yesterday with our importer colleagues, it's often very difficult to convey some of the terms of art that we work with, subject merchandise, non-subject merchandise, and et

cetera, et cetera.

But it came out, and I think it was Mr. Garvey that said at one point during our discussion of what all this means for them, that he said you know, there is no such thing as unfinished green pipe. Excuse me, unfinished drill pipe.

A pipe is not a drill pipe until it has the mounted tool joints at both ends. If it doesn't have that, it's not drill pipe. It's not unfinished drill pipe. It's green tube.

You studied, the Commission studied fasteners recently. Fasteners can be made for certain bar or wire rod, and there are hundreds of different applications of fasteners. Let's say fasteners that go into, oh, I don't know, a washing machine. So they start with wire rod or bar.

And it isn't that they're buying wire rod or, it isn't like they're buying unfinished fasteners for use in a washing machine; they're buying a different product and transforming it into the relevant fastener.

I think that's what's going on here. We queried both of our importer witnesses. There is no, in the jargon of their world there is no such thing as unfinished drill pipe. It is, or it's green tube.

MR. CORKRAN: Okay, thank you.

MR. GARVEY: May I make a comment regarding the tonnage? The two major importers of Chinese drill pipe products are sitting here today. David mentioned earlier he imported 2700 tons in 2009, and we imported a similar amount, 3,000 tons. We've confirmed that with the exports from BP Master to the United States.

So when we're talking about 68,000 tons in the first three quarters of '09, as the Petitioners have stated, well, we're the largest players in the business, and we brought in less than 10 percent of that volume. Where is the other 90 percent of the volume? There just aren't the players available to bring this product in.

MR. LEHNARDT: And I just want to add one point about these numbers. And that is, we've gone, as Ms. Chen mentioned earlier, to Piers data, and done extensive searches throughout Piers data. And when we do searches for drill pipe and for the HTS categories that correspond in Piers to drill pipe, we come up with a much lower volume of finished drill pipe, and not very much more of a green tube that looks like it's headed to drill pipe manufacturers.

This is along the lines of what Mr. Schagrin said earlier, when he said we think that most of

what's coming in is finished drill pipe. I think he said the vast majority of what's coming in is finished drill pipe, and then there's a little bit more of green tube.

MR. CORKRAN: Thank you, that is, that is helpful. And I respect the perspective on drill pipe and on green tube. And one of the difficulties that we will have and do have going through the data is, there is, I believe, a specific HTS number that discusses drill pipe with tool drilling attached. And if that were the only way in which drill pipe could enter and be drill pipe, A, you wouldn't need the -- with tool joint attached.

But even if you did, you'd have a whole other set of HTS numbers sitting out there that cover drill pipe presumably, or in theory at least, without tool joint attached. But that's something that we'll try to be, we'll try to be working through.

MR. MALASHEVICH: Excuse me, Mr. Corkran, if I may just make a suggestion.

I think this is the kind of case where, as we often confront, sometimes the HTS schedules just don't fit the bill in terms of collecting the information the Commission and the parties rely on.

But my impression from just flipping through

the questionnaires received to date, which are quite voluminous, that you're going to have good coverage, both with respect to imports and with respect to domestic industry.

And my strong recommendation is we could spend a lot of energy working with the HTS numbers, or we could just set them aside and work with the questionnaire data, perhaps supplemented by Piers reports.

MR. CORKRAN: Thank you. And this, like all cases, that will be certainly one of the options on the table for the data. And I would think, given this argument, no matter what, we would certainly be presenting questionnaire data for consideration.

I did have just a few other questions, and forgive me if they, I know they overlap with some of the ones that were asked, but I'm not sure if the specific question that I'm asking has been asked.

I know it was mentioned that you deal in used drill pipe. I'd like to refine the question to ask if either of the companies here today import, are the importer of record for used drill pipe.

MR. LESCO: I have been, in the past. I've imported from Mexico, I've imported from the Middle East.

