UNITED STATES
INTERNATIONAL TRADE COMMISSION

```
In the Matter of:             )
                              ) Investigation Nos.
CERTAIN OIL COUNTRY TUBULAR   ) 701-TA-463 and
GOODS FROM CHINA              ) 731-TA-1159 (Preliminary)
```

REVISED AND CORRECTED COPY

Pages: 1 through 233

Place: Washington, D.C.

Date: April 29, 2009

HERITAGE REPORTING CORPORATION
Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
(202) 628-4888
contracts@hrccourtreporters.com

THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.
CERTAIN OIL COUNTRY TUBULAR	)	701-TA-463 and
GOODS FROM CHINA	)	731-TA-1159 (Preliminary)

Wednesday,
April 29, 2009

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

The hearing commenced, pursuant to notice, at 9:33 a.m., before the Commissioners of the United States International Trade Commission, the Honorable JOHN ASCIENZO, Acting Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR
FRED RUGGLES, INVESTIGATOR
CHARLES ST. CHARLES, ATTORNEY/ADVISOR
IOANA MIC, ECONOMIST
MARY KLIR, AUDITOR
NORMAN VAN TOAI, INDUSTRY ANALYST

APPEARANCES: (Cont'd.)

Organization and Witness:

In Support of the Imposition of Countervailing/
Antidumping Duties:

SCOTT BARNES, Vice President and Chief
Commercial Officer, TMK IPSCO
RALPH BOSWELL, Vice President for North
American Sales, Atlas Tube
SKIP HERALD, President, V&M USA Corp.
ROGER LINDGREN, President, V&M Star and V&M TCA
MICHAEL JARDON, Vice President of Marketing,
V&M Star
ROBERT OKRZESIK, Direct of Seamless Sales,
Evraz Rocky Mountain Steel
RONALD DEWAN, Chairman and CEO, Premier Pipe LLC
HOLLY HART, Legislative Director, The United
Steel Paper and Forestry, Rubber, Manufacturing,
Energy, Allied Industrial and Service Workers
International Union, AFL-CIO-CLC
ROGER B. SCHAGRIN, Of Counsel

On behalf of United States Steel Tubular
Products, Inc., Sooner Pipe, LLC:

GEORGE H. THOMPSON, General Manager-Commercial,
Tubular Products
J. CRAIG HORAN, Manager-OCTG Commercial
SCOTT M. DORN, General Manager-Tubular Marketing
WILLIAM M. BUONO, Manager-Market Analysis and
Strategy Tubular Products
JOHN B. SHOAFF, President, Sooner Pipe, LLC
SETH T. KAPLAN, Principal, The Brattle Group
ROBERT E. LIGHTHIZER, Of Counsel
JAMES C. HECHT, Of Counsel
STEPHEN P. VAUGHN, Of Counsel
STEPHEN J. NARKIN, Of Counsel

APPEARANCES: (Cont'd.)

On behalf of Maverick Tube Corporation:

ROLAND BALKENENDE, President, Tenaris Global Services (USA)
KELLY HANLON, OCTG Sales Director, USA Distribution for Maverick Tube Corporation
DR. JERRY HAUSMAN, Massachusetts Institute of Technology
ALAN H. PRICE, Of Counsel
ROBERT E. DEFRANCESCO, III, Of Counsel

On behalf of Tianjin Pipe (Group) Corporation; Baosteel Group Corporation; Zhejiang Jianli Group; Jiangsu Chengde Steel Tube Share Co., Ltd.; Wuxi Seamless Oil Pipe Co., Ltd.; Baotou Iron & Steel (Group) Co., Ltd.; Anhui Tianda Oil Pipe Co., Ltd.; Pangang Group Chengdu Iron & Steel Co., Ltd.; Shengli Oilfield Highland Petroleum Equipment Co., Ltd.; Jiangsu Changbao Steel Tube Co., Ltd.; Hengyang Valin Steel Tube Co., Ltd.; Angang Steel Company Limited:

MIKE JORDAN, CEO, Mike Jordan Co., Inc.
COY REECE, President, CKR Enterprises and President and Managing Partner, Texas Couplings
THOMAS J. PRUSA, Professor of Economics, Rutgers
JAMES P. DURLING, Of Counsel
DANIEL L. PORTER, Of Counsel
MATTHEW P. MCCULLOUGH, Of Counsel
ROSS BIDLINGMAIER, Of Counsel

I N D E X

I N D E X (Cont'd.)

P R O C E E D I N G S

(9:33 a.m.)

MR. ASCIENZO: Good morning, and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of Countervailing Duty Investigation No. 701-TA-463, and Antidumping Duty Investigation No. 731-TA-1159, concerning imports of certain oil country tubular goods from China.

My name is John Ascienzo, and I am the Commission's Acting Director of Investigations and I will preside at this conference. Among those present from the Commission staff from my far right are Douglas Corkran, the supervisory investigator; Fred Ruggles, the investigator; Charles St. Charles, the attorney advisor; Ioana Mic, the economist; Mary Klir, the auditor; and Norman Van Toai, the industry analyst.

I understand 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 the beginning of your presentation. Are there any questions?

(No response.)

MR. ASCIENZO: If not, welcome, Mr. Schagrin, and please proceed with your opening statement.

MR. SCHAGRIN: Good morning, Mr. Ascienzo and members of the Commission staff. The Commission's preliminary determination in this investigation will boil down to two simple questions. First, did the importation of over 1.6 million tons of OCTG from China in the second half of 2008 and over 600,000 tons in the first quarter of 2009 cause material injury to the U.S. industry?

Respondents will tell you today, as they've already told the press, that the injury caused by the 2.2 million tons which arrived during this three quarter period, at least half of which added to bloated inventories, was simply not their fault.

They will claim that all these tons were shipped to the United States because some domestic producers put some customers on allocation during the strong marketing conditions in the middle of 2008 and some producers announced very large price increases in the midst of this period of strong demand and increasing costs in the second and third quarters of 2008. They are simply wrong.

As Mr. Durling told the AMM in an April 22 article, and I quote, "imports behaved responsibly and declined in response of declining demand". Now, I do not know what passes for responsible behavior in China, but shipping 2.2 million tons of OCTG at prices which undersold the U.S. industry was the height of irresponsibility and these actions were taken regardless of market factors in the United States.

The domestic industry did not double shipments in 2008, market demand did not double in 2008, but Chinese producers tripled their exports to the United States. Unlike market shortage conditions where additional supply is normally priced at higher prices, imports from China undersold the domestic industry by 10 to 30 percent during this time period and customers can presently buy Chinese OCTG with no lead times out of inventory in the United States for half of domestic prices.

The results have been devastating to this industry and its workers. Domestic capacity utilization, production and shipments began falling in the fourth quarter of 2008 and plummeted in the first quarter of 2009. Order books are down an astonishing 90 percent. Layoffs began in the fourth quarter of 2008 and a number of major plants have been idled thus far in 2009 leading to an overall workforce reduction of more than 70 percent at the present time.

The Commission will see that in this product because of program pricing for one or two quarters with major distributors, actual shipment pricing lags prices by one or two quarters. That is why the first quarter of 2008 was a poor quarter for the industry in terms of profits, because costs were increasing rapidly and prices had not increased yet, while in the first quarter of 2009 profitability lagged price declines as prices for first quarter 2009 shipments were established in the third and fourth quarter of 2008.

Now, the Importers Association, AIIS, has blamed domestic June and September 2008 price increases for the tripling of Chinese imports. Wrong again. But taken to its logical conclusion, the importers' argument would be that domestic price increases excuse Chinese producers from massive export surges of dumped and subsidized OCTG and should permit these producers to put every U.S. worker producing these products out of work.

Is this really the legal penalty for price increases? If the Commission doesn't determine injury, then the second question is do OCTG imports from China threaten the domestic industry with material injury? The rapid increase in imports in the second half of 2008 and first quarter 2009 was a manifestation of the government subsidized overcapacity to produce OCTG in China.

Now China's other major markets for seamless products, Canada and the EU, are being cut off by trade litigation resulting in more product shifting to the U.S. In welded products, high U.S. AD and CVD duties on welded standard pipe and welded line pipe have also resulted in shifting of exports from those products to welded OCTG by the Chinese producers.

There are massive inventories of unsold products held by importers in the U.S. market threatening continued injury to the U.S. industry. Unfortunately, demand will be depressed throughout all of 2009. There is no question about that. First quarter profits for this industry are going to disappear, they're going to turn into losses as the industry is forced to compete against Chinese OCTG inventories for sales in a depressed market and the industry experiences dismal operating rates throughout the remainder of 2009.

In summary, dumped and subsidized OCTG imports from China have injured this industry and its workers and they threaten further injury in the real and imminent future. Thank you.

MR. ASCIENZO: Thank you, Mr. Schagrin. Mr. Durling?

MR. DURLING: Good morning. For the record, my name is James Durling with the law firm of Winston & Strawn. I'm appearing today on behalf of certain Chinese producers and exporters of OCTG. The domestic industry claims to be injured, or threatened with injury, by imports of OCTG from China, but as you listen to their testimony today, I urge the staff to keep in mind a few key facts, facts that the domestic industry will try to avoid and obscure, but facts that should frame the Commission's decision in this case.

Consider these key facts about 2008. The domestic industry sold about 3.1 million tons of OCTG, a record level, and was operating flat out. They could not supply anymore. Numerous press reports confirmed that even the domestic mills' own distributors could not get anymore tonnage and want allocation. The prices of OCTG were at record levels.

The operating margin in 2008 was 32 percent. Let me repeat that -- 32 percent operating income. I've been doing steel cases for more than 20 years and I have never seen an industry-wide operating margin this high in a steel case. The domestic industry earned a record $2.1 billion of operating income in 2008. We sometimes lose sight of what numbers really mean.

To put this 2008 financial performance in context, consider this. The domestic industry operating income in 2008 alone was more than the entire decade from 1996 to 2005. This level of operating income is just astonishing for a manufactured good like steel. It is simply inconceivable for this industry to claim that it has been injured. It does not matter how much OCTG came in from China in 2008.

With volume at record level, prices at record level and profits at record levels, the domestic industry could not possibly have been injured by imports during this period of time. Recognizing the audacity of its claim for current injury, the domestic industry focuses much of its argument on threat of injury. Their petition, and probably their testimony today, will stress threat, but the legal standard for threat is clear. It must be real, not speculative. It must be imminent, not distant.

Properly framed, there is no threat to the domestic OCTG industry. Once again, let us turn to the facts. The prices are still quite high by historic standards, and the domestic industry still earned a very strong 24 percent operating margin in the first quarter of 2009. Moreover, the domestic industry started 2009 coming out of the best three year period in anyone's memory.

The industry just earned about $4 billion in operating income over the past three years, including more than $2 billion in 2008 alone. The domestic industry has more than $1 billion in cash and accounts receivable at the end of 2008, about twice the level of cash and accounts receivable at the end of 2006 and 2007. This is an industry going into a predictable cyclical downturn better positioned than ever before in its history.

It's true that domestic shipment volume is down in the early part of 2009. Everyone's shipments are down due to the collapse of demand in late 2008. Both domestic shipments and import shipments are down. Import shipments declined a few months later because of the well understood lag between orders and shipments from China and other overseas destinations.

In 2009, monthly imports from China have plunged dramatically month, after month, after month. So in this case, the threat is not real. With imports falling dramatically, it is pure speculation to say that imports from China will completely reverse course and increase even in the face of weak demand. The most recent import licensing data from the Department of Commerce for April 2009 released just yesterday shows that the decline in imports is still continuing.

With the domestic industry coming off an unbelievably strong boom period, any injury is not imminent and is instead quite remote. There's simply no need and simply no factual or legal basis for this case to continue any longer. Thank you.

MR. ASCIENZO: Thank you very much. Petitioners may proceed. Proceed when ready.

MR. LIGHTHIZER: I'm Bob Lighthizer representing U.S. Steel. We view this as not only one of the most important cases to come before the Commission in many years, but as a proceeding that will be pivotal in determining whether a major U.S. industry can survive in a recognizable form. The speed and severity with which Chinese imports have overwhelmed this market is unprecedented.

Without relief from this Commission it is unclear how recovery can even begin. While this case does not present the type of financial losses seen in some past proceedings, it is remarkable in terms of the volume of production in the U.S. that has been idled in the space of only months. It is remarkable in terms of showing a vital U.S. industry that is largely shut down and thousands of workers who have lost their jobs as a result of the most massive influx of unfair trade in our history.

It is remarkable in presenting a gigantic foreign industry with no other outlet for almost limitless unused capacity that has essentially announced to the world that continued shipment to this market is an economic imperative. Current injury is clear from the shutdowns and the layoffs. The threat of injury, if not the outright destruction of much of this industry, cannot even plausibly be denied.

Waiting to file this case would have undoubtedly presented widespread losses to the industry, but it would also have been too late to stop the damage that is being done and might well have made recovery impossible. Make no mistake, this industry is in a crisis situation and needs a crisis response from the Commission.

With that background, let's turn to the key points in these investigations: 1) Because Chinese mills ship too much OCTG to this market, inventories have soared; 2) those inventories have killed off demand for domestic OCTG costing hundreds of Americans their jobs; 3) all of this has taken place during a global economic meltdown that leaves domestic mills vulnerable to further material injury; and 4) Chinese imports will continue to harm domestic producers in the absence of relief.

Here you see the incredible surge of imports from China. Please pay particular attention to the volume during the most recent quarter, a period when by all accounts inventories had already reached dangerously high levels. During this quarter, over 550,000 tons of Chinese imports continued to pour into this market. Here you see the incredible ratio of Chinese imports to operator consumption. In the last quarter of 2008, for example, Chinese imports were equal to over 72 percent of all the OCTG consumed in this market.

That was a quarter with very high consumption. Here is another way to think about the volume of Chinese imports. In the last six months for which data are available, those imports exceeded the combined shipments of all American mills by over 400,000 tons. Incredibly, in every months since September, China has been the single largest participant in our market, larger than the entire domestic industry combined.

Here are the key points of the price effects of this enormous volume: 1) much of the competition between the U.S. and Chinese OCTG is on the basis of price; 2) Chinese imports undersold the domestic industry by enormous margins; 3) spot prices have already fallen dramatically since last September; and 4) prices will plummet further as everyone tries to shed inventory.

Here you see that the increase in Chinese imports during 2008 was almost precisely equal to the increase in inventories over the same period. In other words, the additional Chinese tonnage was clearly not needed here and that tonnage is the reason that OCTG is piled up in distributor lots nationwide. You see how inventories have almost doubled since last summer? Notice the timing of the increase in inventories matches up exactly with the surge in Chinese imports.

Those inventories are going to be here for some time. You can see the distributors normally keep about six months of inventory. In fact, during 2007 they lowered inventories once they got to around seven months. Now there are over 12 months of OCTG sitting in inventory. In other words, even if no further

Chinese imports enter this market, it will be a very long time before orders return to normal levels.

Domestic shipments have collapsed since last October. As our witnesses will explain in more detail, this collapse is a direct result of the fact that so much OCTG is already in inventory. Customers have practically stopped buying. In fact, as you can see here, the domestic industry's order books have simply dried up. Suffering from empty order books and the prospect of weaker market conditions going forward, domestic mills have been forced to slash production.

As this chart shows, there have been massive layoffs, massive shutdowns across the country. This is overwhelming evidence of material injury. The Chinese mills may try to blame our industry's problem on the global economic crisis, but such a claim is not credible. While the rig count has fallen, it has not plunged to historic levels. Indeed, as you can see here, the average rig count in the first quarter of 2009 was well above the average rig count from 1990 to 2008.

Furthermore, Chinese imports threaten domestic mills with even more injury. While the rig count was reasonable during the first quarter, it continues to fall, dragged down by the precipitous decline in natural gas prices. This decline does not explain why domestic producers have already suffered so much injury, but it certainly shows that they are extremely vulnerable to additional injury going forward.

The record evidence is overwhelming that China will continue shipping significant volumes of OCTG to this market. As you can see here, China's capacity is simply enormous. Even a minuscule percentage of this potential output would swamp our market. I expect the Chinese witnesses today will tell you that they have no intention of shipping OCTG here. I would suggest that much more credible evidence can be found in recent statements from the Chinese mills, the Chinese government and the Chinese press.

These statements make it crystal clear that Chinese mills must continue to ship here in order to avoid massive layoffs and unacceptable oversupply in China. These statements allow you to see what key Chinese figures are saying about this case when they're in China. Furthermore, as you can see here, rig counts in the United States far exceed rig counts anywhere else. There is no comparable market for

China's enormous OCTG industry.

Indeed, last year over 62 percent of Japanese exports came to the United States. The notion that Chinese mills can somehow shift 2.2 million tons of OCTG exports to some other market is absurd. They must either continue shipping to the United States or dramatically cut their own production. There is no reason to believe that Chinese mills will voluntarily cut production.

Recent data from the World Steel Association show that while steel mills across the world slashed crude steel production in the first quarter, Chinese production actually increased. There is no reason to believe that OCTG will not follow the same pattern. To summarize our argument, first, the domestic industry, is suffering material injury primarily in the form of shutdowns and layoffs. Second, the injury can only be explained by the surge in Chinese imports that destroyed the OCTG market. And Third, the threat of injury from Chinese imports is overwhelming.

We talk a lot about plant closures in these hearings, well, here is what they really look like. These pictures were all taken within the last few weeks, and some of them were taken at plants that you and the Commissioners actually visited.

Not so long ago these mills, some of the finest in the world, were beehives of activity with hundreds of productive workers. Now they sit idle. Not because of any mistake by American workers or by company management but because China subsidizes a vast industry that has overwhelmed this market. We urge the Commission to grant relief to ensure that these pictures represent only a temporary problem, not the future of a great American industry.

MS. HART: Good morning, Mr. Ascienzo and members of the Commission staff. My name is Holly Hart, and I'm the Legislative Director of the United Steel Workers Union.

The Steel Workers represents oil country tubular goods workers at U.S. steel plants in Lorraine, Ohio; Fairfield, Alabama; Bellville, Texas; and Lonestar, Texas; as well as at Rocky Mountain steel mill's plant in Pueblo, Colorado; Wheatland Tube's plants in both Warren, Ohio, and Wheatland, Pennsylvania; and some of the OCTG plants operated by TMK IPSCO, which include plants in Ambridge and Coppel, Pennsylvania, and Wilder, Kentucky. In total, we represent an estimated 75 percent of the production workers in this industry.

I'm here today because there could be no doubt that workers in the OCTG industry have been injured by the massive surge of imports of unfairly traded OCTG from China. In November 2008, as Roger Schagrin stated, we suffered layoffs at the TMK IPSCO plant in Wilder, Kentucky, and Wheatland plants in Wheatland, Pennsylvania, and Warren, Ohio. By the first quarter of 2009 in direct response to the over one million tons of OCTG from China which were imported in the fourth quarter of 2008, the deluge of job losses began.

U.S. Steel idled its Belleville plant outside Houston in January with a loss of approximately 100 jobs. In February, it shut down the Lonestar plant and we lost over 800 jobs. I understand that through all the up and down cycles of the OCTG industry, and we know there have been many of those, this is the first time that that mill in Lonestar, Texas, ever shut down since it first opened when it was built by the government during World War II.

We have also had hundreds of additional workers on layoff at the U.S. steel plants in Lorraine, Ohio, and Fairfield, Alabama, as these plants go weeks, or even months, with no production at certain mills. The list goes on. We've had hundreds of workers on layoff at Rocky Mountain Steel Mill in Pueblo, Colorado, as they have ceased production of OCTG. We have hundreds of workers on layoff at TMK IPSCO plants in Coppel and Ambridge, Pennsylvania, and the plant in Wilder, Kentucky.

As you're hearing the testimony today, or will hear, hundreds of nonunion workers have also been laid off at nonunion plants operated by V&M Star, V&M TCA, TMK IPSCO and Maverick Tube. Of course, the OCTG workers at these mills are not the only workers that are affected by the layoffs caused by this massive surge of unfairly traded imports from China.

Workers in the melt shops in the steel mills that make billets that are pierced for seamless tubing are laid off as well, and thousands of workers at steel mills making flat-rolled steel that is no longer being sold to welded OCTG producers have also been laid off. The tragedy is that in this economy there are no jobs for laid off steel workers in this economy.

China represents a very small share of oil and gas drilling in the world market, as you've heard, but because of the massive government subsidization, it is my understanding that China has built far and away the world's largest OCTG industry. Given the small size of the Chinese home market, this subsidized capacity was obviously built to target exports to the largest OCTG market in the world, which is the United States.

The Steel Workers remains committed to support this industry and our workers to obtain relief. There is no doubt in our union that if this Commission fails to make an affirmative injury finding, the mills that are currently closed will be closed permanently, the workers that are currently on layoff will lose their jobs forever. These jobs are critical to the very economic soul of our communities, and their livelihoods depend on a strong and solid manufacturing sector.

We simply can't let the government of China put a critical segment of the U.S. manufacturing sector out of business. On behalf of our members, we respectfully ask the Commission to make an affirmative finding of injury determination. Thank you.

MR. THOMPSON: Good morning. I'm George Thompson, General Manager of Commercial for United States Steel Tubular Products. Thank you for the opportunity to testify in this extremely important conference. The industry before you today is facing an unprecedented crisis. The outcome of this investigation will, in my view, have a major impact on the long-term future of domestic OCTG producers and the workers we employ.

I do not use these words lightly. It is imperative that the Commission understand just how serious a situation we face and how important this decision is. Our market has quite simply been overwhelmed by a flood of unfairly traded Chinese imports. The size of this surge is astonishing even by Chinese standards and the effects are unlike anything I've ever seen.

Distributor yards across the country are literally overflowing with inventory, demand for new product is practically nonexistent and Chinese product has continued to pour into this market during the first quarter. We have been forced to slash production at all of our facilities. Our east Texas plants are completely shut down and market conditions are growing worse by the day.

In short, we need trade relief now in order to avoid the potentially cataclysmic consequences. Let me explain how we got here. In 2006, the United States imported over 725,000 tons of OCTG product from China. As the Commission knows from prior reviews involving this product, China had already squeezed domestic producers more and more out of the lower end of the OCTG market.

China is now making strides to compete to a greater extent on sales of higher end materials. This trend continued throughout 2007. Even though U.S. apparent consumption of OCTG fell by 7.6 percent from 2006 to 2007, imports of OCTG from China increased by over 135,000 tons, putting even more pressure on this market. Those developments were bad enough, but the problem of Chinese imports reached a whole new level in 2008.

In that one year Chinese imports increased by over 1.3 million tons to a total of 2.2 million tons. By the end of the year, despite record demand, this enormous volume had largely swamped the market. U.S. operators consumed over five million tons of OCTG in 2008, the highest rate of consumption we've seen since the 1980s. Even as demand decreased, the surge of Chinese imports continued and by the end of 2008 it was clear that distributors and end users were stuck with bulging inventories.