MR. GARVEY: In the last two years into the United States, I have not imported. But in the past prior to that, 2007 going forward, definitely, from Europe and the Middle East and South America. And Canada into the States, also.

MR. CORKRAN: And then for either of the companies here today, have you imported unfinished drill pipe, or green tube, that is destined for use as drill pipe?

MR. LESCO: No.

MR. GARVEY: Again, green tubes, no. And I still don't understand the explanation of unfinished drill pipe.

MR. CORKRAN: Okay. Thank you, that's all the questions that I have for now. Thank you very much.

MS. DeFILIPPO: Thank you, Mr. Corkran. I think I just have a couple of quick things. The staff has covered all my issues, and I have effectively crossed most of them off.

Earlier today I had asked a question to clarify, to make sure I was understanding what we were talking about. This premium proprietary versus regular API, non-premium proprietary, and there was an estimate given that the U.S. market, perhaps 15

percent of it, was the premium proprietary products, the vast majority of it being non.

Would you agree with that estimate, or do you have other thoughts?

MR. GARVEY: I'd have to agree with it on, you know, the percentage of the business that we have, it's probably smaller than that at this particular time. Internationally, it's probably a bigger number than 15 percent. But domestically, I would agree.

MR. MOSTOWAY: Speaking from past experience, the premium what would be connections and grades combination for domestic and export was roughly 45 percent of the total manufacture in my past life. Today --

MR. GARVEY: You were the biggest player in the business.

MR. MOSTOWAY: Right. In the U.S. it would be hard to really define that. I would probably tend to agree with that, it's probably in that area someplace.

MS. DeFILIPPO: Okay, thank you. Actually, Mr. Mostoway, I'll stay with you for this question. And to the extent that you would feel more comfortable providing this response in a post-conference submission, I completely understand that.

In your testimony earlier you were talking about the Alliance customer base, and these are the larger customers, and how they negotiated or entered into year-long contracts to purchase the drill pipe.

And I guess it probably is a better way to do it, in a post-conference. But to the extent you could discuss sort of how these annual contracts get into play. Is it an open-bidding session at a certain time of year, where the customers are obtaining bids from different suppliers? Or are they sort of bilaterally negotiating with their current suppliers for going forward?

MR. MOSTOWAY: We could go into more detail, but basically there's both happening.

MS. DeFILIPPO: Okay.

MR. MOSTOWAY: Both of your questions, there's different ways that they're done. Some are just renegotiated yearly, and some are, you know, they'll go out for bids to a few different companies.

MS. DeFILIPPO: And I believe somewhere in my notes you indicated that they do the annual contracts, but they could adjust their contracts on a monthly basis.

MR. MOSTOWAY: More so on volume.

MS. DeFILIPPO: That was my question. So is

it a volume? And if so, is there some parameter within which that they could? I mean, you know, they have to guarantee a certain level, but within a certain range they could modify?

MR. MOSTOWAY: Well, it's funny you ask that question. Because at a certain level, a price, for example, with one of the larger contractors, you committed to supply them with X amount of product. If they needed to exceed that threshold, then you would actually ask for more money, if that makes any sense to you. But, because you're tying up so much of your capacity with that customer at very low prices, okay.

So what you're trying to do is, you only want to give up so much of that capacity. You want to try to play the spot market to make a little more money.

MS. DeFILIPPO: That's interesting. I appreciate that explanation, because I would have thought the other way.

MR. MOSTOWAY: That's what I thought.

MS. DeFILIPPO: So I guess if you were to go the other way and say I don't need as much, do you get a, does your price change?

MR. MOSTOWAY: Yeah. At that time, if you don't need -- well, again, depending on the volume,

you may say okay, you're not committing to buying enough from me, then we need to look at our pricing structure again.

MS. DeFILIPPO: Okay.

MR. MOSTOWAY: And then, just to further that, on a delivery issue, if they want to adjust maybe, because they pinpoint it pretty close to the sizes and how much they want. Usually you've got a three-, four-month window there where you will, if they go out three or four months and say let's adjust that, then you kind of make those adjustments at that time. Because of raw materials and planning.

MS. DeFILIPPO: And based on the responses that you all talked about in terms of where you play in the market, and that sort of 75 percent of it was these customers that you weren't playing in, to the extent, in a post-conference brief, if you could address whether or not, perhaps you maybe haven't sold to them, but have you participated in any negotiations at any times to offer them to sell to these large customers? Not necessarily whether you ended up selling, but if you at any point were doing that.

Ms. Chen, if you could, in your post-conference brief, address any of the threat issues that I talked about, any existing orders, new

capacity, additions, capacity expansions in China, any information that you may have on that would be helpful.

And one last question for Mr. Malashevich. You had talked about your suggestion to look at financials sort of as a weighted average over the period, and you used cement as an example that the Commission had looked at sort of this trend over a period based on the characteristics of the industry.

My recollection from cement was a very capital-intensive industry with very high fixed costs, so they would try to keep a plant running.

Here it sounded a little different this morning, where producers talked about stopping production and laying off workers, and cutting back. So to me, it seemed like a little bit different-nature industry, not necessarily keeping it running to cover fixed costs. Would that, would that alter your example, or change your analysis at all, in terms of that?

MR. MALASHEVICH: No, for the following reason. And I recognize and recall the capital-intensive nature of cement. And I don't have the information to say whether this industry is or isn't, in part because if you end up folding in green tube in

some fashion, the economics of that production are very different from the economics of fabricating the drill pipe.

But my main point doesn't go to the capital intensity of the industry structure. It goes to the variability of the profit cycle, if you will. They have to make enough money over time in the good years to compensate what invariably follow the bad years.

And that's why, to assess the industry's condition, irrespective of its capital structure, you would still weight-average the profitability results over the, well, the part of the cycle as a whole that is before you at the POI. And as I mentioned, that would be a conservative measure, because they had a period of good years leading up to the POI.

I hope that answers your question.

MS. DeFILIPPO: It did, thank you. I will look quickly and see if staff indicates they have any additional questions of this panel.

With that actually, we have completed questions. So thank you very much. Again, I appreciate you taking the time to be with us and answer all of our questions, and to give your direct testimony.

We'll take a five-minute break just to give

you a few minutes to prepare for closing statements. And we'll reconvene at 2:40. Thank you.

(Whereupon, a brief recess was taken.)

MS. DeFILIPPO: I apologize, Mr. Schagrin. I think in the interest of fairness, Mr. Corkran, will you restart? And if you would take it from the top, I would appreciate that. Thank you.

MR. SCHAGRIN: Good afternoon, Ms. DeFilippo and members of the Commission and staff. For the record, Roger Schagrin, counsel to Petitioners.

Of course we had a little bit of a bomb dropped with the Respondents' arguments this afternoon, with the claim that VAM Drilling should not be considered a member of the domestic industry because allegedly they had today purchased a Chinese drill pipe producer.

Had they made the purchase, they'd probably still be considered a member of the domestic industry for the POI. But the fact is that VAM Drilling USA executives have confirmed with headquarters of their parent company that evidently they did not purchase this Chinese drill pipe producer today. So there must be just some mistake in the facts. I wouldn't say you get a lot of bad information out of China, but you get a lot of bad information out of China.

And I don't know where it was reported, but news reports can be bad. At least to the best of our knowledge, we'll clarify it in the post-conference brief, but I have been informed that a bomb that was dropped was, I wouldn't say it was an act of terrorism, but let's just say it doesn't appear to be a truthful statement. But it certainly set everybody aback.

Now, that's a good thing to do to your opponents, just drop something in and say wow, this will just shock them. And that was a good thing to shock us.

Now let's go to the more relevant issues to this investigation, which is the scope of investigation in like product. I'm trying to completely understand the Respondents' argument.