In fact, inventories increased by almost 1.4 million tons last year. Chinese imports kept pouring into this country. We estimate that the United States imported almost 600,000 tons of OCTG from China in the first quarter of 2009. I have to assume that most of these imports went straight into inventory as there was practically no demand for additional production.

Indeed, some experts estimate that the United States now has enough OCTG in inventory to serve this market for 14 to 16 months, a figure that is simply incredible when you realize that distributors usually don't want to have more than five or six months worth of inventory at any point in time. Accordingly, we have been forced to slash production. In February, we stopped all production at our welded-pipe facilities in east Texas resulting in a layoff of over 1,000 employees.

In March, we shut down one of our two seamless lines in Lorain, Ohio, and we are currently running our seamless facility in Fairfield, Alabama, at less than 20 percent of capacity, and in April we ran it less than five percent. Our Granite City, Illinois, flat-rolled facility that supplied material to our east Texas mill is shuttered. We don't know when any of these facilities will reopen, let alone once again operate at normal rates, and we don't know when any of our laid off employees will be able to resume their full-time jobs.

Make no mistake, this crisis was caused in large part by unfairly traded imports, not falling rig counts. Rig counts have certainly declined but there are still close to 1,000 rigs in operation, a number that is not especially low by historical standards. Everyone in our business, including our customers, knows that demand fluctuates up and down, and we are used to adjusting to such changes.

There is simply no way to adjust to 2.2 million tons of dumped and subsidized OCTG imports Chinese producers brought into the United States last year, followed-up by enormous first quarter shipments even while the market was falling. If not for this unfair trade, our order book would be healthier, we would be producing much more OCTG and many people who are currently laid off would still have jobs.

Furthermore, we have not yet suffered the full impact of this import surge. Even if Chinese mills stopped shipping OCTG to this market tomorrow, it will take months for distributors and end users to work off the enormous inventory overhang that is already in place. If the rig count remains at current levels, this inventory will significantly depress demand for at least the rest of this year. If the rig count continues to fall, we could be well into next year before distributors start looking to buy significant volumes again.

Moreover, OCTG prices have already started to move lower, but they will fall much further as distributors are forced to liquidate their current inventories. We've seen what happens when producers and distributors have to cope with markets that demand virtually no orders. In short, the layoffs and shut downs we have already experienced represent only the beginning of the injury caused by Chinese imports.

I don't even want to think what will happen if these cases are not successful. Chinese mills shipped 2.2 million tons here last year. Indeed, press reports out of China plainly acknowledge that Chinese producers depend heavily on the United States, and they have no comparable markets for their production. As more and more Chinese imports pour into this market, prices will fall even further and it will almost be impossible for inventories to return to reasonable levels.

The effect of such developments on domestic producers will be catastrophic. We have already been forced to shut down much of our capacity, not just because we cannot operate at a profit but because there is no demand for our product, no orders. How can we ever hope to reopen this capacity and bring back our workers if Chinese producers keep flooding us with unfairly traded goods?

We have come to this Commission to ask for trade relief which will give us the chance to compete in a fair market. Such a chance is absolutely vital to the future of this industry. I urge the Commission to give us that chance. Thank you very much.

MR. HORAN: My name is Craig Horan, and I am the Manager, OCTG Commercial, for United States Tubular. I strongly agree with the statements made by other domestic witnesses this morning, but I would like to draw your attention to three key points. First, orders for OCTG have practically disappeared. I don't mean that they've merely slumped or declined as you would expect with a falling rig count, I mean that for all practical purposes many customers have simply stopped buying.

From September 2008 to March of 2009 the amount of orders on our books fell by over 94 percent. This cannot possibly be explained by changes in the rig count. In fact, operator consumption of OCTG in February, the most recent month for which we had data, was still 316,000 tons, which comes out to almost 3.8 million tons on an annual basis.

That is a reasonable figure by historic

standards, and yet, aside from the limited orders of less common sizes and grades, we have seen demand virtually disappear. Everything else is supplied out of the huge inventories piled up all over Houston and elsewhere both in distributor and end user inventories. Our customers have made it clear that they will not buy significant volumes of OCTG when so much is already in stock.

It is beyond question that this surge in inventories is directly attributable to the astonishing increases in imports from China last year. Second, we absolutely need the sales and volumes that have been taken by Chinese imports. I understand that the Chinese may argue that they can't hurt us because they only supply the low end of the market or that they cannot supply certain application. Let me assure you that this assertion misapprehends the tremendous damage Chinese imports have already caused and the catastrophic threat they pose going forward.

To be clear, Chinese mills are rapidly moving up the value chain and are more widely accepted every year. At least one of the major oil companies now accepts Chinese OCTG and we see Chinese pipe in the vast majority of applications and uses that dominate our market. Furthermore, U.S. Steel Tubular is not a niche supplier that makes only high end pipe. We are the largest producer in North America with approximately 2.8 million tons of capacity for all tubular products.

We cannot afford to have this capacity sitting idle. To use that capacity effectively we must sell large volumes of commodity grade OCTG. There simply is not enough higher end business to keep our mills full. Third, the harm caused by dumped and subsidized Chinese imports is felt across our integrated operations. Our east Texas facilities, for example, were, up until December, major consumers of hot-rolled steel from U.S. Steel's mill in Granite City, Illinois.

Indeed, in recent years approximately 40 percent of Granite City's production has been devoted to tubular applications and approximately 80 percent has gone to make OCTG in particular. Because of the irresponsible and unfair actions of Chinese producers tubular demand has dried up and our Granite City facility has been idle since December. Almost 1,700 employees have been laid off at that facility.

Unless we do something to deal with the unfair trading practices of the Chinese, the livelihood and future of the workers at Granite City will be in doubt and the community supported by that facility will continue to suffer. The same is true of numerous other facilities and communities throughout the country that support tubular production operations. I urge the Commission to grant relief and give us the chance to compete in a fair market. Thank you.

MR. BALKENENDE: Good morning. I am Roland Balkenende. I am the President and General Manager of Tenaris Global Services USA, the sales arm for Maverick Tool Corporation. I have over 25 years of experience in the energy tubular industry. In my capacity as President, I manage all of Maverick's commercial operations in the United States.

Maverick's parent, Tenaris, has a unique view of the market given its position as the largest global OCTG producer. Tenaris has production facilities all over the globe and competes in every major energy market, including China. Tenaris is familiar with the capabilities of producers throughout the world and demand levels in all global markets.

In 2008 there was no link between Chinese supply and drilling activity in the United States. Prior to 2008, OCTG demand in the United States generally reflected the level of drilling activity, which is best measured by the footage of wells drilled. Outside the United States, OCTG demand generally follows actual drilling. Non-U.S. OCTG demand levels have been far more stable than most people realize.

Outside the United States drilling is focused primarily on oil exploration. The nature of the wells, capital employed and project lead times involved limit fluctuations in drilling and OCTG demand even when oil prices swing wildly. For example, from 2007 to 2008 the total footage of wells drilled in the rest of the world outside of North America increased by less than five percent despite a significant increase in oil prices over that period.

By contrast, drilling in the U.S. is focused primarily on natural gas exploration. Drilling activity and demand in the U.S. did not double like Chinese shipments. The footage of wells drilled only increased by 13, 1-3, percent from 2007 to 2008. Indeed, it was well-known that there was no way there were anywhere near enough rigs to absorb the volume of Chinese shipments.

The Chinese OCTG industry has been built pursuant to government five year plans. This massive capacity was built long before any increase in demand in the United States. Most of the recent Chinese capacity expansion is aimed for export because drilling and OCTG consumption is stable in China. Furthermore, most of that production is focused at the commodity grade, whether seamless or welded, that are widely consumed in U.S. drilling applications but demanded less in other areas of the world.

Also, global demand is projected to decline from 2008 levels for the next two years leaving this capacity with no place else to go. Chinese OCTG caused harm in 2007. From 2006 to 2007, Chinese OCTG imports increased by nearly 20 percent in a market characterized by flat to declining demand. As a result of the growth in Chinese OCTG capacity over this period, Chinese shipments to the United States clearly increased.

This resulted in a decline in shipments, pricing and Maverick's profits. The increase in U.S. demand in 2008 while healthy did not justify the increase in Chinese OCTG volumes in the last three quarters. For example, on a combined basis, domestic shipments and OCTG imports from all other countries increased by 30 percent from 2007 to 2008. This was more than enough to service actual market needs. The Chinese on the other hand increased by 155 percent over the same period.

If there was actual tightness in the market, the Chinese would have sold at a premium. Instead, they offered product at substantial discounts to push in overwhelming quantities. These huge volumes reflect the government's desire to maintain employment at the expense of workers elsewhere. The Chinese chose volume over revenue. In fact, the surge in welded Chinese OCTG imports after the filing of the line pipe case also demonstrates that the Chinese surge bears no relationship to demand.

Chinese welded imports increased at a much faster rate than Chinese seamless shipments. Clearly, the Chinese shifted production to circumvent the line pipe duties. Even if demand did not decline, the massive Chinese volumes in the last three quarters would have disrupted the market and caused material injury regardless. As imports arrived in the last three quarters, overwhelming inventories developed. Those domestic producers, like Maverick, who concentrate on commodity grades, were harmed soonest and most dramatically. By midyear 2008, Maverick's order books had peaked and began declining.

Maverick was forced to endure several rounds of layoffs beginning in November of 2008. What employees Maverick has retained are working skeleton shifts. In December of 2008, Maverick already wrote down over $392 million in assets. Mavericks's operating income, capital expenditures, production and shipments have all declined significantly. As the staff has already heard today, Maverick and the rest of the domestic industry is virtually shut down.

It is going to take a year or more to work off the unfairly priced Chinese OCTG imports already in inventory, yet the Chinese continue to offer more OCTG for sale and are cutting prices. The Chinese continue to build more OCTG mills and expand their already overwhelming capacity. Clearly, this bears absolutely no relationship to demand either in the United States, China, or globally.

In the current market, even relatively minor amounts of unfairly priced Chinese imports will cause further material injury to Maverick and the domestic industry. Chinese OCTG producers have crippled this market and stand poised to inflict further material injury without trade relief. On behalf of Maverick and its over 800 unemployed workers, and hundreds of underemployed workers, I urge the Commission to find that imports from China have injured our industry and also threaten us with material injury. Thank you for your time.

MR. HERALD: Good morning, Mr. Ascienzo and members of the Commission staff. My name is James Herald. I am the President of V&M USA Corporation, representing both V&M Star and V&M TCA. I am accompanied today by Roger Lindgren, who is President of those entities, and Michael Jardon, our Vice President of Marketing. V&M Star is the integrated producer of seamless pipe. We have facilities in both Youngstown, Ohio and Houston, Texas.

V&M Star is the largest private employer in Youngstown, Ohio, a city that has seen its economy devastated over the past two decades. V&M purchased Tubular Corporation of America, or TCA, from Grant Prideco in May 2008. Today, V&M TCA operates the premier OCTG processing facility in the United States in Muskogee, Oklahoma. As part of a global energy products company, V&M is committed to producing the highest quality products as cost-efficiently as possible, and providing the best service to our customers, whether in the United States or internationally.

We are constantly reinvesting in the business. Between 2006 and 2008, we invested over $100 million in our V&M Star facilities to expand production and heat treating capacity. This allowed us to produce a higher percentage of alloy and sour service grades to meet our customers' needs. We also invested approximately $800 million in the purchase V&M TCA and other assets from Grant Prideco to better meet the demands of our customers.

I will also remind you, in 2002, we also invested $380 million for the acquisition of North Star Steel, which is currently V&M Star. V&M recognizes two overwhelming issues that are central to the Commission's analysis in this investigation. First, the oil and gas industry is and will remain a cyclical business. As Roger Lindgren testified in the sunset review in June 2007, and I quote, "Make no mistake about it. We are not immune to the business cycle, and the downward move to U.S. drilling will recur."

Second, as a publicly traded company that must answer to our shareholders, we recognize that the government-owned and government-subsidized pipe and tube industry in China has created a massive supply and demand imbalance in the world market, which threatens our current business and the opportunity to obtain reasonable rates of return on current and future investments in this industry.

Our related European companies, Vallourec & Mannesmann, joined with other European producers last summer in an antidumping case on seamless pipe and tube imports from China, including OCTG. On April 8, 2009, EU authorities issued a preliminary determination finding dumping margins ranging from 15 to 51% against the same Chinese producers who were the major exporters to the U.S. market, and made a finding of threat of injury to the EU industry.

The Chinese will now have every incentive to ship exports from the EU market to the U.S. market. We know from past records of V&M Star and its predecessor North Star Steel that while our company has struggled during the down cycles, such as 1999 and 2003, we have never seen deterioration in our order book like that which is occurring now. A significant factor for this is clearly the presence of massive amounts of Chinese inventory in the marketplace that was simply not the case in the down cycles of 1999 or 2003.

One thing I can say with certainty, there is no chance our corporate parent will continue to allocate the funds for these major types of investments in the face of unfairly traded competition from China. Not only would continued imports of dumped and subsidized OCTG from China remove the possibility of any future investments in our assets in the United States, this unfair trade endangers all of our present investments.

As acknowledged, the oil and gas market is a cyclical business, and the key to investing in this market is the ability to generate a return in the up and down cycles, which is not possible in the face of massive subsidized imports from China. In addition to the financial impact, as a direct result of these unfairly traded imports, V&M is already forced to make layoffs of employees in Youngstown, Houston and Muskogee.

These are the first layoffs in our company's history in Youngstown. For all of these reasons, on behalf of V&M Star and V&M TCA and our valued employees, we ask this Commission to make an affirmative determination.

MR. BARNES: Good morning, Mr. Ascienzo and members of the Commission staff. My name is Scott Barnes and I am Vice President and Chief Commercial Officer for TMK IPSCO. TMK IPSCO is composed of all the former IPSCO --

MR. ASCIENZO: I am sorry, Mr. Barnes, sir, before you get started, we have a member of Congress here, the Honorable Betty Sutton, and she would like to give a statement, so if it's okay, before you get going, we would like to let her give her statement. Thank you very much.

MS. SUTTON: Thank you very much, and Mr. Barnes, I apologize for the interruption. Thank you for the opportunity to testify at this conference on antidumping and countervailing duty petitions regarding oil country tubular goods, OCTG, from China. As a member of Congress from the 13th District of Ohio, I represent the men and women who work at U.S. Steel's plant in Lorain, where they make some of the finest tubular products in the world, and do so in a superbly efficient manner.

My constituents are proud, hardworking people. They would never ask for handouts. They only seek fairness. They are doing their best to survive in these difficult times, but their livelihood is under attack, and there is nothing that they can do to avoid the harm caused by dumped and subsidized imports, but there is something that you can do. My constituents are counting on this Commission to do its duty and strictly enforce our antidumping and countervailing duty laws.

Now, I realize that it's unusual to have a member of Congress testify at a preliminary conference, but when I heard about this case, I knew I needed to testify. I knew that I needed to be here to give a voice to the hardworking constituents who count on me and who are counting on you to see that they receive a just result. Almost every time I am in Lorain, I pass our plant.

Our plant has been idled, and I see and I talk to our workers, hardworking men and women who, like our plant, have also been idle. Sometimes I see them with their families in tow, I see their spouses and their children, and I see our community, all suffering because of the effects of the dumped and subsidized imports that we are here to discuss today. A year ago, the orders were full and the plant was booming.

That was then and this is now, and I know that you can see the difference when you look at the pictures behind you. Dumped and subsidized imports of OCTG from China surged from 725,000 tons in 2006 to an astonishing 2.2 million tons last year. These products continued to flood into the market long after the signs of our current economic slowdown began. The result has been one of the most massive buildups of inventory in the history of the industry.

As a result, U.S. Steel has been forced to completely shut down one of two lines at Lorain, while the other line is running on a substantially reduced schedule. Over 100 men and women in Lorain are currently laid off, and according to the United Steelworkers, over 2,000 workers who make OCTG are laid off across the country. These are workers with families, mortgages and car payments.

They are laid off because of massive unfair trade we have seen escalate in recent months from China. These workers and their families' futures are now in the hands of this Commission, and the Commission's decision in this case. I cannot stress enough the importance of your work and your findings. Now, I understand that some have suggested that there is no need for relief.

Some have suggested that because last year was a good year for oil and gas, and as a result, a good year for the pipe industry, that there is no need for relief. This view could not be further off the mark or inconsistent with the law. What we have been experiencing is exactly the kind of situation our trade laws are meant to address. This industry and our workers have been absolutely devastated by the influx of Chinese material that entered our market last year.

Look at the data. These imports far outstripped a period of record demand. As a result, thousands of Americans are sitting at home without work right now, victims of illegal trading practices. This is clear and overwhelming evidence of material injury, and luckily for my constituents and thousands of others, there is an avenue for justice, and this is it.

Furthermore, if we don't stand up, if this Commission does not stand up and say, no, this is unfair trade and it must stop, then the domestic industry will continue to be threatened with additional material injury. Much of the domestic industry is already shut down. It will take months and possibly years to return inventory levels back to normal because of the massive dumping that has already taken place.

Our workers and their families do not have the luxury of months or years before they can return to work and earn a paycheck. Our current economic conditions are bad enough. Domestic producers, any producers, must have the chance to compete fairly for every order, for every possible ton of steel. Chinese tubular producers have been shut out of other foreign markets by findings of unfair trade, and China has enormous capacity, unutilized capacity, to produce OCTG products.

To be blunt, Chinese producers have nowhere left to go and face enormous pressure to dump as much OCTG into the U.S. market as possible, but it is illegal and it must stop. With the current market conditions and the tremendous illegal buildup that has already taken place, allowing this unfair trade to continue would have disastrous consequences for my district and for our nation.

Look again at the photographs in front and behind you. Look again at the pipe mill in Lorain and its current state. This is what the results of unfair trade look like. This is what happens when our trade laws are broken and ignored. You can see the statistics, you can see the unemployment rate, 10.3% in Lorain County for March 2009, almost 2 points higher than the national average, but statistics do not tell the entire story.

Statistics do not allow any of us to understand the far-reaching consequences of unfair trade. There are people out there in Lorain and throughout the United States that will be affected by your decision, and as you think about the families that are struggling and those who are trying to hold on, trying to get by, trying to play by the rules, remember that they are in this position because others made a conscious decision not to play by the rules.

It doesn't have to be this way. I shouldn't have to be here today. The lawyers shouldn't have to be here today, but some decided to break the law, and even with the current state of the economy, the levels of activity in the oil and gas sector are still strong enough to support substantial production in the United States, but that production is not occurring for one simple reason: Chinese producers have literally and illegally overrun this market with unfair trade.

The consequences of these actions will play out for months, possibly years. Please do not allow this industry and our workers to continue to suffer under the results of unfair trade. I urge the Commission in the strongest possible terms to enforce our laws and stop the unfair trade in this market, and I thank you again for your time and attention.

MR. ASCIENZO: Thank you very much, Congresswoman Sutton, for taking time to come here and present comments today.

Does anyone have any questions for the Congresswoman?

Thank you very much, and thank you, Mr. Price.

Mr. Barnes, you can start from the beginning again. Thank you very much. Sorry, and thank you again.

MR. BARNES: No problem. As I was saying, TMK IPSCO is composed of all the former IPSCO Tubular facilities in the United States, including the OCTG production facilities in Blytheville, Arkansas and Camanche, Iowa, as well as the former NS Group facilities in Ambridge and Koppel, Pennsylvania and Wilder, Kentucky. We also have processing facilities in Catoosa, Oklahoma and Baytown, Texas.

I have read in the press, and I expect you will hear from the Respondents this afternoon, that the more than 2 million tons of OCTG imports which arrived from China between the third quarter of 2008 and the first quarter of 2009 was in response to the industry's inability to supply the market in the summer of 2008. This is not an accurate description of the events which took place.

At best, it is an attempt to deflect attention away from the surge of OCTG product from China, which arrived on U.S. shores at volumes that exceeded the U.S. monthly consumption and at prices below prevailing market levels. TMK IPSCO did not operate at full capacity in 2008, and our total 2008 shipments were significantly below 2006 shipments. While demand was stronger in 2008, TMK IPSCO was in the process of ramping up production, only to be swamped by massive volumes of dumped Chinese imports just as we were hitting our stride.

Unfairly traded imports from China prevented us from maximizing our capabilities in 2008. Thus, I can tell you with certainty, as the head of sales and marketing for TMK IPSCO, that we lost volume and market share in the second half of 2008 and the first quarter of 2009 to lower priced imports from China. Our submissions to the Commission confirm this fact. Thus, in addition to the undeniable future harm that will be caused by the high volumes of imports from China, we wish to stress that the injury has already occurred, and this injury is likely to continue.

Underutilized TMK IPSCO production employees recently conducted a survey of pipe yards, and concluded that the inventory of Chinese pipe is large and widely distributed throughout the U.S. We began reducing shifts and laying off employees in November 2008 because our order book had begun to decline months earlier. At the same time as the orders in the

U.S. began to decline and we began to conduct layoffs, 3 to 400,000 tons a month of OCTG imports from China were arriving on U.S. shores without a market to absorb them.

At the present time, we have significant layoffs at each of our facilities, and we are temporarily idling some of our OCTG plants for weeks at a time, due for a lack of orders. I have been through many cycles in the OCTG market, and can tell you that nothing has been as severe as the current environment. Without doubt, significant blame must be placed on the shoulders of the Chinese OCTG producers that marketed massive quantities of unfairly traded products at prices well below domestic levels.

I and my coworkers find it offensive that the Chinese producers, trading companies and importers attempt to shift the blame for their irresponsible actions onto companies like ours. Our hourly employees are among the best in the industry and are committed to meeting the needs of our customers. Our employees are in partnership with the company in our efforts to be at the forefront of technology and efficiency.

We recently negotiated a new labor agreement with our employees at our Wilder facility who are represented by the USW, reinforcing this continued partnership and commitment. IPSCO, and subsequently TMK IPSCO, have made significant investments in this business. We would like to have a fair chance at competing in the marketplace with these assets. Most important is the plight faced by our workers, who have the vision, flexibility and commitment needed to compete in the global market.

If this Commission does not stop unfairly traded imports from China, the likelihood that these workers will regain their employment is severely diminished. Thank you for your time.

MR. BOSWELL: Good morning, Mr. Ascienzo and members of the Commission staff. My name is Randy Boswell and I am Vice President for North American Sales of Atlas Tube. Since the Atlas Tube/Wheatland Tube merger in 2007, I have been responsible for all energy tubular product sales for Wheatland Tube. Wheatland made investments in its welding mills in its Warren, Ohio, facility in order to enter the OCTG business.