Their first argument seems to be legally, Commerce shouldn't put green tube in the scope of the drill pipe case. Well, we received Commerce's initiation notice this afternoon. And in spite of multiple urgings and multiple filings from former Commerce Department employees to remove the words "green tube" from the scope of this investigation, of course because the industry refers to green tube for producing drill pipe as green tube, the scope of

Commerce's investigation includes the words "green tube." And that is appropriate because that's covered by the scope of the investigation, and was included in the scope of the petition.

Now, I would also point out that everybody in the industry really knows that green tubes for drill pipe are different from green tubes for casing and tubing. Notwithstanding a quote from one USS witness at one stamp conference in 2002 people from TMK Ipsco, which Mr. Ramsay testified to, as a separate business for them. Yes, it's made on the same machinery. That's why when we get the threat, there's no question that the Chinese OCTG producers can ship to green tube to drill pipe, and then on to finished drill pipe with the finishing equipment.

But the only purchasers of green tube for drill pipe are drill pipe producers. And there's a little bit of overlap in chemistries. They are made on the same machinery. They obviously get marketed completely differently from OCTG. And the other thing is they're just plain not covered by the OCTG order. I mean, that's a total misnomer. They're not, green tube for drill pipe is not in the OCTG order, and that's clear.

Now let's talk about import volumes. Okay,

first I would urge the Commission to categorically reject the suggestions of Ms. Chen and Mr. Malashevich that you do not use import data, and that instead you utilize just questionnaire responses.

If we had 100-percent coverage of questionnaire responses, that would be one thing. But we never have in these China cases. And they're trying to claim here oh, yes, you do, because we've got the two biggest importers.

Well, you have the data from Customs, and you can make your own decisions. No question, this gentleman testified publicly, it's his choice that he imported roughly a quarter to a third of the imports from last year. That's a big importer. And that's good; I'm glad they participated. But that doesn't give us 100-percent coverage compared to import data.

Using Piers data, I've been looking at Piers data for 30 years. Piers is so-so, you know. Piers, if somebody puts on that import entry form bill of lading "drill pipe," fine, Piers will find it. If they just say "pipe," Piers won't find it. So you can't use that.

Now, this idea that the import data must be wrong because people are entering other things as drill pipe, you know, it's always possible. But as

Mr. Corkran referred to, look at the headings and the HTS for 7304. It says drill pipe of stainless steel, and then it gives you the different sizes. Drill pipe of alloy steel, drill pipe of carbon steel. I mean, it's hard to believe, with that kind of heading, that people are entering things in those headings that are casing and tubing. And that was their claim: Oh, this is all green tube for casing and tubing coming in these drill pipe categories. That makes no sense.

Now, you have a very specific HTS in chapter 84 that says drill pipe with tool joints attached. You'd think all finished drill pipes would go in there. Well, we can do the conversions from pieces. We know pieces are 32 feet long, we know the average weight. You don't even have this gentleman's 21,000 tons of drill pipe that he said he imported in 2008 in that category.

So was he importing finished drill pipe? You had him, under oath, say he doesn't import green tubes. Did he import his 21,000 tons of finished drill pipe without tool joints attached in chapter 84? The heading, "Drill Pipe With Tool Joints Attached." I don't think so, the Customs data doesn't add up.

So what does that leave you do? I mean, you don't have very good foreign producer coverage.

You'll decide on importer coverage, because you're able to get from Customs the name of importers in those categories. If you get from Customs the name of an importer, and that importer says drill pipe, I was importing sheep intestines, how did it wind up in drill pipe? Well, fine, you take it out.

But you can contact these people. So the idea that any Chinese Respondent is able to make up for bad coverage in a case by saying oh, use Piers data and use importer data and use foreign producer data, but don't use import data, that's unacceptable.

And you know, let's not even forget, besides the 2009 entries, that half of all the entries in 2008 came in in the fourth quarter of 2008, and most of that is probably sitting in inventory.