For Wheatland, this was a good decision, giving the company broader product range and making it less dependent on the construction markets. Wheatland's timing was very good because of the significant growth in OCTG demand between 2006 and 2008. The company focused its sales on carbon grades. The biggest problem we encountered in selling this product for Wheatland was that imports from China inundated the market for these carbon grades in the middle of 2008.

I saw imported seamless 4-1/2 inch casing from China being sold for less than Wheatland's welded product. I also saw welded imports from China being sold at prices at least one-third less than Wheatland's prices. We reported thousands of tons of lost sales to China in the petition to a major distributor who bought lower priced imports from China instead of our product.

As a result of this massive surge of Chinese imports, and in spite of the continued strength of demand in the marketplace, by September 2008, we saw our order book for OCTG start to tank. We began laying off workers in October and November. At present, our order book for OCTG is essentially zero. Looking at distributors' yards, there is so much inventory in our size and grade range, I think we will be lucky to see any new orders in the next six to nine months.

Clearly, the blame must go to the Chinese imports. Look at our numbers. We did not over-ship products to our customers. It was the Chinese who shipped massive quantities of exports at ridiculous dumped and subsidized prices. Wheatland asks for relief from unfairly traded imports of Chinese product so that we may have a chance of competing fairly in the marketplace in the future. Thank you.

MR. OKRZESIK: Good morning, Mr. Ascienzo and members of the Commission staff. My name is Bob Okrzesik and I am Director of Seamless OCTG Sales for Evraz Rocky Mountain Steel Mills. I have been in the steel industry for almost 30 years and have been involved in OCTG sales for most of that time. Rocky Mountain Steel operates a steel minimill and has a rotary piercing seamless OCTG mill in Pueblo, Colorado.

We also have a heat-treating facility which can handle approximately 60% of our mill's output and turn this production into alloy casing in the size range from 7-inch to 9-5/8 inch OD. When the market began improving in 2006, we decided to produce and market only alloy grades. There was too much supply in the marketplace of cheap carbon grades from China. By early '08, we recognized that demand for OCTG was expanding rapidly, and we decided to hire and train a new shift of workers to work in the seamless mill to increase production and to reduce overtime.

No sooner had this new crew of approximately 55 workers started, than we saw that the entire market for OCTG was inundated with massive amounts of Chinese imports in the late third quarter and early fourth quarter of 2008. We had to lay off this entire group of newly hired and trained workers after just a few months of work. We have not operated our OCTG mill during the entire month of April, which has resulted in the entire pipe mill work force being laid off, and all of the steel mill work force have had their hours reduced.

Our company made capital investments in 2007 and in 2008 in the pipe mill to reduce costs, improve quality and increase capacity. We plan on being in the OCTG business for the long haul, and many industry analysts think that in the long run, the United States will need more OCTG capacity. Rocky Mountain and other U.S. producers have already suffered injury from the dumped and subsidized imports of OCTG from China.

We need to know that these unfair trade practices will be stopped so that, first, we can get our workers back to work, and second, we can make plans for future investments to supply the U.S. market with the OCTG it will require. Thank you.

MR. SHOAFF: Good morning. I am John Shoaff, President of Sooner Pipe, the world's largest distributor of OCTG tubular products. I have close to 30 years' worth of experience in buying and selling OCTG. The success of my company depends on our ability to understand and anticipate developments in the OCTG market. I appreciate the opportunity to give you my perspective on the issues before you.

The surge in imports from China in 2008 was unlike anything I have seen in my career, and simply cannot be explained by rising demand or just tightness in the domestic market. While there were a number of factors at work, and while there was clearly some tightness in the market during periods in 2008, the primary responsibility for the import surge certainly lies with the irresponsible behavior of Chinese mills and those trading these products.

I would estimate that no more than 20 to 25% of Chinese imports last year were due to tightness in the market. Inventories rose during almost every month in 2008, and soared to incredible levels during the last quarter of that year. Chinese OCTG was consistently priced hundreds of dollars a ton below domestic OCTG. Those facts simply cannot be explained by a need to fill a shortage in the market.

The real reason that so much Chinese OCTG flooded this market in amounts vastly beyond what was dictated by market conditions is that Chinese mills made an extraordinary effort to sell huge volumes of product. Last year it seemed like we were getting aggressive offers from previously unknown Chinese mills almost every day. Traders who were literally unknown in the market were coming out of the woodwork to offer Chinese pipe.

Those low-priced offers led directly to the flood of inventory that is currently hanging over this market, and that is the primary reason this market has collapsed. And make no mistake, the problems currently facing this industry are severe. In all my years of buying and selling OCTG, I have never seen the market decline as quickly as it is now. Virtually no sales are taking place.

This is not only because of the rig count. Indeed, despite recent declines, significant volumes of OCTG were still being consumed in the first quarter, but end users have practically stopped buying this product because they already have so much in inventory. Distributors have slashed purchases of OCTG for the same reason. Most distributors don't like to see more than six months' worth of OCTG in inventory, so you can imagine how nervous we are with this figure at over 12 months, the highest I can remember.

Unfortunately, this figure will go even higher if the rig count continues to fall. Speaking for Sooner, I can tell you that if inventories were at normal levels and if the Chinese had not flooded this market, we would be buying significant quantities of OCTG from domestic mills right now, but we cannot afford to do so with so much Chinese OCTG already in this market.

I believe that conditions for the American mills will only get worse, possibly much worse, before they get better. Even if the rig count stays at current levels and Chinese mills don't ship any more imports to this market, the OCTG already in inventory will suppress orders well into next year. Prices will keep falling, and could fall dramatically as distributors try to unload their current inventories.

Unbelievably, and even with the market like it is and the threat of these cases, we are still seeing offers for Chinese OCTG now at less than $1000 a ton. I don't even want to consider what would happen if the Commission denies relief. The Chinese mills have publicly indicated that they are very dependent on this market, which may be the understatement of the year.

This is far and away the largest export market for Chinese pipe, and there is absolutely no question that they would aggressively fight for every possible sale. Since there is literally nowhere for this pipe to go, prices could utterly collapse. Faced with an unlimited supply of low-priced product from China, I don't see how market conditions could ever recover unless something is done to address unfair trade. I appreciate the opportunity to be here today. Thank you.

MR. DEWAN: Good morning, Mr. Ascienzo and members of the Commission staff. I am Ronald Dewan, and I am the Chairman and CEO of Premier Pipe. I founded the company in 1987. Premier is an OCTG distributor that focuses on alloy and carbon casing. We handle seamless and welded products, both domestic and imported. In the spring of 2008, as the rig count was increasing, we increased our purchases from both domestic and foreign suppliers in order to keep up with the stronger demand from our customer base.

In certain size and grade combinations, we began purchasing OCTG from China through trading companies. At that time, some increased supply of imports from China, similar to our increased purchases of domestic and other imports, was welcome in order to meet market demand. However, it became clear within a short period of time that the approach of Chinese producers and trading companies to the U.S. market was very non-strategic.

During the summer of 2008, we were getting multiple new offers every single day for Chinese OCTG. There were many people trading in Chinese OCTG that had been out of the OCTG market for several years, and others who, to my knowledge, had never been in the OCTG business. The market became chaotic and it appeared there was unlimited supply of OCTG from China that was available to the marketplace.

Basically, in 2008, consumption increased by 29%, or 1,160,000 tons over 2007. Domestic shipments increased by 17%, or 430,000 tons. Other imports increased by 600,000 tons, or 31%. If Chinese imports had also increased by 30%, they would have increased by 275,000 tons. With that, the market would have been in balance, but instead of increasing by 30%, imports from China increased by 149%. That was 119% too much.

In the fourth quarter of 2008, imports from

China absolutely flooded into the market, and that continued into the first quarter of 2009. Instead of trading companies offering only for future delivery, traders began offering Chinese OCTG for immediate delivery from stocks that were building on the ground in Houston. Anxious to get rid of this inventory, traders began offering price reductions of 800 to $1,000 a ton.

We are now in a tremendously over-inventoried situation in the U.S. market. At our company, we need to cut our inventories in half in order to maintain the same balance of inventory to demand that is normal for us. Because we started this process in October of last year, we are on the way to achieving our goal. However, from a macro OCTG standpoint, our industry is nowhere near balancing inventory to demand.

I believe there is approximately 1.1 to 1.2 million tons of inventory of Chinese product in the U.S. This represents about 50 to 60% of the over-inventoried amount in the U.S. market. This tonnage also represents approximately 50% of forecasted total OCTG consumption in the U.S. in 2009. As a company, we would like a strong domestic supply base, and we would like imports in the marketplace that are fairly traded and not disruptive.

Unfortunately, in 2008 and into 2009, many of the participants in the Chinese industry proved that they did not understand the U.S. market. Their lack of a consistent commercial strategy certainly threatens the continued viability of the domestic supply base that Premier depends upon. It is for that reason I have chosen to come here and ask this Commission to level the playing field and stop unfair trade practices. Thank you.

MR. HAUSMAN: I am Jerry Hausman, the MacDonald Professor of Economics at MIT in Cambridge, Massachusetts. I have been at MIT since completing my doctorate in economics at Oxford University in 1973. In December 1985, I received the John Bates Clark Award of the American Economic Association, awarded every other year for the best economist in the United States under the age of 40.

I have published over 150 academic research papers in leading economic journals. I have extensive experience in the steel industry, starting in my youth when I worked at Weirton Steel in Weirton, West Virginia. I have been involved in numerous mergers in the steel industry both in the U.S. and the European Union. I have previously appeared before this

Commission on steel matters, including a Section 201 proceeding in 2001 and in antidumping and countervailing duty cases.

I have been asked to evaluate whether imports from China have injured the domestic industry, and whether those imports threaten additional injury to the domestic industry. First, subject imports have injured the domestic industry. From 2006 to 2008, the percent of total U.S. apparent consumption accounted for by Chinese imports increased from approximately 15% to over 30%.

The injury to the domestic industry that this increase in imports has caused is a matter of basic economics. Increased Chinese imports shift out the supply curve of the U.S. market. The effect of such a shift is that prices decrease and the quantity sold by the domestic industry also decreases. When domestic OCTG producers had excess capacity, as they often did, domestic producers would have been able to expand their production substantially without those Chinese imports.

Chinese OCTG imports have also been largely responsible for creating a huge increase in inventory, which I call the inventory overhang, which places downward pressure on price. When a durable good such as OCTG is available at a low price, purchasers tend to stock up on that product, and buy not only to meet the current demand, but their future demand as well. Chinese imports have been priced at a discount, and U.S. distributors have responded by building OCTG inventories.

In combination with the recent decline in demand, the result has been record levels of OCTG inventory, leading to the inventory overhang that has been described. High inventories place downward pressure on price because they increase supply and the amount of competition, but this pressure on prices is often only fully evident after a significant lag. These high inventory levels have also caused demand for the domestic industry's products to evaporate.

Distributors are working off inventories and will be doing so for some time, as was just described. To the extent that they make new purchases, they will be inclined to purchase imports from China because they are significantly lower priced. This is why so many U.S. facilities have been forced to shut down, while others are operating at only a small fraction of their capacity.

Chinese imports increased substantially from 2006 to 2008, and domestic prices also increased between 2006 and 2008. Some may argue that this correlation shows that subject imports did not injure the U.S. industry. This argument is incorrect as a matter of basic economics, namely that price is determined by both supply and demand. The primary source of demand for OCTG is drilling activity, mainly for natural gas and oil wells.

Drilling activity is in turn driven by natural gas and oil prices, and the expectation of future natural gas and oil prices. Drilling, as reflected in the U.S. rig count, increased from 2006 to 2008, as natural gas prices and oil prices rose substantially over the period. This increase in demand is an important factor in explaining the increase in OCTG prices from 2006 to 2008.

Now I would like to turn to the threat of additional injury to the domestic industry. Furthermore, it's likely that Chinese imports will cause substantial additional harm to the domestic industry. The significant decline in natural gas and oil prices since the summer of 2008 has led the rig count to decline by over 50%. Despite the decline in demand, Chinese imports are still at a very high level.

Demand is unlikely to recover in the near future. Current forecasts for natural gas and oil prices indicate they will remain at low levels, at least through the end of 2010. Under these conditions, with the threat of additional surges of Chinese imports hanging over the market, it is unlikely that the facilities that have been closed in the U.S. domestic industry will be reopened. Thank you.

MR. PRICE: That concludes our direct presentation.

MR. ASCIENZO: Thank you very much for that presentation. It was very helpful. I note for the record that we'll mark this Exhibit No. 1 that passed around earlier today, and I will start the questioning with Mr. Ruggles. Mr. Ruggles has no questions at this point. Now we will turn to Mr. St. Charles. Mr. St. Charles has no questions. We will turn to Ioana Mic, the economist.

MS. MIC: Good morning. Thank you all for coming here today. My name is Ioana Mic. I am the economist in these investigations. I have a couple of market and pricing related questions. If you feel that your answers contain proprietary information, please respond in your post-conference briefs. I understand that the OCTG market was a favorable, profitable and strong market up to 2008.

Can you identify the period when times changed? When did the demand become weaker, and what happened to the price?

MR. SHOAFF: Yes, ma'am, this is John Shoaff for Sooner Pipe. I will try to take that one if I may. We started seeing, absolutely, we had a very strong year in 2008, one of the strongest years we've had in history, actually. Over the past ten years, we have had some ups and downs, but 2008 was extraordinary. We started to see quite a bit of a trail-off in the early part of the fourth quarter, in October.

We started seeing a little bit decreased demand from our end users. I think the mills might testify here in a minute that they started to see a little bit of softness in their order book, but it still remained strong in the fourth quarter as far as orders, but what typically happens in our business is that, even though we started seeing a trail-off, there is about a 90-day period of turn, if you will, where you have the backlog of orders start to, you know, continue to go forward.

So the order book in the fourth quarter started to trail off, but most of those rollings were material that shipped in the first quarter, and with that, it kind of justifies Mr. Durling's statement earlier that the profits in the first quarter were still good, but that was just a trail-off of fourth quarter. What you are going to see going forward into second quarter and forward if we don't see any relief here is some pretty ugly earnings as you go forward.

So, obviously price started to decline. Also you asked about price, and as we see weaker demand, price started to decline, and as the imports continued to surge in here in huge numbers, as you've heard, in the fourth quarter, it put severe pressure on pricing in our industry.

MR. BALKENENDE: This is Roland Balkenende. If I can add to what John mentioned, as I indicated before, our order book had peaked by midyear last year, and then the surge of imports started, and we didn't know it was coming because it was a surprise month after month, how much it was, and that surge of imports, just to give you a feel for how much that was, we did some reverse engineering as far as these numbers.

When you see what imports would add in the last quarter, only the last quarter of '08, if you calculate back to say, how many rigs were needed to absorb that, it should have been 2,900 rigs. We were just at 2,000 at the peak, so that was the drama. We didn't know. We saw it coming month after month, but it was a tremendous tsunami of imports coming that we saw month after month coming.

So logically, our order book at that time started, the moment that these imports came in, started dropping.

MS. MIC: Okay.

MR. BARNES: Scott Barnes with TMK IPSCO. I'd just like to also comment that, as in our testimony and in the submission, that our order book, we saw a decrease in the third quarter. This is directly related to the surge of imports of unfairly traded pricing from China. This is an emergency and crisis situation. I've never seen all the mills in the industry shut down at one time like they are right now.

This is current injury. It's not future threat. It's a real and viable problem that we face.

MS. MIC: Okay, thank you very much for your answers. I have a bit of a follow-up. We are in an economic recession. It's a global recession. Layoffs happened in every economic sector in the U.S., all around the world. How much of the current situation do you attribute to the overall global recession, versus imports from China?

MR. THOMPSON: George Thompson with U.S. Steel. I think there is no doubt that with the recession there is, we are in a bad market for OCTG. However, I think what we are here to tell you is the crisis that we are in, and that Scott referred to, which is the simple lack of any orders, with mills virtually shut down across the board, is caused by the excessive amount of inventory.

As I have stated in my statement, we are in an industry that's used to cycles, and we know how to work through cycles, but this is not a correction. This is not an economic downturn. This is a swamping of our market that, if we don't respond to, quite frankly, we will be eliminated. There is not room for us and the volume of Chinese that we see in this market right now.

MS. MIC: Thank you.

MR. BARNES: This is Scott Barnes with TMK IPSCO. I would also like to agree with George. The rig count, as was shown on the slides, by historical standards, is a relatively good market. Back in 1999, another cycle that we went through, the rig count bottomed out at somewhere around 487, but you can't compare the rig count from 1999 to the one today because of the efficiencies and technology that has been brought to bear.

These rigs drill a lot more wells and footage than they used to. Our problem is with this bulge of imports that came from China in massive quantities and at very low prices that have created this lack of business from the mills and resulted in all these plant shutdowns.

MS. MIC: Thank you. Yes?

MR. KAPLAN: I'd ask you to take a look at Slide 12, because the demand for OCTG is directly tied to the rig count. In some products before the Commission you look at kind of general economic conditions for demand, but here you could tie it pretty closely because the rigs are what's using the OCTG, and so you could see while there has been a fall-off, as just mentioned, it's nowhere at the levels that it was in the past, and you are having gas wells that are deeper, so you are seeing more OCTG needed.

So while there has been a decline in demand, it in no way reflects the consequences to the domestic industry where they have been forced to shutter their facilities. I would like to also point to Slide 14, and this just gives you an idea of what's going on. This is not a small correction. This is not a small overshoot by the Chinese importers. The magnitude of the increase in 2008 was massive and disruptive, and so, instead of seeing with this decline in rig count some decline in consumption, maybe a small inventory build, we get a massive inventory build and injury reflected in both the shipment data and the employment data.

One point I want to add to the economist in particular, oftentimes in trade cases, you see the underselling, which we have here, then a price decline in the domestic industry, and then eventually effects on production and employment. Here, because of the contract situation of prices, we are seeing the massive increase in imports and underselling, and the injury is reflected in the decline in shipments, the shuttering of facilities and employment, and what we are starting to see now are the prices falling and the effects on the financials.

So while the injury is the same, the transmission mechanism is slightly different from what you are used to seeing; current injury and threat because of the overhang, largely because just a sneeze in the China market, because of the capacity they've built, overwhelms the U.S. market, and that's exactly what happened, and that's what will continue to happen if relief is not granted.

MS. MIC: Okay, let me follow up, a quick question about underselling, since you brought it up. It was earlier mentioned in somebody's testimony, there was about 10 to 30% underselling during mid to late 2008. What were the figures prior to mid-'08? Anybody knows? Was it you, Mr. Dewan?

MR. DEWAN: What we saw basically is that from the standpoint of pricing, is that the Chinese product was consistently 25 to 30% below what was occurring in the domestic market. In terms of the distressed inventory now, it's operating another 5 to 10% below that figure. So if you look at it from another perspective, from where the spot market actually reached, it was down about 50% from that level.

So, that has had a definite impact on what's occurred in the pricing, in the marketplace, and frankly, is what's dragging the entire market down from a pricing standpoint.

MS. MIC: Thank you. Another question about the U.S. industry as a whole. Was it unable to provide sufficient OCTG for its customers at any point in time? Did the domestic industry have its distributors on allocations? Again, if the answer is confidential, you can answer in your briefs.

MR. DEWAN: No, I will say from our standpoint that we were put on allocation from the standpoint of with our core mills, but we were also able to grow our business proportionate share to the drilling activity with our core customers in a transparent relationship, which is what our company is about. We did purchase Chinese product for a small amount of our needs to enhance our overall relationship and value in the supply chain to our customers, and again, as I had said, if we had seen this come into the tune of 25% or so, then this could have worked perfectly in harmony, but in fact, it came in at 149%, and that's what's completely swamped the business.

MS. MIC: So your answer is yes?

MS. DEWAN: My answer is yes, but it did not affect our ability to perform for our customers. We did not shut one rig down during that period of time with the utilization of our core counts, our core suppliers, and enhancing that with Chinese product.

MR. HERALD: James Herald with V&M. We traditionally book our mill or take orders on a rolling cycle basis, and we historically have done that, and we did nothing different in 2008. A rolling cycle allows us to optimize the number of sizes that we can make for a customer, and to try to meet the most market demand and provide our customers the best solution overall.

So each rolling cycle, we would work with distributors to book the mill, which was average 30 to 45-day rolling cycle, to optimize the most number of products and also to make sure that we could deliver to our customers on a known schedule, versus trying to overbook the mill in the 30 to 45-day cycle. In the even that we cannot take an order in a cycle, we offer to the distributor to move that order to the next cycle.

That following cycle would have still delivered within 90 days, which would have been much sooner than an import would have arrived. So yes, we did move orders from cycle to cycle, or in some cases, but we tried to make sure that we maintained deliverability to our customers so that we wouldn't shut rigs down. Thank you.

MS. MIC: Thank you.

MR. THOMPSON: George Thompson, U.S. Steel. There is no doubt that this market came on so suddenly that it did push up against our production limits. There are obviously production limits, and we worked all year to increase production as we moved along. In fact, if you look at our numbers, we did not reach maximum capacity in 2008, and much like Skip has stated, we did manage our order book in order to assure that we met the commitments we made to customers, prior to enduring the market in 2008.

In addition to that, in order to optimize production, we did watch carefully the orders that we put on the mill, but it's no different than we always do, as we look at the orders that are going onto the mill, and so while there were instances in which we moved out orders that perhaps customers asked for ahead of time, in no cases whatsoever did we not meet the commitments the customers asked us for.

MS. MIC: And if you are going to pick a month or a quarter --

MR. BALKENENDE: May I? Apologies.

MS. MIC: Oh, sorry. Yes.

MR. BALKENENDE: Roland Balkenende with Maverick. Just to add to the comments, I would like to clarify that we, as Maverick, we did not have customers on allocation, however, I have to tell you that we did carefully check last year the quality of the inquiries. We did see a number of customers asking for quadruple the quantities they used to buy, for whatever opportunity they may have seen in the market.

So we did, more carefully than usually, check the order book, and that is why -- and we had also customers that hadn't called us for years, all of a sudden calling, and when the market is tight, you do not necessarily, in any business circumstance, to have to accept every inquiry or every order you can get.

MS. MIC: Thank you. Thank you for those answers. If you were going to pick a month or a quarter when you saw the shift between all these inquiries that you are almost unable to meet and you have to shift and work around with the cycle, and when they went down and started the layoffs?

MR. THOMPSON: I would say that the market came into full vision in the second quarter, and the layoffs began in the fourth quarter.

MS. MIC: Okay.

MR. THOMPSON: The downturn of the market began, as John stated earlier, from a volume standpoint, and I think Seth is absolutely right, there are two elements to this, it's volume and price, and the uniqueness of this is volume is what's hit us the most right now and price is coming rapidly at us, but beginning in the October time period, we started to see the market pull back, and we are seeing the full effects of it here in the first quarter.

MS. MIC: Thank you.

MR. BALKENENDE: I would like to add, Roland Balkenende, Maverick, we saw a similar circumstance and I put it in our testimony also, that our layoffs started in November 2008, and our order book had peaked by midyear.

MS. MIC: Okay, thank you.

MR. DORN: Excuse me. This is Scott Dorn with United States Steel Tubular. One comment on your previous question?

MS. MIC: Yes?

MR. DORN: On supply and allocation, if you look at the overall statistics for the inventory numbers of OCTG, you would have expected to see some sort of a reduction or draw-down in that inventory through that time frame if there was a supply issue, which you don't see if you look at those statistics.

MS. MIC: Thank you. A quick question on product range. Did this strong demand in 2008 change the product range? Did you see new products being asked for or a reducing in former products? No?

MR. BALKENENDE: Roland Balkenende, Maverick. No, we see it, the market was there, but we didn't see a dramatic change in product mix. There was more, but not a substantial change in product mix.

MR. SHOAFF: Just to comment on the product range again, what we really did see was more of just the normal type of string design products that were being used were being asked for and being required, so the big majority, I think, of what we saw being imported into the United States was in a particular size range that was being consumed in the United States market. So it wasn't anything special, it was just the commodity-type items that were being utilized.

MS. MIC: Thank you. Thank you all for your answers. That concludes my questioning.

MR. ASCIENZO: Thank you very much. We turn to Mary Klir, the accountant.

MS. KLIR: Hello, everyone. I would like to thank this panel for their testimony. I just have two requests for post-conference, and I realize that you are focusing more on current and forward-looking injury in terms of the financials, but these two questions relate to the data as provided in our questionnaires. For the first question, in your post-conference briefs, for each petitioning firm, please provide estimates of what you believe your operating income margins would have been during the period of investigation, absent the effects of alleged unfair imports from China, and please break these responses out between seamless and welded operations as necessary.

Second request, also for post-conference, please examine the financial data provided by U.S. producers on their operations on welded OCTG, and provide an analysis of the key factors behind each firm's reported operating costs, as well as changes in operating costs during the period of investigation, and please include an analysis of each firm's SG&A expenses. And that's all I have. Thank you.

MR. ASCIENZO: Thank you very much. We turn to Norman Van Toai, the industry analyst.

MR. VAN TOAI: Thank you. My name is Norman Van Toai, international trade analyst of the Office of Industries, and I would like to welcome you all here, and I would like to thank you very much for spending time with us. My first question is, obviously there is a relationship between the tube thickness, tube and pipe thickness, and its outside diameter or the size. My question is kind of general in nature.

Is there any general rule regarding the relationship between the size of the tube with the use of steel plate, steel sheet, and steel coil?

MR. THOMPSON: The size -- ?

MR. VAN TOAI: The size and the thickness of the tube.

MR. THOMPSON: The larger OD tends to require larger size coil and/or plate. With spiral weld product, I think we are starting to see more band product used in larger OD, where in the past, with DSAW, it had to be a plate product, and it's just a manufacturing technique.

MR. VAN TOAI: When you say larger size, you mean?

MR. THOMPSON: Big. Over 24-inch. Over anything that we are talking about here.

MR. VAN TOAI: So that's for line pipe?

MR. THOMPSON: For line pipe, yes. With regard to the sizes we are talking about here, I think for the most part, it's the same product that, in the welded product, obviously, when you are talking about OD, it's a matter of how wide you can make the coil, and a lot of the product has to be slit as it comes off the mills, but for the most part, I don't there is a -- it's the same product that goes into all the product we are talking about here today, which is a hot-rolled band that is made, for the most part, universally on steel mills across the United States.

I don't think anybody would disagree with that, and of course in the case of seamless, it's billets, and that has an effect of it.

MR. VAN TOAI: Right, right. Thank you. My second question has something to do with product shifting. I came across some facilities which make OCTG together with standard pipe, and I also came across some facilities that make casings and line pipe, OCTG and line pipe. Would you please tell me, what are the deciding factors in choosing the combinations of production line, say, whether it is together with line pipe -- I'm sorry, OCTG with standard pipe or OCTG with line pipe?

MR. BARNES: Scott Barnes with TMK IPSCO, and Mr. Van Toai, you've probably recognized me from other appearances. TMK IPSCO happens to make all three products that you mentioned, standard pipe, line pipe, and OCTG in the ERW process, and while they are similar tubular products, they do vary by the specifications to which they are manufactured. I think in response just generally to your question as to how do we decide which products to make, we have invested over the years, you know, a significant amount of commercial effort to develop each product line, and therefore, we are dedicated to all of those product lines in good markets and in bad, but that aside, we also are aware of where the opportunities are with the market demand at any one particular time, and as you well know, the Chinese unfairly dumped standard pipe, they unfairly dumped ERW line pipe, and those markets were weak for us, so the other market during the last couple years that has been strong is OCTG.

So a lot of our decision making was made for us because of this habitual pattern that the Chinese have of underselling and in mass volumes, massive overcapacity in their pipe and tube industry, and they have no other marketplace to go here now because of the successful dumping actions that have been filed in Canada against Chinese tubes and what is currently under way by the EU. Thank you.

MR. BOSWELL: Ralph Boswell with Wheatland Tube.

MR. BOSWELL: Randy Boswell with Atlas Tube. We, also, make all three products, standard pipeline, pipe, and OCTG products. Just to follow-up on Scott's comments, we are the core business in each of those products that we maintain and we had excess world capacity on our Warren facility that wasn't filled by standard pipe or line pipe. So, we re in a position that we went into the OCTG business in 2006 to fill the excess capacity. We never got into a situation in 2008 where we had to determine which product do we make or which product we don't make based on market factors. We weren't on allocation and we weren't on controlled order entry for any of our customers in all three products. So, we did - we were able to maintain our core customer base in all products.

MR. VAN TOAI: Thank you. My third question is as you know very well that the Chinese line - some Chinese line pipe producers have commissioned production facilities in Texas. These are not related to OCTG directly. Let me ask you whether you foresee this as a trend in the future for the Chinese producers to move into the United States to produce OCTG in the future?

MR. BALKENENDE: Yes. Roland Balkenende with Maverick. It could be a strong trend because if we lose this case, we may have to close our plants and then new plants will come up and it may be them.

MR. BARNES: Scott Barnes with TMK IPSCO. My understanding is the plant that you're referring to, that Tianjin is talking about, is an OCTG plant, not just a line pipe plant. And it will be at least two years before - at the earliest before we would see that facility up and running, because I don't think they even started to turn a shovel down there as yet. And our complaint today is that these Chinese are unfairly trading these imports at very low prices. They build a plant here in the United States and hire U.S. employee - citizens and have to play by the rules of the game here, we're not against fair trade. We're against unfair trade.

MR. VAN TOAI: Thank you. This question is for Professor Hausman.

MR. SHOAFF: Excuse me?

MR. VAN TOAI: I'm sorry, sir.

MR. SHOAFF: I would just add to what was just said. You know, I think we need to go back a little bit and somebody mentioned 1998, a little bit earlier. Nineteen-ninety-eight, you know, the rig count did fall below 500 and it was devastating to the industry. There were layoffs; there were no orders, that type of thing. But what we didn't have in 1998 was this huge overhang of inventory that we currently have. I just really think it needs to be emphasized that the direction we're going right now, I think most of the people around this table and the pundits of the industry will tell you that our rig count is going lower. We don't know exactly how low. Some say 700. It could be less than that. But when you throw the addition of this overhang of inventory we have, it just exacerbates the problem. I mean, it's going to get absolutely devastating. And these pictures you see back behind you will be - you can take new pictures six months from now and they'll look the same or worse.

I think that's really got to be talked about, because if there's not any action taken going forward and even though they've said that they're going to - they have reduced the amount of imports, they still intend to bring imports in. Even if it's only half of what they brought in, in January, for instance, when you're talking 200,000 tons a month, there's no market. We already have this inventory overhang to deal with if they stop right now and it's going to be extremely ugly if they stop right now. We have that to deal with now. But, if they continue to bring in product, it's going to get even worse. And I don't know when these people are going to get their jobs back. It will be well into 2010, if that. And it's really got to be clarified.

MR. VAN TOAI: Thank you, sir. I've got a quick question for Professor Hausman. I ask this question with a lot of appreciation, because many of your writing has ended up in our required reading list when I took economic studies in graduate school. I believe that - I just wonder whether you have a chance to look at using econometric techniques, in order to separate the effect of the economic conditions and on the commission of the OCTG industry right now and the effect of imports on OCTG's industry conditions right now.

MR. HAUSMAN: Well, I haven't been able to complete a study because of the problem of the lag. This has come up before in things I've done before the Commission. So, there's typically a lag between the imports and the effect on price. So, that will await final, which I guess will happen next year.

But, in terms of the effect on quantity, I have looked at that and what I've tried to do is just sort out the effect of the decline in rigs, the rig count, since that's, as I understand it, the largest use of the product, and imports. And what I have found is that in terms of the inventory buildup, the inventory overhang that I talked about, that the imports have had a substantial effect on that. Going forward, that's going to - it's already affected the plants having to close down. We have this inventory overhang. Going forward, I think it's going to also lead to a significantly lower price. But how much lower that price will be, I will tell you next year when I reappear.

MR. VAN TOAI: Thank you. You talk about a lag effect. I just wonder, how long that lag and what form will it take, whether it's readily approaching lowering bound in the future or just only two years.

MR. HAUSMAN: What I have found typically in the steel industry -- I haven't studied this particular problem. I've looked at a lot of different parts of the steel industry. The lag usually takes about six months or somewhat longer and it's usually gradual. Sometimes, it can happen pretty quickly, but it typically gradually happens.

MR. VAN TOAI: Thank you, Professor.

MR. HAUSMAN: You're welcome.

MR. VAN TOAI: And thank you, very much, for all of your answers.

MR. ASCIENZO: Thank you, Mr. Van Toai. And we turn now to Douglas Corkran, the supervisory investigator.

MR. CORKRAN: Thank you, very much, and

thank you to all the panel for appearing today. You have presented some very interesting testimony, very thought provoking testimony. Some of the things that have been said here today, I kind of want to push back on a little bit or at least get a little more clarification on.

I was interested to hear, for example, in discussing the issue of allocations. The statement was made that if there had truly been widespread allocations, you would have expected to see a draw down in the inventory data that was shown. And I grant you that the volume only inventory data don't appear to fall, but I was wondering what your - how you would characterize the period that covered the end of 2007 and almost all of 2008. We heard earlier testimony that six percent - I'm sorry, not six percent - six months inventory on hand was a target for distributors and during that entire period, even with the imports from China, the monthly - the per month inventory numbers are below that six-month figure.

MR. VAUGHN: Doug, this is Stephen Vaughn for U.S. Steel and I will let the other people comment to more on the facts. I just wanted to clarify one thing from our presentational part. I think that the point was made that they don't like to have inventories go above six months, not that six months was necessarily a target. And I think, in fact, if you look at the per month slide, slide nine, you see that, you know, there's a number of time periods in that range where it was under six months. So, I just wanted to clarify that from just a presentational perspective and other people could comment on the substance.

MR. THOMPSON: I would also like to point out on that slide that beginning in July of 2007 through the balance of 2007, the industry was in a destocking mode and we can see what a destocking mode normally looks like. And while - to Stephen's point, while inventories were less than six, they were what I would consider in balance versus the marketplace. And what I would also point to in that exact same slide is the incredible climb, just really incomparable climb in the last four months of the year and the beginning of January and, quite frankly, it's continuing. And, obviously, a lot of this has to do - some of this has to do with the rig count, but most of it has to do with the incredible volume of Chinese material arriving in that time period.

MR. BALKENENDE: Roland Balkenende with

Maverick. And I would like to add to repeat the comment that the six months is more. If you go over that, that's a danger zone. Everyone likes to see supply chain efficiencies and when it goes over six months, it's getting very poor. Actually, the shoulder of this, the back of this for the total industry.

MR. CORKRAN: Thank you. I appreciate those comments and something to think over a little bit. I would actually like to stick with you, Mr. Balkenende. I wanted to get a little clarification on your statement that Maverick had not placed any of its customers on allocation and I was wondering to what extent that's a reflection of Maverick's operations and to what extent it's a reflection of imported product from Tenaris sister companies or related companies outside the United States.

MR. BALKENENDE: Yes. To add to that, to answer your last question on how Tenaris, Maverick goes through the market, we bring in other products to complement our - the products we manufacture here domestically and that is where we see - most of our agreement are with the customer base, where we understand the full product range and that's why we offer to the customers that part. Our welded products, we produce here, plus the other products we complement. And having said that, that, of course, looking at the total base of the industry, we have a customer base that requires this product and we have grown last year, because the accounts of our customers went up. And for that reason, we have supported our customer base doing that. We may not have taken opportunity of a few profit orders in the spot market. However, we have serviced our customer base.

MR. CORKRAN: One of the general questions I had for the U.S. Steel representatives was a follow-up to Mr. Van Toai's question about product shifting. I particularly wanted to focus on some of the facilities that had been totally idled for several months at this point now, Bellville and Lone Star welded facilities. Can you give not exact numbers, but an indication of the products that are produced or have been produced at those two facilities?

MR. THOMPSON: Bellville is about a - when it was running was about a 50-50 mix between standard and line pipe, mostly line pipe -- it's a smaller D mill -- and tubing, OCTG tubing. And in east Texas, was have about a 70-30 mix between OCTG and line pipe with another product we used to make, which is domestic, DOM, drawn over Manville product that we've since exited that business. Size ranges at Bellville goes up to four-and-a-half inch and the east Texas facility goes from one inch, up to 16 inch.

MR. CORKRAN: Thank you. That, in part, goes to some of the applied questions when you have an economic situation that's facing not only the product at issue, but other products that are produced in the same facilities, how some of the decisions are made.

MR. THOMPSON: Just to elaborate a little bit on that, this is not just an OCTG phenomenon. Obviously, the line pipe is connected to the energy market. And as Scott alluded to earlier, we did have successful cases in front of the same Commission last year and we're appreciative of that. But, I think the effects of the imports that have already come in are showing on that particular product and that market has declined every bit as much as the OCTG and inventory is an issue there, as well.

MR. CORKRAN: Returning to the issue of the various plants that have been idled, can I get some estimates on two related questions. One is, how long does it take to call up workers when you're dealing with an idled facility? And I might even divide that into two questions, which is facilities that are idled in the sense of having a specific, say a two-week or a three-week targeted period and others that are idled indefinitely. And the second question is, how long does it take to ramp up production to efficient levels -- I won't say full capacity, but to efficient levels, once a plant has been idled?

MR. THOMPSON: I think as far as specifics are concerned, we probably ought to answer that in a post-hearing brief. I'm not familiar with the ins and outs of calling back employees. But, I do think, just from a commonsense standpoint, that the longer these mills are idled, the better chance that that time - it becomes harder and harder to bring those facilities back up. But, I would yield and I think we have experts within U.S. Steel that can answer the specifics of that question.

MR. HERALD: James Herald with V&M. We actually have idled our V&M Star plant. We idled for three weeks, brought the plant back up. We found it several days to bring the plant back to a very small quantity of production, not in full production. So, to this extent, we're not unlike everyone else in the room, in terms of contractors, headcount, manpower, full-time equivalence, we're down 73 percent in our hourly workforce. We're down 20 percent our salary workforce and furloughing most of our salaried employees, also. But, we have found that - we have shut the plant down and we have brought the plant back up, but nowhere near full capacity. And we don't know what the time would take to be able to do that.

MR. HORAN: This is Craig Horan, U.S. Steel. Just a quick comment to go along with my colleagues and that is the longer the facility is down, the better the chance is that those experienced workers will not be available to call back up.

MR. CORKRAN: Ms. Hart, can I ask you, from the perspective of the labor force that's impacted by idled facilities, what is the typical process that one goes through when you do start to call back workers from an idled facility?

MS. HART: For us, the specifics I would probably have to address it in the post-hearing brief. But, commonly, when people are on layoff, I mean, many of our members are going to, of course, attempt to find something to help keep their families going. But, in this market, at this point, I don't know how realistic it is to expect that a laid off OCTG worker is going to have found other work. So, I mean, I think there are extenuating circumstances that might relate to a person's availability due to the current economic downturn that may not be evident at another time. Working here in Washington, I have to say I don't have intimate experience with our folks in the field and if I can address this better in the post-hearing brief, I will after making some inquiries.

MR. PRICE: Mr. Corkran, it's Alan Price from Wiley Rein. Just to emphasize the harm to the workers here, you've heard not only of the issue of people being laid off, but you have a significant issue of underemployment in this industry right now. Every day, the few people that are working are essentially working minimal hours with no production bonuses. And the net result is that what little employment is there is at a fraction of what normal wages are. Those wages were transferred to China last year instead of being here now. It's just tremendous hardship on families, families in this industry and, frankly, the families in the industries that - in the supply industry, such as Nucor, which supplies a large chunk of this industry, also. Their workers are often - have a performance-based system. If there's no sales to Maverick and TMK and U.S. Steel and other companies that are part of this thing, their workers are also not getting paid. So, the effects on this on the economy from these dumped imports are significant. They've robbed sales. They've robbed jobs. They've robbed wages from people, who work every single day.

MR. LINDGREN: I'd like to make a further comment on the question. I'm Roger Lindgren from V&M Star. When we do lay off workers, the workers that remain don't necessarily - go into jobs maybe they haven't done before. So, there's a significant amount of retraining that must be done to protect the safety of the workers that remain in the plant. An additional comment I would make is that, as Skip Herald has already testified, we've had significant layoffs and the people that remain there are only working 24 hours a week. I'm not sure we need them 24 hours a week. We're doing that to try to maintain as many workers as we can and have them under benefits. Now, when we bring them back - they're already trained, they would just come back for their jobs. But, again, some may be displaced, some may do something. We would want to bring them back. There's a significant amount of retraining that must be done, obviously to keep the plant efficient, but to protect the safety of the workers. So, it's not like turning off a - you know, turning on and off a light switch, taking people out, taking them back.

MR. DORN: This is Scott Dorn at United States Steel Tubular, a further comment on your question and in agreement with what you just heard from Roger. Once a decision would be made that we're going to restart a facility, we would then take two to four weeks for us to get the required substrate ordered and in process and in transit to that facility, so that we can begin production. The longer that shutdown had occurred, we would also have the issue with the qualified employees available for the positions that they left or would they have to come back with whatever labor pool you have available and put in different positions. And safety would be the first factor that we would consider or looking at that, is to how do we refresh them on their safety training, make sure they have the correct operating and maintenance skills to properly do the job. I mean, the further this goes, the longer it takes us to start up a facility, either at partial production or full production capability.

MR. CORKRAN: Thank you all, very much. That was very helpful. One of the questions I had dealt with demand and particular components of demand. And I was wondering if you had seen - if market conditions were -- differed for welded, as opposed to seamless product or perhaps carbon versus alloy, because there is some mention about adding heat treating capacity to move up into alloy production. It, also, appears that the - in looking at the import numbers, that the U.S. imports from China tend to be more concentrated in seamless products than in welded. So, I was just wondering if there is any differences in the various market trends you've seen for those products.

MR. BALKENENDE: If I may take this. Roland Balkenende of Maverick. Essentially in the U.S. market, we could consider it as one market, because for a number of applications, seamless and welded are used in substitution. And for that reason, it's very difficult to say are these markets treated similarly. We don't see it as much. And on top of it, you are correct in your observation that the imports have primarily been seamless in the past, but may have initially competed with the welded product in the U.S., as well. So, the way we see it is more than as one market.

MR. THOMPSON: As a producer of both welded and seamless, we do - they are two distinct markets between welded and seamless. And in some cases, it's because of the alloy versus carbon component; but in other cases, it's because of the wall. Although quite frankly, as Roland alludes to, because of the price that some of the seamless has come in from China, we see it being substituted for what would normally be ERW applications because of the price they brought that in at. But, over the long run, we would state that there is still a distinct seamless and ERW market out there, although I would concede to Roland that we are seeing them come together more and more.

MR. HERALD: Skip Herald with V&M. We compete with welded every day. We are primarily seamless and a huge portion alloy. We compete with welded day in and day out. I would like to reiterate, we are - our order book is 10 to 15 percent of what it was, so we're impacted just as much. We see the same impact. We have the majority of our hourly workforce laid off. We're out of work. We've already shut our mill down in Youngstown for three weeks. So, we're seeing the same impact, whether alloy, whether seamless, whether welded, that everyone else in this industry has seen. From our perspective, we compete in that market as a whole, not just as an alloy or not just a seamless player. Thank you.

MR. SHOAFF: A comment just to add to that. I would agree that we kind of see an overlap there on ERW and seamless. It's pretty much readily accepted, as Roland says, by most of our customers and most applications. I would point out, though, that seamless is virtually always substitutable for ERW, but not necessarily the other way. And, of course, with the preponderance of material that is coming in from China being mostly seamless, it pretty much can take care of pretty much any application that's required of it.

MR. SCHAGRIN: Mr. Corkran, this is Roger Schagrin, counsel for some of the Petitioners and the Union. You know, in terms of both analyzing demand and the total demand is for welded and seamless products, and this goes a little bit to a question asked by Ms. Mic before, as well, the Commission has a lot of history with this product, as I know you do. You were the supervisor investigator in the sunset review that took place in June 2007 of OCTG from Argentina, Italy, Japan, Korea, and Mexico. And in that report, because sunset reviews tend to look at a longer time period than investigations, you have information that shows the rig counts in 2004-2005 were averaging between 1,000 and 1,100 rigs a year. You've got the domestic industry shipping in 2004-2005 or producing in 2004-2005 roughly two-and-a-half million tons a year and experiencing strong profitability, which I think led the Commission to make negative determinations of those sunset reviews.

And it's a really stark contrast. You know, we should probably average a rig count of around 1,000 in 2009. Yet, we're looking at probably domestic industry production and shipments that may not even hit a million tons, given how fast they're falling. And the contrast is so stark. The only difference between those time periods and the rig counts and what happened in the domestic industry at that time and the current time period is this massive amount of imports from China and the massive inventory overhang. And I think that what's in inventory today, and the distributors can speak to this, they can satisfy all the different kinds of demand in this market, whether for welded, seamless, carbon, and alloy throughout the rest of 2009. We don't need another ton entering this marketplace. There's enough of everything that everybody can be down. The question is how long it will last in 2010, if imports continue.

MR. KAPLAN: I think the very broad acceptance of the Chinese product is indicated by the very large and massive increase in imports suggests that the product can be used interchangeably with welded and the vast majority of end uses. It's being used everywhere. It's really cheap. It's brought in, in massive quantities. It's displaced both welded and seamless plate in both actual usage and in inventories.