Now let's get to the breakdown of the market, this idea that Chinese imports can only possibly penetrate one quarter of the U.S. market. That's baloney. It's the only legal term I can describe that as. That is baloney, pure, unadulterated baloney. And that's because of two things, you know.

First of all, there are a lot of small producers. Then you heard later that four people are half the industry, the other 120 are the other half of

the industry. But really the basis for that was that the four biggest drillers will not buy Chinese product.

But just last week, one of those big four placed the largest order to be placed so far in 2010. Who took the order? Someone who testified here an hour ago that none of the four largest purchasers in the U.S. were buying Chinese product. That just boggles my mind. An order for 270,000 feet, 5,000 tons, was taken last week by Command at a price lower than domestic prices. And it was an odd thing. Some of it was just sale, some of it was also trading products, because they had all the products in inventory, because they obviously have inventories.

But stay on Command for a minute. They gave you the impression that oh, we know all about what's going on with these big guys because we were Grant Prideco's distributor for 13 years, and we were VAM Drilling's distributor.

Well, you have to understand that Command is a major Canadian company; they are a big player in the world market. They never came to the United States to have an office in Houston until 2007. They weren't, when they came to Houston they weren't a Grant Prideco distributor for the United States of America. They

weren't a VAM Drilling distributor for the United States of America. They came and set up shop in Houston, good business plan, and what they are is they're a major distributor for Chinese drill pipe in the United States. They're not just co-selling Chinese and domestic product; they're a distributor of Chinese product.

Now, one other thing you have to understand is the domestic industry welcomes sales to smaller drilling companies. They don't have big minimum purchase orders, they'll sell them a drill string, they'll sell them less than a drill string. And the fact is the Chinese are taking all the sales to the smaller customers, and they're taking them not because the domestic industry can't supply them, not because they're unwilling, not because they won't be price-competitive, but because the Chinese are offering lower prices.

This industry is suffering injury. They have had plummeting production in shipments, partial shutdowns, employment losses, falling prices. The causation in the industry is imports from China. They surged not because the domestic industry couldn't supply the market, but because the Chinese had lower prices for commodity-grade API drill pipe. That's why

the United States industry lost market share, that's why they lost sales, and that's why the Chinese are cleaning their clocks and pushing prices down.

Finally, the threat case. You don't have the Respondent foreign producer questionnaire responses. There's massive over-capacity in China. There's a lot of finished inventory sitting in China. And whether you agree with the whole very rosy forecast of the future or you agree with our more pessimistic forecast, it really doesn't matter. Because even if things are rosy, the Chinese would take the business.

Thank you very much.

MS. DeFILIPPO: Thank you, Mr. Schagrin. We will now have closing statements, rebuttal remarks from Respondents. Ms. Chen, please proceed whenever you're ready.

MS. CHEN: Yes, thank you. Petitioners keep complaining about the sudden surge in subject imports and their detrimental effect on the domestic industry. But they're ignoring the elephant in the room, or they're not addressing the elephant in the room, which is the great recession over the last year and a half.

This was not a normal business cycle of boom and bust. As everyone knows, this was a crash beyond

anything anyone could have imagined of unprecedented proportions. Oil and natural gas plummeted. This drives rigging activity. This caused orders to fall for everybody -- not just the domestic producers, but also the U.S. importers.

To blame everything on U.S. importers is just completely a red herring. There is no causal nexus between the presence of subject imports and any detrimental effect or material injury to the domestic industry.

The U.S. recession, the worldwide recession, depressed demand caused rig activity to drop. And, as the Petitioners testified, the drilling contractors had their own existing inventory to draw from. So why would they need to go buy it from the U.S. producers? They just stopped buying, and that's when orders fell through the floor.