And once again, I don't want to belabor the point, but you have to look at the magnitude of changes, as well as the direction of changes here. You know, Chinese additions to capacity, Chinese increases in imports, locally, maybe we would say it was Texas-sized. Now, it's like super-sized with the China stuff. It's so large relative to the U.S. market that the effects are so disruptive. So, it's not like at the margin, China is coming in and supplying this or that. Their margin is so enormous relative to U.S. consumption and production that it creates incredibly disruptions additions, as you see both in the employment and shipment side. And I think the disruption to both all the welded and seamless producers here support the Commission's longstanding belief and determination that in oil country tubular goods, seamless and welded are one product. So, we're just seeing the same thing we've seen for years and years.

MR. VAUGHN: Mr. Corkran, Stephen Vaughn for U.S. Steel. I would just like to make one final point and, again, I think the record here overwhelmingly supports the traditional like product analysis with regard to seamless and welded. You know, another way to sort of quantify and see what points these witnesses are making is just look at what the order books are showing. In other words, if there was a significant volume of orders that were out there that couldn't necessarily be supplied from inventory or couldn't readily be gotten that was already there, you would expect to see that in the data. And, instead, I think the testimony here is that order books have just gone to, you know, just incredibly low levels. So, I think that shows, you know, again the overlap between what's on the ground, what's out there, and what people are actually wanting in the market.

MR. DEWAN: As a kind of follow-up to what Roger was saying, if you look at basically, if we average a thousand rig count this year, we'd be looking at something around 2.4 million tons. And if you look at excess inventory right at this second, it's right there. So, virtually, inventory can cover 100 percent of need going forward.

MR. BARNES: Mr. Corkran, Scott Barnes with TMK IPSCO, just to follow-up on your question about heat treated. You will also note from those statistics that the Chinese have increased the amount of heat treated or alloy grade product. I would like to remind this group that these mills that the Chinese have, many of them are very modern, in fact the envy of our industry is what they've put together. So, as to a future threat, there's no product that they can't supply.

MR. CORKRAN: Thank you and thank you all. And I would - actually, I do want to ask a couple of questions related to threat, as well. I think some of the data that's been presented today juxtapose Chinese capacity and U.S. demand. And the question I would have is notwithstanding the large degree of demand in China - I'm sorry, degree of capacity in China, oil country tubular goods, what would really be the incentive to ship into this market at this time? I mean, I looked at the increase in imports over the period that we're looking at and it's true that the Chinese - the volume of imports from China has increased substantially or did increase substantially between 2006 and 2008. We have also been talking a lot about the market conditions that existed during that time period. And it's to a greater or lesser degree true of imports from many sources that increased substantially over this period. So, I guess my question is, and I will ask it this afternoon, what makes you believe that Chinese import volumes would be coming in substantially in the future?

MR. LIGHTHIZER: Can I address that just for a second, first? If I can just make a kind of a micro point - I mean, a macro point, Mr. Corkran, and that is that the capacity in China was created by the government through government subsidies and they have a market system that allows them to dump. And you ask yourself why does a country, why does an economic system, essentially planned more or less system, why would they do that. They do that because they want employment. They need employment. If they don't have employment in China, then they have people coming from the farms and they go to the cities and they have a revolution. This is a global issue, but it think it's one we have to recognize.

If you ask yourself why did we lose the furniture industry and the textile industry and the auto part industry in this country, the reason in every case, and I can list more, in every case was that the Chinese Government has a problem and the problem is they've got a billion people that are coming from the country to the cities and they have to get them jobs. So what they do is they pick out an industry that makes sense and then they subsidize it and they created it. You can ask yourself why would they have 36 or 37 million potential tons of OCTG capacity in China. There's only one reason, export, export, export, create jobs. If you look at some of these companies, and we don't even know how many there are - there could be - some people say 160, some people say 200 companies, who make this product, if you look at them, some of them on their websites will say they export almost everything. I mean, they are created by the government to create employment and they will ship here, if they can, because the alternative is that they have social unrest at home. It's really that simple. And then I would make - and I think you can't lose sight of that whenever you're talking about billions and billions of dollars in investment by a government, particularly the Chinese Government. This focus on one specific industry.

The other point I would make is looking the questionnaires. Now, I should emphasize that we've only had 12 and we've only gotten those within the last, you know, hours. And so by everyone's admission, when you have gone through all of the questionnaires, you will know about - zero about that industry, because you're not going to have any information from scores of companies that are creating part of this problem, all right. So, let's take that aside. The first question is probably are the numbers reliable and that is something that you will have to decide yourself. We have our own views on that.

The next question is you don't even have any information with respect to scores and scores of companies that have created a huge amount of problem. But, if you just look at the 12 that you have and you look at the number where they sit down and they say how much do you expect to ship this year, about 500,000 tons from those 12 - you can believe that or not believe it. But, if you back out what they have already shipped in the first quarter, you end up with about 356,000 tons, okay. Now, those people last year were about 48 percent of the industry. So, that would give you about 750,000 new tons coming in. Now, add that to the 550 that's already there, if you follow me, and you're talking about the Chinese admitting, really admitting, as much as anybody can admit in this area, to almost 1.3 million tons. And if you look at market share based on shipments on the first quarter, which I would suggest is probably a better judge, how much did they actually ship, and then you would multiply the amount that they admit they're going to ship, which is about 356,000 tons times four, you'll end up with something approaching two million tons, 1.9 million tons, that they think they'll ship in this year, all right.

Now, I hope that you will ask every businessman here what will happen to their business, if the Chinese ship an additional seven or eight or nine hundred thousand tons. And I'll bet you there's not a person here that will tell you, in business or if he's in business, it's going to be him and about six people trying to keep the lights on and keep people from breaking into the plant that's been stopped now. We can't, in the current market, tolerate this kind of shipment and the tension is that the Chinese can't tolerate not producing product and shipping, because they have a social unrest issue, which is paramount to them, and we have a situation where we have an inventory overhang and essentially no orders. And you can see, you can see it's a huge clash. The only thing that's going to stop that clash is the Commission coming in and say, okay, time out. This is a catastrophe and the obvious beginning of the catastrophe are those photographs back there. But, trust me, if you go negative, we could fill the room with pictures of plants that will be closed at that point. And it's obvious that they're - they have to ship here, I guess is the fundamental point that I want to make. They've admitted in their questionnaires and for any kind of a geopolitical reason perspective, they have to do it.

MR. BALKENENDE: Roland Balkenende, Maverick. Because of our company, we operate globally. And I would like to even provide some more data in our post-hearing brief, because in addition to what the comments just made, where does the material otherwise go? And I think you should bear in mind that this is not just a little capacity that can be absorbed in the rest of the world. Given the product range and the products they have been producing for the United States market, the U.S. market is different in nature than the international market. The U.S. market has a lot more shallow wells than the international one. That's why you see the product mix for the U.S. is very specific and was easy to penetrate maybe for the Chinese mills.

Then, you go international world. That's a different component. When you look at the capacity, starting in the late last year, about 300,000 tons a month is what they had available to bring into the United States and they brought in and they're waiting to do it again when they can. Trying to find a market internationally with this product mix, it's not there, and I will be happy to share that information with you. There is no international market where this can go. So, separate from any other thing, there's only one place where it can go, is the United States.

MR. SHOAFF: I would just add that that would be further evidence by the fact that when you look at this particular commodity as compared to other steel products being exported from China, OCTG is the one commodity or the one product that never fell under the tax - what is it, I believe it's 13 percent - the 13 percent tax tariff. It was always pulled off of OCTG. And why? Obviously, for all the reasons you've just heard, they saw this huge - the biggest market in the world is the United States of America and they saw our market growing. And they just repeatedly - it was never subject to the 13 percent tax on this particular product.

MR. VAUGHN: Mr. Corkran, I would just like to make a couple of additional points. One, and we put these in our slides and we'll put more in the brief, but they said publicly they need this market. I mean, they've said that. They said that if they can't ship here, there will be a severe oversupply in China for pipe and tube as a whole and it will have catastrophic consequences. So, this is not a secret. I mean, this is something that they've said.

The other thing, commenting on something that was, I think, one of the predicates to your question had to do with imports from other countries. I think if you look at the numbers for the imports from other countries, what you're going to find is there was a decrease from 2006 to 2007, then increase from 2007 to 2008, which sort of goes much more in line with actual market trends. And if you compare the increase from 2006 to 2008 for non-subject sources to the increase from 2006 to 2008 from China, you'll see it's two totally different patterns, that the imports from the rest of the world track much more closely with reality, whereas the imports from China are simply on a path that's not really comparable to any other group of countries.

MR. KAPLAN: Mr. Corkran, let me tie a bow on it. Massive increases of capacity in China, some of which is - many of which are undocumented in the questionnaires and a motivation to produce in China, a product mix for the United States that's different from the rest of the world that perfectly matches their production capability and their history of importing into the United States. Demand in the rest of the world that has been relatively flat has been discussed by the President of Maverick and the fact that the U.S. market is larger and more volatile. For duties in other jurisdictions, to the extent that they can ship to other places in the world, and they are limited, as we've just discussed, have now been cut off. And, finally, the confession from the Chinese, themselves, they're dependent on the U.S. market, given the large increases in capacity they've made. So, I hope I've covered all the points here.

MR. SHOAFF: One comment. You'll hear from the other side I believe this afternoon that they were asked to be in this market and this product was needed and there was a shortage and all that. You've heard some testimony to that fact earlier. But, I would just say that the lower end maybe of the mills that he talked about earlier that are not listed in this particular case, you know, they were selling to brokers and traders that quite honestly some of us have never even heard of. We had a hot market in the United States. There were people that were trying to get into this market, make a quick buck, and get out. They had no history hardly ever of selling OCTG and really had nothing really to back it up, as far as a responsible course of action and responsible business processes. So, we were typically getting - as I said in my testimony, we were getting calls from people everyday saying they had the exclusive on this particular Chinese mill and then later in the week, three other guys came in and they had the exclusive. It was reckless abandon what was going on. Anybody that had a check they could write and hand to this mill could get Chinese pipe.

So, a lot of these guys were buying this stuff and bringing this stuff in really didn't have a home for it. They didn't really have a customer base, as you've heard some of us around the table talk about. We talked earlier about allocation. Allocation is kind of - it's really differently defined. It's not necessarily this is all you can have. Allocation is about working with your supplier to satisfy the needs of the customers, to satisfy the demands of the customers. These guys went way, way above what was needed in this marketplace. I think I said in my testimony earlier that somewhere, it estimated maybe 20-25 percent and maybe - it was probably a reputable number on what could have been needed to satisfy this marketplace. But, anything over and above that was a way, way overshot. It was very, very undisciplined, very irresponsible.

MR. CORKRAN: Mr. Shoaff, can I actually follow-up on that. We actually heard about Premier Pipe supplementing some of its traditional sources of supply. Did you find yourself in that situation, as well, in 2008?

MR. SHOAFF: We did buy probably close to the same percentage of Chinese pipe that we heard Premier say, very, very small percentage of our material. We never really had an issue where we had a customer that couldn't get the pipe they needed. Granted, it was tight. It was a hot market. But, our suppliers were able to satisfy all the needs of our customers. The Chinese pipe that we did purchase was just really to kind of complement our or, you know, extend our inventory. Sometimes, in a hot marketplace, if you have disruptions in maybe a delivery like that, maybe you can back it up with something else. But, for the most part, we had no problems at all supplying our customer base.

MR. CORKRAN: Thank you. I think I have one final question, which I am sure will make everybody happy. I don't usually ask questions about motivations and this is probably a question that's more properly directed to the second panel, but I'm going to ask it anyway, which is just looking at some of the slides, one might wonder, when you look at the order book, the level of - the domestic industry's order books, when you look at the trend in per month inventories of OCTG being held in the United States and you see these levels going all the way through the third quarter of 2008, I keep having - I keep hearing the word "irresponsible" being - hearing that word being used to describe the level of imports from China. If I were looking at it from the point of time of around the end of the third quarter of 2008, realistically, is that what you - is that the way you would characterize it as irresponsible at that point in time?

MR. THOMPSON: I think that that is the point in time which we started to see, I think Ron or John might have testified earlier, that you knew the product was coming, but we didn't actually start to see it arrive until the late third - throughout the course of the third quarter and really started to hit home, as far as availability, in the fourth quarter. And from that point forward, the numbers are just astronomical. And really, I think that speaks to the falloff in our production. As soon as this stuff was digested into the system, our orders essentially ceased to be put upon us. And the few orders we had in the first quarter were simply carryover orders from the fourth quarter, not reflective of the demand in the marketplace, quite frankly. Is that what you're asking?

MR. CORKRAN: That is, in part.

MR. BALKENENDE: Roland Balkenende. I would like to add, and maybe repeat the comment I made earlier, we believe that in a hot market, every supplier is talking about responsibility. And the Chinese have chosen volume over revenues. And I mentioned earlier, and we'll get you that data, if you check what material was brought in actually required in the fourth quarter 2009 a rig count of 2,900 to absorb that material. That's what I call responsibility. If we're at the peak in the world at 2,000 and you bring it in to support a 2,900 rig count, that goes a little bit too far.

MR. JARDON: Mike Jardon with V&M. Just to further make that point, if you look at the imports from Chinese in the fourth quarter alone, it was almost 1.1 million tons. In the first quarter of this year, it's about 600,000 tons. That's 1.7 million tons in a six-month period in a market in 2009 that's probably going to have demand of anywhere from 2.4-2.5 million tons. That's why you really see that issue of the inventory ramp up beginning in the fourth quarter. It was significant over imports from the Chinese really in the fourth quarter.

MR. HAUSMAN: I think one way to consider this, not big on analogies usually, but there was a good deal of speculative demand and if you listen to what the producers are saying, they said people came out of the woodwork that they hadn't seen for years or maybe never heard of. So, that's like people building buildings to spec and we know what has happened, people building too many buildings to spec. Well, when you start buying for spec, you know, unless the rig count had got to 2,900 when, at least in my experience, I don't think it's ever gone above 2,000, there was a lot of speculative demand. That's going to be seen in increased inventories. That's going to be seen in evaporation of order books. So, I think that's an explanation.

And I think this whole question about allocation may be misplaced. If I'm a speculative demander, you know, I'll turn to the Chinese, of course, because they're going to sell to me at a low price. Why am I buying? I expect the price to go up even further. It's like people buying houses to just turn over. You know, in the paper today, they're talking about people, who bought houses in Phoenix, who never even rented them. They were just waiting to flip them. That's always speculative demand and they expect the price to keep rising. Unfortunately, that didn't happen here. The rig count fell and the inventory is now up to what, 13 months, and that's going to have huge effects.

So, I don't think - I mean, as an economist, you know, I'm not big on motivation and all. I am just big on the facts. And so, speculative demand led to a great increase in imports, led to a great increase in inventory, led to a drop off to near zero of order books. That's injury.

MR. HECHT: Jim Hecht with U.S. Steel. I wanted to just weigh in, as well. I think from what you've heard, there is a great deal of evidence that this was irresponsible, that they knew or should have known that even if demand did not drop off, the volumes that were coming in were going to have an enormous effect on this market. But, I guess I would just make the legal point, in terms of how relevant that is, in any event. We're not required to prove intent. The fact is they came in at just unprecedented volumes. Those volumes of unfairly-traded merchandise are the mechanism that is transmitting injury to this injury right now. It's the reason these mills are shut down. And that really is what the Commission is asked to look at under the law, did unfairly-traded imports cause injury to this industry, and there's no question they did regardless of intent. But, again, I think there is quite a bit of evidence of irresponsible behavior.

MR. CORKRAN: Thank you, very much. And I definitely take to heart your comment on intent. I think it also relates somewhat to the threat issue, in terms of what you described motivations for, for going forward. I will go back and ask one last question, but this will be very, very short, and that is just simply for a description of the term "program sales" because that term was used earlier in discussing some of the price data results that we've seen.

MR. DEWAN: Ron Dewan with Premier Pipe. Program sales are basically a longer term type of initiative that involve a distributor and a mill to a particular end user. They're normally strategic in nature. They're not opportunistic. They're not about short-term pricing. They're about longer term relationships. And, obviously, those are the types of business that we've tried to focus on, as best as we can. But, a program is a longer term relationship between a mill and a distributor and not a short-term profit motive type of relationship.

MR. THOMPSON: And I would just state from a mill perspective, I think it mostly centers around volume and support commitment and it goes to some of our comments, as far as how we manage the volume of our mill. The program tons and volumes are the ones that we make sure we meet the commitment we've made first and then move on. As far as pricing, that tends to be more, quite frankly, in the oil country business, it tends to reflect more of a spot versus I think what you might see in the flat-rolled business, as far as contracts are concerned. It's not nearly the fixed pricing that you see on the flat-rolled side. It's more of a volume commitment.

MR. BALKENENDE: Roland Balkenende. In addition, I would like to add a few more comments in a post-hearing brief, because of the nature of the - it's one industry, but we, also, I think some confidential components. But, we can clarify a few components in the post-hearing brief.

MR. SCHAGRIN: And we'll add some things in the post-hearing brief, as well, Mr. Corkran, because it is some sensitive confidential information. Thank you.

MR. CORKRAN: Thank you all, very much, for your time and for your appearance here today. I very much appreciate it.

MR. ASCIENZO: Thank you, very much, for all of those questions and answers. And I have a few follow-on questions. Let's start with employment. Mr. Corkran talked about employment a little bit and I am sorry for the numbers in the petition. We've heard about different companies laying off different numbers of workers. Do we have a sense for the approximate total numbers of employees that have been laid off?

MR. VAUGHN: Mr. Ascienzo, I think because that's going to get into questionnaire data, we would prefer to address that in the post-hearing. You know, one thing to keep in mind is that some of the conversations that - some of the numbers that have been used have referred to total employment at a particular mill and then one of the things that the Commission asked us to do is to allocate workers to people. I mean, I think it's fairly legitimate to argue that if a mill has gone down and the mill is down mainly because the lack of OCTG, that makes sense to consider the employment for the mill, as a whole. But, we can address that more in a post-hearing brief.

MR. SCHAGRIN: This is Roger Schagrin. The only comment I will make, Mr. Ascienzo, besides what we'll put in the post-conference brief is the nature of the questionnaires is that you had asked for an average number of PRWs in a quarter and I think given the rapid decline in this industry since January, there is no question that the average number for the first quarter is going to be probably two or three or four times as many workers as are presently working, because when you have layoffs occurring in February or March, you'll still have some average workers. Now, you have a lot of mills that have closed in April. So, we will try in the post-hearing brief to give you a sense of, as of Monday, May 4th, or as of tomorrow, April 30th, how many workers are either still working, which would be easier to count because they're so few of them, or how many workers are on layoff. But, I think you will find that the data we give you on employment in our post-conference briefs is going to be dramatically lower than the number of PRW report on average for Q-1 2009.

The only other thing I would talk about with workers, Mr. Ascienzo, is Ms. Hart was the legislative director of USW, has to get to a meeting on Capitol Hill. So, I don't know if you had any other specific questions for her. But, she's got to represent her workers right now on Capitol Hill unlike us. So, I would ask that she either be asked any additional questions now or we can do it in the post-conference or that possibly she be excused.

MR. ASCIENZO: I don't have any questions. Does any - no. Thank you, very much.

MR. SCHAGRIN: Thank you. We appreciate that.

MR. ASCIENZO: Let's see. Let's turn to Exhibit 8, page 8, in the exhibit. We have months of OCTG and U.S. inventories. And I assume that's inventory divided by rig count or something like that. Is the rig count - did I hear testimony earlier that the amount of OCTG per rig is increasing because of the drill depth? Does anyone want to comment on that?

MR. VAUGHN: Mr. Ascienzo, I'll just comment on the first part of your question. This figure constitutes rig count divided by operator consumption; in other words, how much OCTG is actually being consumed in a given month divided by the current rig count - I'm sorry, how much OCTG is in inventory divided by how much OCTG was consumed in a particular month. So, that's how we did it.

MR. JARDON: Two comments to make. Mike Jardon with V&M. So, yes, the consumption - excuse me, the months of inventory does take into account rig count, as well as a consumption per rig. We have seen historically, particularly since 2002, 2003, with the increase in natural gas drilling activity, that the consumption per rig has increased. We, also, see that today with more efficient rigs, different types of rigs that have come on line within the U.S. market. So, consumption per rig has increased and that ties into the months of inventory.

MR. ASCIENZO: Thank you. Now, I turn to page five and it said the price effective subject imports is significant. And the third point says, "since September of 2008, the average spot price for all OCTG has fallen by over $1,000 per ton." To the extent you can, what is the approximate percentage of spot versus long term? What percentage of the market is made up by spot, let's put it that way?

MR. THOMPSON: I think with regard to specific pricing and the reference to how we're seeing prices fall currently, I think we can address that specifically in post-hearing briefs. Rest assured that is not an overstatement of what's happening. far as spot versus contract from a pricing standpoint, quite frankly, relatively to our flat-rolled business, we view the tubular business as almost 100 percent spot.

MR. SCHAGRIN: Mr. Ascienzo, I think we'll comment further in our post-hearing brief, but it goes to this issue of programs. I think for a number of mills and a number of distributors, there are price arrangements made that will last for a quarter or two quarters and, therefore, I think, as I mentioned in my opening statement, that there is certainly a lag for a significant portion of the sales by this industry between the prices that are given at the time the shipment is made, for your purposes looking at quarter-by-quarter because that's how the Commission gathers pricing information, what was the volume of sales for a specific product in a quarter and which prices were attached to those sales, versus the amount that is just priced on what I would think of as true spot in other industries, saying we're just booking - we'll book an order now. If delivery is four weeks, that's the price you're going to get in four weeks. I think these programs that are worked out between producers and major distributors do create a significant lag in pricing of data for a very significant portion of the industry sales. And we'll address it further confidentially in our post-conference brief.

MR. THOMPSON: I would agree with Roger. With regard to the perception of spot, there is a lag in the business, just like we were - our results were slow in recognizing the increase in the first-half of last year. There's a carryover effect as to the strength in the second half of last year. You will probably see it through the first quarter. And so while each transaction is negotiated on a spot basis, based upon how far in advance they are placed, these orders are placed, there tends to be a lag as far as the realizing of those prices in the marketplace.

MR. BALKENENDE: Roland Balkenende. I would like also in the post-hearing to add a few more things to clarify that situation as well. But, because of some confidential nature of the case, I would like to do it in post-hearing.

MR. ASCIENZO: Staying on prices for a moment, as many of you have commented, the price has gone up significantly over time. Is this anywhere near a record price or just not even close? And I'm talking - of course, I'm talking AUVs. But, if you want to talk specific products -

MR. THOMPSON: Actually, on a real dollar basis, it's not at record level. I think prices were higher in the early 1980s on a real dollar basis.

MR. ASCIENZO: So, the oil and natural gas runup in the early 1980s, prices were higher. So, if any of you were around back then working in the field, is the falloff in orders now comparable to what happened back then? Is this much worse? Better?

MR. BARNES: This is Scott Barnes with TMK IPSCO, and I was around back then as a very young person in the boom and bust cycle. From 1980 to 1981, we saw the rig count, and this is why you can't compare the rig count historically to today, was over 4,500 rigs. We were very inefficient back then compared to today's technology. But, we did see a falloff in business. And obviously, my young age, I was not in the same level of management to appreciate all of the decisions that took place at the time. But from my recollection, we went through a period of adjustment and correction, but nothing as devastating as we're seeing today with every mill shut down almost at the same time or for the extended periods of shutdowns that we're in today.

MR. SCHAGRIN: Mr. Ascienzo, I was also around at that time. I had hair then. I didn't have a gray beard then. But, it was actually - I was starting in this field in 1982, which is just as everything collapsed, and I remember very vividly the

Commissions' three to two negative vote as to all pipe and tube products in the 201 case brought by Bethlehem and USW in May of 1984, based on their causes, very different from this Title VII case. And the Commission majority found that the collapse in the rig count from 4,500 to less than 1,000 was a greater cause of injury than the increase in imports.

But, I, also, remember back then that while there was a number of mill closures, particularly seamless mills, Armco had seamless mills in Texas they shut down, never to be resuscitated. I mean, they just completely shut down. The same was true with predecessor of North Start, I think was the Hughes - the Hunt, I'm sorry, the Hunt family, not the Hughes family, the Hunt family that had built that mill in Youngstown, that closed down, to be closed for several years. Companies like Babcock and Wilcox that were major producers in the industry with a number of mills went out of the business. So what seemed to happen was that some of the less efficient U.S. facilities during that big downturn in the early 1980s went out of business. But, certainly, there was never the massive shutdown of mills and ministerial operating rates at virtually every single mill in the industry as is occurring now. So, it seems to be very different. You can look at some of the same causes of problems and, of course, China was not a factor in the market at that time, which I think was somewhat helpful.

MR. VAUGHN: I would just like to make one other point about that decline in the 1980s. And I think, you know, the Commission - I've been to several of these OCTG hearings. I know several people here have. And I know that repeatedly at these hearings, the industry has talked about the cycles in the industry, how quickly things can turn down. What happened in the 1980s, I think, is sort of ingrained in everyone's mind. And I think it really goes back to that question of responsibility and responsible behavior by the foreign producers and what was likely to happen to this market if you just kept shipping in more and more and more and the possibility of this overhang developing the way it did. So, I just wanted to make that point.

MR. ASCIENZO: Thank you, very much. We've heard various testimony today about the months of usage in inventory. I've heard 12 months, 14 months, 16 months. When people are referring to that, were they talking about the Chinese product or all product? And if you're talking Chinese only, approximately -

you can estimate now or in your post-conference brief, how much total inventory - how many months of inventory total?

MR. DEWAN: I think what we're saying is that the total inventory basically right now is at 3.8 millions tons. And if we're looking at something in a range, it can be 2.4, 2.5 million tons. So, we're looking at something that could be in the 13- or 14-month range of total inventory. And if you look at as kind of a baseline, it's a four- to six-month kind of baseline. But, also, if we take a look at what's occurring in just the first quarter and a continued expected build, we could very easily end up as a total at 15 months, in that range.

MR. PRICE: Mr. Ascienzo, Alan Price, Wiley Rein. If you look at the way the Chinese product came in so rapidly at the end of this period in the fourth quarter of 2008, 1.1 million tons, another almost 600,000 tons in the first quarter, a very substantial chunk of this inventory now, this bloated inventory is Chinese product. Essentially, it was bought in speculation. It wasn't sold back to back, which is the way the importers often refer to it for specific jobs. So, it's just sitting there. And as this came in, essentially no orders were placed to the domestic mills and essentially they shut down. And so, it's a huge portion of the inventory. I'm not sure if anyone has an exact calculation of it, but I think most people would say it's a substantial share of it and it's what brought everything largely out of line.

And to just tie it further, we have this inventory problem. It's largely in the commodity common sizes, most typically used grades out there. It's going to take a long time to work that off. I'm going to this issue of intent and this issue that Mr. Lighthizer had mentioned earlier. The Chinese producers have said, outside of the context of their questionnaire responses, they want to ship more. They have no other purpose for their mills other than to ship more here. They've tried to downplay what they want to ship and continue to ship in the U.S. in their questionnaires, the few that have sent them. Even if you looked at their projected volumes, take out what they've already shipped this year, they're basically saying the U.S. industry is going to stay largely shut down for the next two years, because they don't plan on letting up. Whatever little consumption is going to be left in the marketplace, they plan on taking a very large share of it.

MR. SCHAGRIN: Mr. Ascienzo, Roger Schagrin.

I would just like to clarify in response to your question. Our understanding of the inventory data that everyone is using, our understanding is certain of the OCTG information reporting companies do contacts with distributors of OCTG to get information from them as to what their inventory levels are. They did not then ask the questions as to the composition of inventory. So, one, we can't give you a very specific answer because we don't have access to that information and it's our understanding it's not gathered that way as to what share of the current 3.8 million tons held by distributors is of U.S., Chinese, or other country origin.

On the other hand, it is also worth pointing out that to our knowledge, these reporting companies, be they Preston Pipe, OCTG Situational Report, and others, they would not contact importers or trading companies as to what inventories these companies might be holding at the docks in Houston. That's not part of the normal reporting base. So, to the extent that your importer questionnaire responses report imports of Chinese inventory of inventory of other imports being held in docks, warehouses, et cetera, that would actually be an addition to the inventory information that we have. And, of course, we will be analyzing that as we go through the importer responses and see what share of the imports from China are accounted for by your importer responses. But, I hope that clarifies our ability to get information from the available databases about inventories, composition of inventories, and then what has to be added to it, which are every imports held by importers, we do not believe is in the databases that we have already presented to you.

MR. HAUSMAN: I'd like to perhaps answer the question in a slightly different way. On the slides, this is Department of Commerce data, but last quarter of last year and the first quarter of this year, there's approximately 1.5 million tons of Chinese imports and inventories now - I mean, nobody knows exactly what they are, but I think the numbers that I've heard are approximately 2.5 million. So, I don't think really - to an economist, one wouldn't want to go and say did that actually - is that actually Chinese origin or is that actually U.S. origin. The real question is with the Chinese stuff coming in, that meant that more U.S. stuff went in inventory, as well. You know, people are going to consume pipe and what they don't consume is going to go into inventory. So, anyway, just as a sort of ballpark estimate, if you take 1.5 million tons coming in, in the fourth quarter and first quarter, divided by 2.5 million, it's about 60 percent, if I did it right, and that explains all of the amount beyond normal inventory. You've heard that normal inventory is four to six months. Current inventory is 14 months. So, in some sense, I'm not saying if you went out into yards, you know, would be literally Chinese pipe. What I'm saying is, is that if you look at the increase from normal inventory, it can be explained by Chinese imports. And, of course, the fourth quarter is exactly when things started to turn down. So, the Chinese stuff kept coming in, "1.5 million." It explains a good deal and one could even argue it explains all of the amount of inventory above "normal levels."

MR. ASCIENZO: Thank you, very much. Let's see, Mr. Horan, I think in your testimony, and actually that Mr. Price just mentioned, commodity OCTG, and I think, Mr. Horan, you talked about commodity versus high end. Can you explain what you mean by commodity versus high end and give us an estimate of the approximate percentage in the U.S. market of each?

MR. HORAN: As far as the estimate in the marketplace I think probably we can get you better data in the post-brief. Commodity typically refers to the carbon - or I should say the non-heat treat product. The higher-end products are heat treated and used for paper applications or different environments. That's not to say that the Chinese don't compete in those markets, because they do, and I think that we may hear later, you know, we're trying to take the low end of the market or the commodity end of the market. U.S. Steel manufactures the entire range and, therefore, we can't be relegated to just the high end. We have to have to access to the market, so that we can produce the entire range.

MR. ASCIENZO: Sir?

MR. LINDGREN: Mr. Ascienzo, Roger Lindgren from V&M Star. It's our view that 85 percent of the OCTG that we produce is in a commodity. We produce the common grades P1-10 and so forth and so on. We consider them commodities.

MR. ASCIENZO: I'm sorry, did you say 85?

MR. LINDGREN: Eighty-five - at least 85.

MR. SCHAGRIN: And just to clarify, given my knowledge, everything that V&M Star does is heat treated. So, they actually consider it 85 percent of what they make to be commodity products and then we've got all of the carbon grades, where I think everybody produces all them. So, if you put it together, well over 90 percent of the entire U.S. market are basically commodity grades. It's very, very few highly specialized grades at the top of the market.

MR. ASCIENZO: Thank you, which brings me, I guess, to my final question. Rely on Mr. Durling's opening comment, I think he said the industry has operating margins of about 32 percent last year and maybe 24 percent the first quarter of this year. I think those were his numbers. I've been hearing about the inventories and I understand and I understand the shutdowns and I understand the unemployment. But, how do we explain the way the 24 percent operating margin when we're talking about injury?

MR. LIGHTHIZER: I was going to say in the first instance, in the first, in the first quarter, you have substantial reductions in volume. You have this price lag effect, which means you have a certain amount of profitability. You have the fact that in the course of the quarter, you're taking a period, which is beginning a serious decline in a period then which is in real decline, which is where we are right now. And I think the combination of those three factors give you kind of a misperception that they're actually is, by traditional standards - if this was another quarter, if we were going to quarter after quarter like this, then you could make a reasonable argument that we're not presently being injured. We would still be threatened with injury. But, the fact is for these reasons, we think that where we are right now indicates that we're about dead in the water. I would say that's number one.

Number two, if you look at the earnings calls of just about everybody around here, they are predicting actual losses in the second quarter, including U.S. Steel.

The other thing, in the introduction, and I got this sort of impression that somehow we're in tall cotton in the steel industry, I should point out that our CEO had a earnings call yesterday and announced that we had $439 billion in losses in that quarter. So, the idea - -if you're sitting there thinking, wow, this is a great time to be in steel, let me tell you, that is not the case. The fact is that that number is misleading. And even with that number, we would have been better if it wasn't for the fact that Chinese came in here and just absolutely dumped and subsidized steel into our market. So, I'm glad you brought that up, because that will be what they're going to say and the fact is, it's very misleading and it certainly doesn't change any of the pictures that are behind you or the picture that shows every single plant in America that makes this product is either completely idled or operating at below 30 percent right now, as we sit here. And when we say below 30 percent, that's just - it could be five or six percent that it's operating it. I mean, we are dead regardless of what happened. Because of a lag in pricing in January, we're dead right now.

MR. SCHAGRIN: Mr. Ascienzo, Roger Schagrin. Specifically answer your question, which was how do we, when we're looking at injury, "we," speaking for the Commission, look at 24 percent operating margins and get to an affirmative injury determination, I don't think we have to explain the profitability in terms of injury, because the statute directs the Commission to look at a group of statutory factors in determining injury. The Commission is directed by statute and then amendment in the 1988 Act, Congress actually required, which they hadn't done previously, the Commission address each statutory injury factor in each determination. And those include looking at market share, production, shipments, capacity utilization, employment factors, as well as profitability, as well as capital investments and ability to reinvest. And I would say that on any measure other than profitability, and I'll get to profitability again, if you look at this industry in the first quarter of 2009 compared to the first quarter of 2008, you will see dramatic decreases in capacity utilization, production, shipments, employment, all employment indicators, in market share. And to contrast the reductions of 40 to 50 percent in all of these production indicators for the domestic industry, you'll have imports from China more than doubling, as compared to the first-quarter of 2008.

For me, based on my history of practicing before this Commission, that is a perfectly well supported by substantial evidence on the record, affirmative preliminary determination of a reasonable indication of injury to this industry. As to - and then, of course, you have to look at pricing. You look at underselling. You look at price impact. And very often profitability and price impact do get connected. Of course, you have to look at lost sales and lost revenues, as well. I do believe that the pricing in this industry -- and OCTG is just a part of the steel industry and Professor Hausman has done a lot of work in the past, as he referenced on price lags in response to import competition that is going on in this industry. But, I think that will demonstrate to you in our post-conference brief. I know that this was contained also in the sections to the pricing entries and the questionnaires. OCTG certainly is compared to other segments of the pipe and tube industry. Standard pipe, there's no programs. Line pipe, there's a little bit. Structural and ornamental tubing is virtually none. OCTG has traditionally, and I think this goes back quite a while, had this type of program between producers and the distributors. And I think that really is the explanation for the lag in profitability. And I think all of these gentlemen today, without getting into confidential information, Mr. Lighthizer referenced the U.S. Steel conference call. You know, I put in my opening statement, I know this industry pretty well. We represent five different producers in this industry. This industry is going to lose money next quarter. I mean, we're sitting here at the beginning of - the end of April, the beginning of May, unfortunately, this industry is going to lose money in the second quarter and this industry is probably going to lose money in the third quarter and it's a little tough to look further than that. But, I think that really explains the injury story pretty well for this Commission.

MR. VAUGHN: I would just like to follow-up with those points. I think that the injury story really for this case, to be honest, is much more dramatic than the injury story that your normally hear in a lot of these cases. I mean, the typical injury case before the Commission is, you know, we're losing money and we'd like to get relief because of that. Here, you're having serious conversations about plants just being shut down. And we've heard testimony throughout this hearing of the possibility of plants being shutdown permanently, jobs being lost permanently, large segments of the industry simply disappearing. I mean, this is not a question of are people just going to lose money. This is a question of is there going to be a domestic OCTG industry and how large is that industry still going to be. So, I think in terms - the statute clearly gives you the authority to take into account a type of volume first injury, which is what we're seeing here, where the imports come in and just take away all orders, and then the falling prices and the operating losses come after that. And I think that when you look at the severity of the problems facing the industry, it's as severe as any case that I can remember.

MR. ASCIENZO: Thank you, very much, for those answers. Just kind of a follow on, so it is my - tell me if my understanding is correct. Let's assume the 24 percent, the operating margin is correct. Is the operating margin relatively high because these are simply orders that were made last year or were these orders placed in February or sold in March? Or how does that work?

MR. THOMPSON: I think to follow up what Roger said, these were orders that were placed in the fourth quarter at fourth quarters levels, carried in the first quarter. I think we would like to address some in the post-hearing briefs to show the specifics of what we're talking about. I think very clearly it will show you that as we started to book orders that were reflective of the first quarter business is when we - we did not make 24 percent volumes on those orders in the first quarter. The margins that we made were more reflective of carryover from the fourth quarter, just as we didn't realize the full benefits of this market we were in really until the third quarter, if you look at our performance last year. There's a lag time that allowed us to reap some of the benefits from the fourth quarter than in the first quarter.

MR. SCHAGRIN: Mr. Ascienzo, we'll put that in confidentially. But, yes, we would say that for certain producers in this industry, probably all of their first quarter sales were priced in the fourth quarter. As to how much volume to be shipped of specific products, that might have been worked out during this quarter. But the prices were established with the customers during the fourth quarter, not during the first quarter. To the extent that, as has been in some of the charts and with sensitivity for antitrust reasons, the pricing - there's a lot of information in the various reports about pricing falling in the first quarter, as compared to the fourth quarter. That will be reflected in shipments made. That's to the extent there are shipments made in the second quarter.

I mean, that's the other odd thing about pricing. Maybe Professor Hausman has more views on that. You know, somehow, I guess it's almost like toxic assets - I won't get into it. I was thinking of - there's actually a lot of analogies to the way the Chinese participate in this market and toxic assets, because I think you heard these producers behaved responsibly during what might have been a bubble, whereas I think the Chinese performed a lot like AIG performed last year during the bubble. But, just like where there is toxic assets, sometimes it's tough for a market to find its price, if you don't have sales occurring. And that may, in fact, happen in this OCTG market. I mean, if you don't have distributors, and I think these two distributors here, they may go a whole quarter without placing any orders. So, how does Sooner and Premier establish what pricing is in the marketplace in the second quarter, if they haven't even placed a single order in the quarter? But, that's a different issue. But without doubt, pricing is falling, falling rather dramatically. Producers must compete, not just with the Chinese, but they have to compete with inventory here, and that's a very tough competitor when you have that much inventory on the ground. They're really competing against inventories.

MR. SHOAFF: Just to add to that from the distributor standpoint, our first quarter is similar to what you're hearing. We had a good profitable first quarter, but it was carryover from fourth quarter bookings that were agreed upon and committed to at a particular positive margin pricing. But what we've booked in first quarter is very, very little. We've booked very few orders with our manufacturers. And any new business, which is virtually nonexistent, but if there is an order here or there that we're booking, it's at a minimum, minimum margin. But the biggest thing we're dealing with is possible write down of these huge inventories. We've got -- just as much as you talk about the price per ton being strong in first quarter, well, guess what, our price per inventory per ton is strong, too, and that has fallen because of all of these imports. So, we're looking at - my gosh, we could be looking at as much as 50, 60 percent write downs on certain products that's currently in our inventory and we're talking hundreds of millions of inventories the distributors carry in this marketplace. That's absolutely devastating. So, that's what we're dealing with.

MR. HAUSMAN: Just as a basic calculation, there is a slide that said price had fallen by $1,000. I think it was the second or third slide. I guess I'm not supposed to say what the unit values are here in public, but I would say that that $1,000 is just going to come out of profitability. Let's just take a number that I won't go to jail if I say, so let's say it's 40 to 50 percent of the price. Okay, so you figure out what the margin is, you subtract that off, you still have the cost of production. You know what's going to happen to the margins, both gross margins and operating margins, just as a matter of basic arithmetic. So, if prices come down by $1,000, if margins were 24 percent, I can guarantee you if price comes down by a half, margins are going to go down by more than a half. So, that would imply that margins would be less than 10 percent, if they're positive.

MR. DORN: This is Scott Dorn, U.S. Steel. One further comment on that topic is, you know, we acted responsibly when we saw the market conditions start to change in regards to the first quarter. There was a carryover issue. There's also the velocity of the change that took place in the first quarter, which we can address in the post-hearing brief. And lastly, one thing we had to do was take as much cost out of the system as we could as quickly as possible, and that's part of the responsible actions that were taken. And we can elaborate more on that also in the post-hearing brief.

MR. ASCIENZO: Thank you, very much, for those answers. Do any staff have any follow-on questions? Ioana Mic?

MS. MIC: Just a quick question on distribution of the material. I understand most sales are done through distributors and not directly from the factory to the customer; yes? Now, this even trade that we've been talking about, is this U.S. inventory in the U.S. distributors halls or are they - or do the importers use their own distributors and their own inventories?

MR. DEWAN: Well, the inventory would be in total. But, where the inventory would be would be primarily with the distributors of the material. In other words, would some of the Chinese have different distributors? Yes, they would have different distributors. But were this inventory is primarily, there is some with the mills, but it's primarily with the distributors.

MS. MIC: Okay. So, walk me through the mechanics.

MR. BALKENENDE: Just theoretically, there are three possible areas of inventories. That can be with distribution, can be with manufacturers, and it can be with operators. And the inventory is the combination of the three.

MR. THOMPSON: I'd also say there's probably in this market, there's probably a fourth category and that is unaccounted for on the docks that importers of record are holding. You can call some of these people distributors; but, quite frankly, they just, as John alluded to earlier, they just bought pipe and it's sitting on the docks or sitting in pipe yards in Houston unsold and being offered at lower and lower prices on a weekly basis.

MR. PRICE: Ala Price, Wiley Rein. In a number of steel cases, we have found - we literally have come in with pictures of inventory like this and the importers all claim they have no inventory. The distributors claim they have no inventory. And the inventory of the imports are just sitting on the docks, as they are here. So, there is the reported inventories that are often kept track by Preston and that is in distribution. But when you have these importers here, who bring in product, no one knows who is owning the title at any one point. Sometimes, you see creativity questionnaire responses go on also among the import community. The inventory can be hard to calculate in its totality. But when you look at the pictures - I mean, Houston is literally drowning with inventory of Chinese product all throughout the pipe yards and then on the sides of streets, because in some of it, they can't put in the pipe yards anymore. So, the inventories are substantial. They're huge. We suspect it's not even all accounted for in the official data sets that we have available to us.

MS. MIC: I guess I'm just trying to see where this irresponsible activities are taking place. Who are they really by. I mean, do the distributors purchase this material from U.S. and foreign producers and put them in their yards and then wait for shipments for orders? I'm not really following.

MR. DEWAN: Yes. We purchase from Mill Rollings and then basically what we do with that material is that we put it into our inventory to service those end user customers at a later date. And, normally, we would place those orders 90 days in advance, in terms of delivery. And then like I said, we will work with our end users from a forecast standpoint and we will ship material according to their needs on the programs that we have.

MS. MIC: Okay. Yes?

MR. VAUGHN: Yes. I think - I mean, other people can jump in, I think I would just like to summarize some of the testimony that I think people have been trying to make. The chief irresponsible player in this was the Chinese mills. And what happened was this: those mills are subsidized by the Chinese Government and they were built to make and sell as much pipe as possible. They offered tremendous volumes of pipe to anyone, who was willing to buy it last year at prices that were far, far below market prices. And, therefore, in particular, there were speculators, who thought, well, they can buy this pipe and maybe the pipe will go up in value. But, that's not - the irresponsible behavior is with the Chinese mills, many of whom had not even been active in this market before and who were simply trying to get pipe out the door at any price, so that they could keep people employed in their home country. And that is the problem and that is the reason that the inventory has got to be so large. If these were normal profit maximizing companies, you wouldn't see 3.8 million tons sitting in inventory right now, because they wouldn't have offered it at prices where so much of it would have been sold.

MS. MIC: Okay. So, this irresponsibility goes - it's shared amongst also by people in the U.S. willing to pay really low prices.

MR. VAUGHN: No, I don't think - I think that the irresponsibility is in the person, who is selling unfairly traded steel into the United States.

MR. KAPLAN: You're going to hear an explanation that there was a shortage in the industry and that they served the shortage. And I ask you, what type of pricing behavior do you see from the marginal supplier when you have a shortage? You very seldom hear someone coming in below the market. It's always the other story, this guy came in from the shortage and gouged the market, charged way higher prices to these desperate people looking for product.

Here, you have the opposite. You have people coming in with very large volumes and very low prices. That's irresponsible in the sense of how products are typically priced when there's an alleged shortage. I haven't been in too many situations where - there's an old Monty Python sketch where the seller, you know, asks for $10 and the buyer asks for 12 and they move in opposite directions. And this is almost what you're seeing here, is the seller offering lower and lower prices and the buyer insisting on higher and higher prices. It's backwards. It's a situation where there's a supposed shortage and, yet, the marginal supplier is flooding the market at below market prices. That's irresponsible.