Mr. Schagrin talks about the import data. There are problems with the import data. As Mr. Schagrin admitted during this morning's testimony, those HTS categories are not clean. But we have to point out also that in the scope that the HTS categories are not dispositive, it's the scope description. So to the extent that we can rely on questionnaire responses to the extent that we can

cross-reference Piers data with Customs data, we think that would be a more fulsome picture of the subject import volume.

We have two of the largest players in the U.S. import market for drill pipe from China here telling you that those numbers don't make sense. And I think that it doesn't behoove the record to simply rely on the Customs data blindly.

Also, I wanted to point out that in 2006 the domestic industry raised their own production capacity. They are complaining now that they've had to lay off, a large portion of their work force had furloughs, they're hurting very badly. But they also added capacity, a lot of capacity in 2006, when things were rolling in the U.S. economy.

So they've made their own bed on this. To pin this as well on subject imports is simply unfair, and is wrong.

Now, Mr. Schagrin refers to Command Energy, a sale to a major company. Well, apparently that sale was only for 1300 tons. It was a 50-percent trade of existing inventory, and it was not the lowest price. We can elaborate on that further in the post-conference brief.

I will turn to Bruce Malashevich now for

further comment.

MR. MALASHEVICH: Court reporter, is this okay? Thank you.

Just one brief point. Petitioners' economic theory of injury and causation is a familiar one. We've all heard it in many cases, and in many cases it's true.

In this case, they're arguing surging imports coincide with declining prices, profitability, employment, et cetera. But there was one thing I was listening very carefully for, that invariably is part of that theory when argued in other cases, that I didn't hear. And that speaks loudly, I think, about what may be the essence of this case.

I didn't hear any one of the industry witnesses, very distinguished, experienced executives in their field for many years, not a single one mentioned underselling. Not one.

Their lawyer, toward the end of the presentation, touched on it a little bit. He touched on it a bit in the closing remarks. But look at the transcript. None of the industry people did. Very unusual in connection with what is otherwise their overall theory of the injury case. And I would strongly recommend that you look very carefully at the

relevant sections of the questionnaire responses and make your own judgment as to why they didn't say anything.

Thank you.

MS. CHEN: I just wanted to add one point about the scope issue and the domestic like product.

The scope issue is still ongoing at Commerce; it's not been totally resolved. But we would like to point out that if Commerce does finalize its scope as the green being suitable for drill pipe, which we would like to point out actually also includes green tube for OCTG because it's the same green tube, the Commission does have the discretion to look at a like product and establish multiple like products to, one for green tube and one for drill pipe. Because this green tube actually has different channels of distribution. It could be sold for OCTG production, and possibly different customers and different producers. So we would ask that the Commission also consider that issue, as well.

Thank you.

MS. DeFILIpPO: Thank you, Ms. Chen and Mr. Malashevich.

Before I read my standard little closing, I would like to apologize to everyone for our technical

difficulties today. I appreciate your patience in dealing with the time delay in starting and switching microphones around. I do apologize, and I appreciate it.

On behalf of the Commission and the staff, I would like to thank the witnesses who came here today, as well as counsel, for helping us gain a better understanding of this product and the conditions of competition in this industry.

Before concluding, please let me mention a few dates to keep in mind. The deadline for the submission of corrections to the transcript and for briefs in the investigations is Tuesday, January 26. If briefs contain business proprietary information, a public version is due on January 27.

The Commission has tentatively scheduled its vote on the investigations for February 12. It will report its determinations to the Secretary of Commerce on February 16, and Commissioners' opinions will be transmitted to Commerce on February 23.

Thank you again for coming. And with that, this conference is adjourned.

(Whereupon, at 3:00 p.m., the preliminary conference in the above-entitled matter was concluded.)

CERTIFICATION OF TRANSCRIPTION

TITLE: Drill Pipe and Drill Collars from China
INVESTIGATION NOS.: 701-TA-474, 731-TA-1176
HEARING DATE: January 21, 2010
LOCATION: Washington, D.C.
NATURE OF HEARING: Preliminary Conference

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: January 21, 2010
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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