MR. VAUGHN: I think kind of the whole premise of these laws and kind of the whole thing that the Commission has looked at for years and years and year is if large volumes of product are being offered in this market at prices that are far, far below normal market prices, they will get sales and they will take sales. That's been recognized by this Commission for decades. And so the fact that there were people willing to buy dumped and subsidized steel, that's not a surprise to anybody. There's always been people willing to buy dumped and subsidized steel. But under the law, then the question for the Commission is, did the dumped and subsidized steel either cause or threaten to cause injury to the domestic mills. And what you're hearing from these witnesses is if not for the dumped and subsidized steel, all of these plants wouldn't be shut down. All of these order books wouldn't be totally flat. You wouldn't have the situation that you have. And that's why the causation and the responsibility lies with the parties that were offering this dumped and subsidized steel, not anyone else.

MR. PRICE: I would just add one more issue and we want to address the law right now. But, the Chinese questionnaire responses show there's a continued desire to sell more dumped and subsidized steel in the United States. This isn't even a, oh, we missed, which is again not - we had this problem. We over supplied. We're out of here. Well, they want to sell more. There's not a need for a single ton of Chinese steel for the rest of the year and probably not for 2010 at the rate things are going. And, yet, even with the massive undercount of questionnaires and the self-serving purposes of their projections, they're showing substantial volumes. The bottom line is, the Chinese Government built too much capacity. This capacity came on line over the last few years and it deployed itself quickly and rapidly into the U.S. market. And as Mr. Balkenende testified, there's really nowhere else for this capacity to go and they've said so in multiple locations. So, this industry has been injured and it's threatened with injury.

MS. MIC: Okay. Thank you, for your testimony. Thank you, very much.

MR. ASCIENZO: Thank you, very much, for the testimony and all of your answers to your questions. And with that, we'll take a break until, let's say, five after by that clock, so that's close to 10 minutes, and we will allow the Respondents to come forward and get ready. Thank you, very much.

(Whereupon, a short recess was taken.)

MR. ASCIENZO: Just tell me when you're ready.

MR. DURLING: We're ready to being when you are, Mr. Ascienzo.

MR. ASCIENZO: Thank you, very much. You may proceed when ready.

MR. DURLING: Good afternoon. For the record, I am James Durling with the law firm of Winston & Strawn, appearing today on behalf of the Chinese producers and exporters. We have two industry experts that will present testimony this afternoon. We don't have quite the army of witnesses, so there won't be quite the echo chamber that you heard this morning. But, I think our industry experts will help you get to the heart of what's really going on in this industry. Then, there will be presentations about present injury and presentations about threat of injury.

When you listen to our presentation, it will seem a lot more familiar, because we will try to stay within the traditional analytic framework that the Commission has used. We will look at volume effects, price effects, the adverse impact, if any, of imports in the industry. What was most remarkable to me was how little time was spent in the morning on the traditional framework. Now, I understand why. It's because the record, as it exist before the Commission today, the evidence that you have gathered, which is informed by your deep knowledge of the OCTG industry, it doesn't provide much support for them. So, they basically are looking for other ways to try to justify an affirmative determination.

We'll try and concentrate on facts. We'll try to avoid the speculation that was so rampant this morning. And with that, let me turn the floor over to Mike Jordan.

MR. JORDAN: Good morning. My name is Mike Jordan. I'm the CEO of Mike Jordan Company. My business is buying and selling oil country tubular goods and I've been doing this for 25 plus years. What I want to do today is to set the record straight about the U.S. oil country tubular goods market and the role of imports from China. Some things were said in the prior panel that are just not true.

Let's first start with something that I have a lot of experience with, how Chinese oil country tubular goods are bought and sold in the U.S. market and specifically what happened with Chinese OCTG in 2008. I'm confident that your team has reviewed the data for 2008 and understand that 2008 was a rather extraordinary year. But honestly, the raw data doesn't even begin to explain the demand for OCTG. In my 25 years in our industry, we've never seen a year like 2008. My guess is that from your prior work in this industry, you understand that oil and gas prices are what drives demand for OCTG. Very simply, when oil and gas prices increase, more companies undertake more exploration and, therefore, they utilize more rigs, which requires more oil country tubular good products. In 2008, oil and gas prices climbed and the rig count increased rapidly. From an already strong rig count in 2006 and 2007, in 2008, the rig count climbed even higher. Such a higher rig count meant that everyone, who supplies this industry with pipe, was scrambling to get enough for their customers. Exploration companies have made commitments to drilling companies. Contracts have been executed for these rigs to drill wells. As more rigs are put to work, the more need for OCTG.

These drilling rigs are contracted out on day rates. Whether you use these rigs or not, you're paying for them on a daily basis and, therefore, it's very expensive if there is a rig that has to wait for pipe deliveries. A lot of these land rigs in the last couple of years have been going for 25 to 30, $35,000 per day.

Two-thousand-eight was unprecedented. During that time, just about every phone call was a customer wanting to buy pipe. And if you didn't have the specific pipe that they wanted, they would immediately ask you about a substitute size or grade. Prior to 2008, this very seldom happened. If I didn't have or couldn't get the specific size requested, the customer would simply call someone else. In 2008, our customers put more demand on us to supply them with more oil country tubular goods.

Another clear example of the buying frenzy and the demand for OCTG product is the fact that several of the domestic OCTG distributors had to purchase Chinese pipe in 2008, because our domestic mills could not supply the quantity needed for their own distributors. There's no question that for most of 2008, these domestic mills had their own distributors on allocation and the quantity supplied by these mills was not nearly sufficient to meet the volumes that these distributors required to meet their demand. These distributors purchased some Chinese pipe to fill this void. I urge the ITC staff to contact these distributors and ask them to tell the truth.

I next want to address how the Chinese OCTG was sold in the U.S. market. The petition that was filed attempted to convey the impression that the Chinese mills simply produced a lot of oil country tubular goods and then ship the product to the United States in search of a buyer. That impression is wrong. It is totally false. It is not what happened. The truth is that all the Chinese OCTG that was shipped in the United States was bought and paid for before the ship arrived at the U.S. ports. I know because I'm the person that signed and executed these contracts.

I want to describe to you how a typical transaction worked. The first thing that happens is that I contact the Chinese mill that I have been doing business with, with a list of the oil country tubular goods that I was wanting to purchase. They'd give me price and they'd give me availability. Once we agreed on the price and availability, a contract was drawn up. Once the contract was signed, I had to wire 30 percent of the total price as a down payment for the order. After this price was produced and loaded on a ship, I would receive bills of lading showing what was loaded and that balance would be due within five days. All of this pipe was secured also by a letter of credit. The entire amount was paid for before it reached the ports in this country.

As importantly during 2008, all of the Chinese OCTG that I purchased was for ongoing project within end user customers. I did not bring in Chinese oil country tubular goods that did not have an intended home. Please also understand that during 2008, it took a good five months from placing the order with the Chinese mill until the products arrived in the United States. Product ordered in February didn't get here until July. Product ordered in August of 2008 didn't show up until January of 2009. And in some cases, orders did not arrive until six or seven months later because the demand was so high. It's important that you understand this timing lag when you examine the import data.

Even more incredible than the increase in the demand in 2008 was the dramatic disappearance of the demand in the fourth quarter of 2008. In the fourth quarter of 2008, our industry saw a tremendous drop in commodity prices. I've been buying and selling OCTG, as I mentioned, for 25 plus years and I've never seen such a dramatic and sudden drop in building activity. Our industry has seen some booms and busts, but 2008 was different. The collapse in drilling activity, best seen in the drop in the number of rigs that were shut down, was unprecedented. We went from extreme high demand to almost no demand in a blink of an eye. The demand for OCTG fell flat on its face.

Now, this is important, because you had a lot of Chinese OCTG that had already been bought and paid for and was on the water when demand dropped off. By the time the Chinese oil country tubular products arrived in early 2009, the programs for which this pipe had been purchased had been discontinued. You had no choice but to put this pipe into inventory. Everyone else had to do the same thing. Please understand the Chinese had nothing to do with the sudden collapse of demand. Commodity pricing collapsed and oil country tubular goods demand just disappeared when the rigs stopped operating.

Thank you and I'm now going to pass the microphone over to Coy Reece.

MR. REECE: Good afternoon. For the record, my name is Coy Reece. I'm the President of Texas Couplings LP. Texas Couplings LP is a manufacturing facility that converts couplings stock into couplings for API customers. I'm also the President of CKR Enterprises, which is an independent contractor that represents foreign OCTG producers and sells primarily into U.S. distribution.

My representation has, including placing sales for OCT producers in China, Brazil, India, Romania, and other countries over the last almost 30 years that I have been logged in the U.S. oil and gas sector. I have been involved in OCTG manufacturing, finishing of product, heat treating, all processing, purchasing, and selling in this last three decades. In the almost three decades I've been involved in this business, I have never seen what happened over the last 18 months in the OCTG market. Over that 18-month span, the market experienced all time highs for OCTG demand, unprecedented tight supply, record pricing, record profits for all players in the market. It mattered not if you were a producer, if you were a distributor, if you were a salesman. Everyone did very well, as we saw earlier.

Over the course of 2008, prices and volumes of OCT seen in the market increased very rapidly, very rapidly. I will give you an idea. In inquired to a Chinese mill the first part of 2008. At that point, I was given a 10-day window, in order to place an order. I had an order worth approximately six million dollars. Went to my customer, actually two customers, received an order for six million dollars between the two customers in five days. I went back, placed the order with the Chinese mill. They would not accept it and said they had to have a price increase. Now, this is the same thing that was happening in the domestic markets. The Chinese were no different. They were increasing the price, as fast as they could possibly do it. They were giving us 10 days to two-week windows to place orders with them prior to price increases.

The domestic prices, as I said, were also increasing at a very rapid pace. They had many price increases during 2008. I believe the last price increase they had during 2008 was actually in the month that the rig count began its decline, which I believe was in September of 2008. The Chinese mills, as Mr. Jordan had said, originally when I began selling the Chinese mills in 2004, 2003, we would have a 90-day lead time from placement of order until it was received into the U.S. So, about 120 days, somewhere, 90 to 120 days, we would receive back after placement of order. During the middle and the second half of 2008, those lead times changed from five months, six months, seven months. So, there was approximately a six- to seven-month lag between placement of order and receiving the pipe in the U.S. at the dock.

This trend of buying was not just over exuberance to bring pipe in. This was pipe in part required to support programs that could not be supported by some of the domestic mills. They would fall short in what they could produce for some of these operators and the Chinese pipe was used to supplement. During this time period, in the first six months of 2008, oil prices rose 55 percent and that put the operators in a frenzy of drilling and that rig count was continually climbing. If you go back to January of 2007 with the price of oil, there was an increase of 172 percent. No one saw an end to the price increases. Every available rig was at work. They were building rigs both in the U.S. and in China as fast as they could. Even through the end of September 2008, they were still frantically building rigs to put them to work. Operators could not get their hands on enough OCTG in grades necessary to keep all the rigs in continuous operation. That doesn't mean that there wasn't some excess of some grades. But, in some particular grades, due to the changing of the drilling techniques in the U.S. oil field, they could not get all of some of the required grades.

This gets to another point regarding OCTG availability. Overall, supply was tight; but in key alloy grades, OCTG supply shortage became so pronounced that in the summer of 2008, I know I was certainly called on by certain operators via my distribution network to help supply higher alloy steel that were necessary because some of the operators, some of the drilling contractors were circulating, waiting for pipe while they were drilling. So, they would be drilling. They would be ready for pipe. They could not find it. And they would be circulating, waiting for pipe. And that's very important, because that really shows that there is some kind of a shortage available.

And at this point, let me say, I think the U.S. distribution was running full out. They were doing everything they could do. And in the same vain, I think the Chinese were doing the same thing. So, I can see no fault on either side.

To be certain, this was not a market in which a domestic OCTG producers lost sales or profits. Any suggestion that domestic producers lost sales or profits is simply absurd. And I think we've already seen that this morning. In fact, domestic producers start with a significant home field advantage, given the risk associated with bringing pipe in from offshore. Timing is very critical in drilling the hole. You have to have OCTG on site ready to go into the hole with the proper footages, the proper grades, and the proper sizes necessary to complete the work on schedule or it will cost a lot of additional money, a lot of additional money. As we know, you can spend a million to $10 million drilling a well, including as much as $35,000 a day just for the day rate alone for the rig. Imports add another variable to this occasion that some operators or buyers or oil country tubular goods will not tolerate. For some operators, import risk and other biases against foreign material means that domestic OCTG producers effectively do have a captive consumption base that will not move away from domestic materials. They do; they always have; they always will.

I'm also quite certain that the vast majority of OCTG from China that entered the United States in 2008 was not driven by speculation or any need for Chinese mills to push pipe out, to push tonnage out. Most of the tonnage seen here in the U.S. was a result of back-to-back sells supported either by letter of credits or significant non-refundable deposits.

The tonnage was largely spoken for and committed to immediate use. Any inventories of Chinese products you see today are purely the results of the unprecedented increase in demand during 2008 and the equally unprecedented fall in demand in the latter part, in the fourth quarter of 2008.

Once you take into account four-month lag between order date and delivery, and that's a minimum four months -- that's if they're efficient, delivery dated Chinese product, it is very clear that we did not witness speculative buying. In fact, Chinese import orders declined before the most significant declines in the U.S. rig market. They did see it, they did know what was happening, and their shipments began to decline. This confirms that shipments from China were made to order in response to real demand in the United States, not perspective demand.

That was my experience in the market handling sales for Chinese material, and I believe it is consistent with the experience of other sellers such as myself, distribution, and operators.

For my last comment, I want to tell you about what I think is going on and what I think will happen for the rest of the year.

There's no question that because of the

collapse in demand, which was caused by the collapse of the pricing of oil and gas, we have excessive inventory. There's absolutely no doubt about that. It is important to note that the excess inventory includes both U.S. and imports.

I think all mills were caught equally off guard by the collapse in the demand in the fourth quarter of 2008. I believe even with the reduced demand, this inventory should work itself down to a normal level within approximately six months. Thank you very much for the opportunity.

MR. DURLING: For the record, I'm James During with the law firm, Winston & Strawn. The ITC always tries to frame its consideration of a case in the context of conditions of competition.

Fortunately for OCTG, you have a lot of experience with this industry, and our sense is that the prior Commission determinations do a pretty good job of framing the conditions of competition that this industry depends very much on commodity energy prices. That's what drives demand and that's what drives the ultimate performance of the industry; and it's a highly cyclical industry.

The one addendum I would add to that, the one new condition of competition, is that in 2009, both the boom was unprecedented and the bust was unprecedented. So the basic trend was the same. What you will as we go through our presentation is the magnitude of that cyclicality in 2008 and 2009 was far, far more dramatic than you were led to believe this morning.

Now normally we would start a discussion of current injury by looking at volume and price effects. But I have to say the most dramatic facts that we want to bring to your attention in this case have to do with the phenomenal performance in the domestic industry. Profits reflect the quantity being sold and the prices at which they're being sold. So in a sense, profit is a good proxy for other activity in the industry.

Now I've been in lots of steel hearings, and I don't think I've ever been in steel hearing where the domestic industry, in its affirmative presentation, had not one word to say about its financial performance. They always wait until they have at least some rating to show before they come and ask for relief. So I was a bit shocked this morning when there was not a word from them about their financial performance.

Well, when you look at the data, it's pretty clear why. Let's look at what their data shows. First, there are gross profits per ton that surged dramatically over the period. Note that we're reporting profit figures here that are for the domestic mills producing OCTG. The numbers might vary somewhat when you include the processors. But I think the basic trend and the order of magnitude will be the same.

Gross profits averaged 547 per ton over the 2006 to 2008 period of time. They hit record levels in 2008 and 2009, peaking at $857 per ton, and these are gross profits that are consistently higher than prior periods.

It's the same story with operating profits: consistently high over the period of investigation ; hitting a record level in 2008 at $665 per ton. It's the same story with the operating income as a percent of total sales.

This industry has just finished a fabulous -- not a fabulous 2008; but fabulous five year period. Operating income has averaged 27 percent over the period of investigation, 2006 to 2008. This average is higher than any other period in recent memory.

Operating income remained a strong 24 percent in early 2009; and as I noted in my opening comment, I think it's really rare for the Commission to see such a very high profit margin in a trade case involving steel, and certainly in a trade case where the domestic industry is claiming that they've been injured during a previous period of time.

These profitability figures may seem high. But you can't really appreciate just how high these numbers are without putting them in some historical context. Over the 10 years prior to the POI, the domestic industry earned about $2 billion in operating profit. If you just sum up the 10 years worth of data from your very comprehensive sunset review, you can see how much they made over that 10 year period.

In the first two years of this period, in 2006 and 2007, the domestic industry basically matched that 10 year figure. They earned about $1.8 billion in operating income. In the last year of the POI, 2008, the domestic industry again matched that 10 year total, earning a record $2.1 billion in operating income.

So think about that, in one year, they earned as much operating income as the entire decade prior to the POI. This morning you heard about, yes, 2008 was a good year. I beg to differ; 2008 was a phenomenal good year, when you look at it in the historical context of this industry.

So the key take-aways on domestic profitability are that the industry has consistently performed at a very strong level throughout the period of your investigation. The gross profits have been very strong. They've had record breaking operating income. I submit that it's really hard to see how this industry could claim that currently they are being injured in light of this incredible performance over the full period of investigation that you're considering in this case.

So why the record profits? Well, one key reason is, the volume was up strongly, with the domestic industry shipping a record $3.1 million tons of OCTG during 2008. The other reason is that it wasn't just record volume; but it was record demand. Quite simply, as you heard from the industry witnesses this morning, although in muted way, the domestic OCTG industry could not supply the market in 2008.

It was widely reported in the press that 2008 was the year of brutal shortages. Domestic distributors were in allocation. Domestic mills were running at or near capacity. Everyone was scrambling for pipe; especially at the tail end of 2008.

The domestic industry witnesses you heard this morning largely confirm this. They talked about pushing customers out over time. You're drilling a rig and you need pipe today, and the domestic mill is telling you, well, I'll get it to you in six months; or they weren't meeting the total quantity being ordered. You heard comments this comments this morning about, yes, well, we supplied our customers what they had always ordered.

You heard comments about, well, we were evaluating the quality of the order. People were placing orders. They were demanding pipe, and they were not able to get it.

Indeed, as late as September 2008, U.S. Steel was pushing through incredibly large price increases, and as one observer colorfully noted, the OCTG market was like a Middle Eastern Bazaar. This is September 2008.

Now there were imports from China during this period, and there's no question that imports from China and other foreign sources grew over the period of investigation. But this growth reflected imports meeting demand that was not being met by the domestic mills.

The domestic industry has never supplied this entire market; and we had unbelievably strong demand in 2008. So it was the shortages, the customers being put on allocation that triggered customer-led buying of imported OCTG.

Now let's talk a little bit more about the demand, because that is an important part of the story. Both domestic and foreign suppliers over this period were reacting to very strong demand, fueled by high oil and gas prices, and you'll hear more about that when we talk about threat in Dr. Prusa's presentation. Drilling activity was increasing significantly, and a 2008 rig count hit a record high.

But more importantly, and you heard this morning about more efficient rigs, there were more efficient rigs using more OCTG; but also, each rig digging deeper wells. Over the period, the number of wells increased, but so did the total amount of OCTG, because the wells were getting deeper and deeper.

So you have increasing rigs; you have deeper wells, and you have rigs operating more efficiently -- all of which mean that when you see this increase in the rig count, it is a more dramatic increase in demand than the domestic industry would have you believe. They were just looking at total rig counts and saying, oh, well, look it's not so bad.

The rigs are at something approximating a historic level. But that dramatically understates the extend to which there were demand swings during this period of time. So not surprisingly, the strong demand led to very strong prices for OCTG throughout the period.

This graph shows an average domestic price for the six pricing products, as reported by the domestic OCTG mills; kind of a blended average of all six pricing products. The individual products may vary somewhat, but I think the broad trends are illustrative.

So the average price of domestic OCTG increased in 2007 to $827 per ton. In 2008, the domestic price surged dramatically, particularly in the second half of the year, with the average price hitting $1,300 per ton.

The domestic price peaked in late 2008 and early 2009, at about $2,000 per ton. With all due respect, at whatever price level the Chinese were at in the market, if the domestic industry can drive up prices that high, that fast, the underselling is not having any adverse price effects. They're pumping out record volumes at record prices and earning record profit. That is not injurious volume or pricing from foreign sources.

The reason the prices were going up very high, they were going up much faster than the input costs. This slide compares the average domestic price of OCTG with the average price of hot rolled coil, which this morning you heard is the main feedstock for most of what the domestic industry is producing.

The price cost gap early in the period was about $200 per ton, which corresponded to good; but not spectacular profits earlier in the period, but very strong profits. In the second half of 2008, the price cost gap grew to more than $1,000 per ton. Now this is explaining why they had such phenomenal profits in 2008.

Now you heard this morning from Mr. Kaplan testify about, oh, well, if demand was tight, the Chinese would have been charging higher prices.

Well, I submit that this is incredibly strong evidence that the major supplier to the U.S. market was facing such unprecedented demand, that they were able to achieve this. They could not achieve this, and especially not in the face of the imports coming in from China and other markets, unless the demand in this period was phenomenal. This is very compelling evidence of what it was really like in the market in 2008.

So the key take-aways about domestic pricing is that over the period, prices were trending up sharply from the beginning of 2008. Prices have remained well, well above historical levels and well above costs, which explains the profitability; and the under-selling is not having any adverse effects.

Now earlier you heard about how low the Chinese prices were. Well, at whatever level the Chinese were, they were going up and following the same trend. This is the trend in Chinese prices which were up just like the domestic prices. This is an average AUV for all imports from China.

We haven't time yet to tabulate the specific Chinese prices in the questionnaire responses. But again using Customs' data, breaking it down by individual segments, you'll see the same basic trend for all of the major segments of OCTG. We didn't included welded tubing because the quantity was relatively small and not a material part of the story.

So all three segments are showing incredibly strong increases, which shows that the Chinese prices were simply not injurious during this period. Even if there was under-selling, both prices -- Chinese and domestic -- were increasing dramatically over the period, and note the increases of Chinese prices were particularly sharp for seamless casing, which was the largest single category of Chinese imports; and the U.S. market prices are increasing most dramatically when the Chinese volume is the highest.

So the U.S. prices remained significantly higher at the end of 2008 and even into 2009, than at any prior point in the period, which shows that there's basically no affect on domestic pricing.

The domestic industry would have the Commission believe that the surging volume of imports somehow caused the material injury; but that is just not true. The disconnect between imports and the condition of the industry can be seem in two ways. First, Chinese imports surged in 2008. They did increase in 2008, at the same time that the domestic mills were flat out and selling every single ton they could produce; and they were selling every single ton they could produce at record prices.

So if you look at this slide, the correlation between the Chinese import volume and the domestic price levels is an almost perfect 90 percent. So they're doing the best when the Chinese are actually the biggest presence in the market; which shows that the underlying economic reality is that domestic quantities, domestic prices, import volumes, and import prices are all reacting to the same thing in 2008. They're all reacting to the surge in demand in 2008.

It's even more telling if you compare operating income; and this is a very typical analysis the Commission goes through to try and understand the relationship of imports to the performance of the industry. The domestic industry did its very best in 2008, when imports from China hit their peak. So even with large quantities from China, in 2008, the domestic industry could achieve a record 32 percent operating margin.

Indeed, I submit, this is exactly the same fact pattern the Commission was facing in 2002, when once again, in a preliminary investigation, it was faced with a domestic request for relief; and the Commission noted that the imports and the operating performance in the industry had no relationship to each other. Based on that factor and many other factors, the Commission basically said, you know, this isn't a case for an affirmative determination.

So on current injury, before we turn to threat, I would just like to emphasize that by every measure, the domestic OCTG industry has never been as profitable as it was in 2008 and over the full period of investigation. They were shipping every ton they could in 2008.

Notwithstanding claims that there was excess capacity, I submit when you look at the complete record, when you look at the prices and the level of their shipments and the customer testimony and the press reports, whatever they're claiming their capacity was, they were flat out and they could not ship any more OCTG.

Just ask yourself the simple question. With so much demand and with such high prices, if they could have shipped more OCTG, why wouldn't they have shipped more OCTG? They were shipping everything they could.

OCTG prices were at record levels; both absolutely and relative to steel input prices. So the imports from China, on a current injury basis, were simply having no effect on prices or profits. Thank you, and with that, I'll turn the podium to Professor Prusa.

MR. PRUSA: Thank you very much. I'm going to spend the next 20 minutes or so talking about the fact that there's no threat of injury by reason of imports.

The OCTG industry has always been cyclical, with booms and busts. The OCTG industry is cyclical because the gas and oil industries are cyclical. But aa cyclical downturn is not vulnerability.

The OCTG industry has earned record profits over the past three years. So the industry is going into the current downturn in the strongest position ever. Strong profits have continued into the first quarter of 2009; al beit at somewhat lower volumes.

So here on this slide, what I have are the operating profits during the POI. Now Jim discussed earlier how profitable the industry has been during the POI, during the three year, four years; and in fact, arguably, the domestic industry has had its best five years, if you go back slightly before the POI in its history.

In the context of threat, I want to emphasize how profitable the industry was in the first quarter of 2009. As compared with first quarter 2008, the industry's profit margin almost doubled in the most recent quarter.

The most recent quarter is certainly a strong sign that the industry is not threatened by injury. In recent years, it's not unusual for the industry to have quarters so profitable.

What I want you now to consider is that the industry had mind boggling returns over the entire POI; over $4 billion in operating income, just since 2006. That was billion with a "B". That's more than double what the industry earned in the 10 years preceding 1996 through 2005.

As the Commission knows, OCTG is cyclical. It regularly experiences ups and downs; and the current cycle has nothing to do with imports. Unless the domestic industry's theory is that Chinese imports are behind the dramatic downturn in gas and oil prices, this downturn is caused by demand; not imports.

The question though I want you to think about is whether the industry is situated to weather current storm; and I think the answer is unambiguously yes.

Further to this point, just look at the industry's reported cash on hand over the POI. In 2008 alone, the industry reports more than a billion dollars in cash and accounts receivable on hand. It's hard to imagine an industry with this stock of funds, $4 billion in operating income, and over $1 billion in cash and accounts receivable, to claim that it's threatened with injury.

Now let's turn to prices. In order to

access threat for the OCTG industry, it's important to recognize that the industry's key demand driver is gas and oil prices. We need to take a look at where they are now, and where they are likely to be in the near future.

As seen here on the slide, gas and oil had a terrific run-up in 2008. Now prices have come down off their mid-2008 highs rather sharply, and that's an important part of this story that you have to understand to access why the market is where it is right now.

Nevertheless, gas and oil prices right now are high by historical standards. If you see on the chart, you can see that currently gas and oil prices are very similar to the levels they were in 2004; and that's a year where the industry reported an 18 percent operating profit margin.

Now where are gas prices going? Industry experts are actually bullish on the prices in the near future. Here we quote from a recent presentation by the largest producer of natural gas, Chesapeake. It's hard to find folks who know more about natural gas market dynamics than these folks.

Let's take a look at exactly what they said in April, just a few weeks ago. Chesapeake sees U.S.

natural gas prices averaging four to six dollars in 2009, and seven to nine dollars in 2010 and beyond. So their expert analysis is that gas prices are headed to the seven to nine dollar range in the near future, and that is going to a resurgence in the demand and a more rapid demand increase for the U.S. industry.

Let's now turn back to pricing again. Another factor for assessing whether threat is imminent is current pricing. As the pricing product data shows, the domestic industry was not only able to raise by $1,000 a ton in mid-2008 -- that was $1,000 a ton -- but it was able to maintain these high prices in the recent period.

As highlighted in this slide, domestic OCTG prices are down only by 10 percent from their 2008 highs; but they remain near record levels. Now it's true, OCTG prices are down. But the fall in prices in minuscule in comparison to the trends in other steel products.

Let's look at other steel products for comparison. So despite what the domestic industry suggests, the OCTG market is down far, far better than other steel markets. Look at the time periods from September to February: hot rolled coil down 49 percent; the price of cold rolled coil, 44 percent decrease; hot dipped galvanized, 41 percent; plat, 42 percent decrease. Again, as the questionnaire data reveals, OCTG price has only about a 10 percent reduction.

So here's where we are. The industry's quarter one 2009 profit margin is greater than it was in the banner year 2004. OCTG prices have remained very near their record levels. That's on the record.

The only threat the industry can point to is volume. The only adverse price trend that the Petitioners can identify is a decline in domestic volume. This trend, however, has nothing to do with the imports from China.

The adverse volume effect reflects several factors. First, all steel demand has been down dramatically. Two, there's a cyclical pattern to OCTG that makes the run-ups higher and the downside sharper. Three, the surge in demand in 2008 led to a surge in orders; and then we had this demand drop sharply, which has led to the inventory build-up. So I will show you that the inventory build-up is almost entirely due to demand.

Let's look at demand for all steel. We're not arguing that domestic output is down in quarter one in 2009. We're arguing with what it means for the threat of injury. To begin with, across the board, steel products are down since mid-2008. This is true across the entire spectrum of products: flat products, long products, tubular products, stainless products.

It's true for products with comprehensive import restraints. It's true for products without comprehensive imports restraints, and it's true for OCTG. This is the steel market in 2009. This is the economy in 2009.

The domestic industry's presentation suggests that the decrease in OCTG shipments is probative. It's not. As shown in the chart, on average, all steel production is down 55 percent since August 2008.

Let's review the determinants of OCTG demand, to understand this demand pole and inventory problem. First, as it seems like everyone this morning and this afternoon agrees, oil prices drive rig counts and then, in turn, rig counts drive OCTG demand.

Rig counts were up in the first half of 2008 sharply from an already very high level; and these rigs, as we have testified, can drill faster and be more easily moved from well to well. So the same number of rigs can create a lot more demand for OCTG than in the relatively recent past.

OCTG imports rose and fell with gas prices and drilling activity over this period. So now let's look up the run-up in oil and gas prices in 2008. I mean, this chart really has to be a part of the Commission's analysis.

To understand imports, you have to take into account the dramatic run-up in the forces that are driving OCTG demand; and then, conversely, the fall that happens remarkably quickly in mid-year 2008.

Now on the next chart, what I'll show you is that the rig count, which is the heavy solid line, really follows gas prices or oil prices. Here, just for convenience, I have oil price; and you can see that the rig counts peak just a little bit after oil prices peak. Then when oil prices fall, you can see this dramatic fall in rig count.

Now the same thing happens -- see, the rig counts drive demand in imports. Because we've had testimony, and there are plenty of press reports, that the domestic industry was running full-out mid-2008, raising OCTG prices by multiple of hundreds of dollars by a $1,000 a ton in a single quarter.

They were not able to produce more OCTG, in the face of the hottest gas and oil market in a generation or two. Buyers were scrambling to get their OCTG. Where they turned to was imports. Because the domestic industry was not able to supply the OCTG they needed.

So it's the surge in gas prices that drive a surge in rig activity that leads to this surge imports, because the domestics were tapped out.

So you can see in this next chart that imports follow oil and gas prices. So OCTG imports, in other words, are entirely demand driven. The U.S. industry got tapped out in 2008, and then there was a demand by U.S. purchasers. They wanted to drill holes when gas prices and oil prices were at record highs.

Now this chart shows that imports continued to enter the U.S. in significant volume in late 2008 and in early 2009, even through oil prices started to fall off in mid-2008. But you have to realize that the delivery lag between order and arrival of OCTG when you've ordered from China is four to six months; and it was a little bit longer in 2008 than normal, because of hot demand, and then the Beijing Olympics did lead to some reduction in Chinese production in the middle of the year.

So what happens is that imports react to the decrease in demand with a delay. So if you take into account when purchasers are ordering the Chinese OCTG, for to five to six months prior to their delivery when you see it on the import statistics, you can see in this chart that OCTG imports from China fall exactly when oil prices fall. The order stopped when the oil market and gas market stopped, okay? You can see that this fall in OCTG from China just went down completely in its demand driven imports.

Let's look at the next slide. This slide shows you subject volume from China; and you can see that the decline has been going on for months, just like the decline in oil prices. So the idea that all of a sudden China is going to ship more, China's demand is following the oil and gas prices.

So now the final question, which appears to be the major part of the domestic industry's threat issue, is that there's a lot of inventory in the market. So we've explained that the industry is incredibly profitable in the first quarter. They've had terrific operating margins. Their prices are high; that the volume of imports was mainly due to the lag and the dramatic downturn in prices.

So now let's look at inventories. There's two things I want emphasize here in the next couple of minutes on inventories. One is, you really need to interpret inventory not by tons; but by inventory months. That's really key. Because in the market, like in 2008, the same tonnage of inventory does not mean very much.

Number two, I will show you that the inventory overhang is almost entirely attributable to the decrease in demand. So now let's look at the inventory figures. I'm using the same data that were some questions about. This is the Preston data, which appears to be the best data on inventories on OCTG.

You can see that this slide shows you quarterly OCTG tonnage over the POI; and you can see that inventories -- the domestic industry had a similar slide -- is basically constant until mid-2008, and all of a sudden there's this big increase.

But what they failed to mention is that same tonnage, about 2.2 million tons, is not enough inventory for buyers; because again, that inventory is all sizes, all specifications. It's casing; it's tubing; it's alloy; it's carbon. In surge and demand, that's not enough to satisfy OCTG buyers. It creates a frenzy, because this stable inventory, in fact, is not giving buyers what they need.

Again, 2.2 million tons sounds like a lot.

But if you don't have the size or the chemistry that I need, allow product for an application, what you have in inventory is not helping.

So the way to think about it is, number of months of inventory. So as soon as one realizes that the huge demand run-up caused by oil price run-up in 2008 meant there is, in fact, inventory shortage.

Matt, let's try the next one. You can see that actually between the third and fourth quarter of 2007, the number of months of inventory actually fell really sharply; from over seven months to five and-a-half months. So buyers are panicking in the market, that there's not as much inventory in terms of what I really need, in terms of the tonnage I need to put a hole in Texas or wherever. So they're panicking.

So where they turn to is, they can't source domestically. They turn to imports. Then when you take into account that they can't source in the second quarter 2008 domestically when the market is super hot. They ordered second quarter; but it actually arrives in the fourth quarter. You can see that there's panic. They've got to get the tonnage.

Then by fourth quarter when it arrives, their desire to put it in a hole is decreased, because oil prices have collapsed. Okay, so now the question for you is, how do you attribute the inventory build-up to imports versus demand fall?

Well, it's not that hard. Because let's take a look at the next slide. What I have here is, you actually can look apparent domestic consumption over the long run, okay? So I'm using data from a series of ITC reports; and on the horizontal or X-axis, what I have is the price of oil. The same exact graph holds up if I had done natural gas prices.

You can see there's a real strong, just eye balling relationship between a apparent domestic consumption and oil prices. I mean, it's so strong, that what you really want to do is, you look it and your eye wants to draw a line. That's, in fact, what I've done.

Now we can do it a little bit more fancy by just drawing a line. You can use a statistical technique to draw the line; and that shaded area around the line gives you an idea of kind of how confident you are that apparent domestic consumption is going to be in that range.

You can see over this more than decade long period, the oil prices very accurately predict apparent domestic consumption.

So now let's take the next step. Let's

think of you as a buyer. You're trying to guess, how much OCTG am I going to need when oil prices are $100, $130, $140; or natural gas prices are $8, $8.50, $9?

So what you do is, you take this, and you can just extend out and say, what did people think they were going to need, in terms of demand for OCTG? You can see this is the production; and if we now overlaid on top of this, which I didn't have, but with the data that's now coming in on actual apparent domestic consumption, you can see that this simple prediction is actually incredibly accurate, okay?

So now let's think back to mid-2008, right before the market collapsed. What would demand have been that second half of 2008 and through first quarter 2009, had demand not collapsed? That's when the buyers were buying, thinking the oil prices and gas prices were going to stay where they were.

So let's now take this, and we can calculate what demand would have been; and take that demand on a monthly basis off the build-up in inventory. You can see here that had demand ran constant, you can see that inventory in the last two quarters would have not gone sharply up.

Again, look back to 2007, a year of, I would have said at the time, record profits; only to be surprised that 2008 was even more impressive; 2007 was a very good year. Inventory levels without the demand fall would have been significantly lower. I estimate 7.6 months, which compares very closely to 7.1 months, 6.9 months in the middle of 2007. You can see that virtually the entire build-up in OCTG inventory is attributable to the demand fall.

So what are my conclusions on threat of injury -- that there was record breaking and continuing extremely high profits for the industry. It means that the OCTG industry is not vulnerable. Record data shows that domestic prices continued to be very strong through the first quarter of 2009. The record also shows that imports from China have dropped sharply.

The domestic volume is down. But the decline is due to decrease in demand, which is the mind boggling decrease in oil prices and gas prices. Inventories, it's not very hard to dis-entangle the inventory build-up and realize that almost the entire inventory build-up is due to the demand decrease in late 2008 through 2009; thank you very much.

MR. DURLING: So what I hope our presentation has shown is that there really is a lot more going on in this industry than you heard this morning. The dynamics are more complicated than you were led to believe this morning.

What we've tried to do is take the record evidence before the Commission, and fit it within the traditional paradigm of how you look at these cases. We don't dispute that the economy is in the doldrums. I mean, who would not recognize that the economy is in the doldrums.

We do not dispute that production in the domestic steel industry is down. What we strongly, strongly dispute is that the decline in domestic OCTG production recently is caused by irresponsible imports from China; and we do not believe that the domestic industry is being threatened with injury.

Because they are coming off of incredibly strong years. Of all of the segments in the economy, of all of the segments in the steel industry, they are arguably among the best positioned to weather a cyclical downturn and the downturn in the economy now; and fundamentally, the imports from China are tracking the demand trend. I mean, it was a very dramatic decline, month after month after month after month.

You cannot assume that Chinese imports are going to increase. You heard a lot about that this morning. You cannot assume that they are going to increase, based on the pure speculation that you are offered this morning.

With that, I conclude our presentation. We would welcome your questions. If we have any residual time, the Chair can have it back.

MR. ASCIENZO: Thank you very much, gentlemen, for that informative presentation. We're going to start the questioning this afternoon with Mr. Ruggles, the investigator.

MR. RUGGLES: Good afternoon and thanks a lot -- I have just a couple of quick question. One, by any chance, can you get me the actual number of OCTG producers in China and what their production is during the period of investigation by each year and their capacity?

MR. PORTER: Are you asking beyond what we will submit in the forum question producer responses?

MR. RUGGLES: Yes, I'm asking for total in China. If you can go back to them and ask them, maybe they ask their government or whatever.

MR. PORTER: We will do what we can to get that information. I do note that the clients that we represent in this proceeding are the largest exporters to the United States of OCTG.

MR. RUGGLES: I understand. But if what

they said is correct that they are only 45, then there's a bit more out there.

MR. PORTER: That number is not correct. By my calculation, the clients that we represent account for north of 60 percent of exports to the United States.

MR. RUGGLES: Again, if you could just give me the total number of producers in there. Thank you, that's all I have.

MR. ASCIENZO: Thank you very much; we turn to Ioana Mic.

MS. MIC: Thank you very much for that presentation. You've answered my questions in your presentation. So I have none; thank you.

MR. ASCIENZO: Thank you very much; we turn to Mary Klir.

MR. DURLING: It's the advantage of staying within the traditional analytic paradigm. We get to anticipate your questions.

(Laughter.)

MR. ASCIENZO: Thank you very much; Mary has no questions. So we turn to Mr. Van Toai; no questions? Mr. Van Toai has no questions -- Mr. Corkran, the supervisor investigator?

MR. CORKRAN: Thank you very much, and thank you very much for your presentation. I found it very interesting and very thought provoking.

I'd like to start off with getting a little bit more of a feel for some of the purchasers here on our panel today. Can you give me a sense of the types of OCTG that you're dealing with? In particular, I'm interested in kind of seamless versus welded.

We talked a little bit about how the U.S. imports from China were more heavily weighted towards seamless pipe. I was just wondering about the types of pipe that you purchase. Is it both seamless and welded?

MR. JORDAN: Yes.

MR. REECE: I do not purchase. I sell. But primarily, 90 percent of the pipe that I have moved into the U.S. out of China in the last five years has been seamless -- seamless because we want to move to the higher alloys and stay away from the carbon grades with my sales effort.

MR. CORKRAN: Is that experience the same for both of you; that you've been seeing an increase in the alloy component of your sales?

MR. JORDAN: Yes, we also sell carbon grade products, also, Coy concentrates on the alloys. But we also get into the carbon grade, also.

MR. CORKRAN: And do you all typically bring product in that's plain end. I shouldn't say bring in. The OCTG from China that you handle, is that typically plain end or threaded and coupled when you get it?

MR. JORDAN: A little bit of both -- as time has gone on, I've brought in plain end material, for the simple reason, by the time it gets loaded at the mills in China, taken to a port, unloaded, it's bundled, loaded in the hulls of the ship, it's 45 to 50 days over there. Sometimes you experience some really rough weather.

When it gets to Houston, it may sit in the port for 10 or 12 days and then it's unloaded on cranes. There's a lot handling. So, therefore, you have some handling damage. Most of the time, you see this handling damage on the ends, where the pipe is threaded. So as time has gone on, I've brought in the pipe plain end, and I've threaded it over here.

MR. REECE: Primarily, I bring in finished goods and, of course, as I said in my report, you have a tremendous amount of damage.

Historically, I've brought in finished goods, done the inspections, had to do all the repair work; and it really makes sense to start bringing in more plain end.

MR. CORKRAN: So without getting into specifics, you make fairly generous use of some of the threading capacity that's located around Houston or elsewhere in the United States?

MR. REECE: Yes, we will use anywhere from seven to eight different vendors for threading. But primarily, at this point, for repair; and I'll let Mr. Jordon answer his.

MR. JORDAN: We have four or five companies that thread material for us, and several other companies that inspect material for us. Due to our bringing this material in from China, our main company that inspects material, we're about 50 percent of their business, and they have 400 employees. Another company has 120 employees, and we're 90 percent of their business.

You take into consideration the other services that we have in trucking and handling, there's a lot of people that we employ to thread and inspect and haul this material.

MR. CORKRAN: Thank you very much; I appreciate that. It gives me a much better sense of your operations.

I'd like to follow-up on a question that Mr.

Ruggles had. I think in terms of trying to get a handle on the universe of Chinese producers, there was a question about whether it's information that the government of China maintains, or if there's an industry coalition that maintains it.

One starting point that we have here is the API composite list. That, at least, identifies the number of facilities that are API certified as manufacturers of the product.

What is your sense though of that number of facilities? Do these tend to be companies that are primarily actually producing OCTG; or is this, for lack of a better word, an incidental certification that they've obtained?

MR. REECE: Yes, I'm familiar with the list of API producers, both 5L and 5CT. As far as answering your question with any validity at all, I can't do that.

MR. CORKRAN: Fair enough, I appreciate that.

MR. PORTER: Mr. Corkran, we do some work with the China Iron and Steel Association. We knew you wanted this, and we asked this question. They keep their data just on sort of seamless production, and don't break out OCTG. So we're going to try. But it's going to be a little bit hard to get, you know, the accuracy that you desire.

I would submit, though, while I've agreed that it is relevant and important, I think the most important is to examine the exporters to the United States.

One of the things that we may discuss or might want to discuss now if you like, you know, there's a big demand in China. So, you know, there's a whole lot of OCTG producers that do nothing but service the demand in China, as well as other export markets.

So, you know, what Petitioners are trying to do is to say, there are all these mills that make OCTG. But the relevant thing is, who is shipping to the United States?

That's why we get into, we believe that the coverage that you have now is comparable to coverage that you've had in other cases, in which you've made a final determination, essentially a negative determination and affirmative determination.

So I submit that you have before you the producers who ship to the United States, the largest exporters; and therefore, you have accurate data on their production, their capacity, and their shipments.

MR. DURLING: Just one follow-up point, Mr. Corkran, the person from Sooner testified earlier this morning that in light of the dramatic surge in demand in 2008, which everyone knows about and there's no dispute about the surge in demand, there may have been some suppliers that kind of entered the market briefly. Mr. Sooner's testimony was that they basically had left the market.

If you agree with our analysis, that in fact the domestic industry not being currently injured -- so if your analytic question is, what is going to happen in the future, the relevant question, if you're going to stay away from just kind of rank speculation, okay, who are the major producers, who has consistently shipped to the U.S., who is continuing to project shipments to the U.S.

I think on that frame of reference, the Chinese producers, with a kind of longer term interest in the U.S. market, we have pretty good coverage of that universe.

There may be some companies that have a API license on your list. They may or may not have shipped a few tons in 2008. But they're not really relevant to the statutory question of what evidence do you have now of kind of a real and imminent change in the condition of the industry; as opposed to, is there someone in China that has a license, and are they going to some day ship steel to the U.S. again. That, I would submit, is beyond the scope of statutorily proper threat analysis.

MR. CORKRAN: Thank you, I appreciate both the response and the analysis. I think one of the reasons, at least for me, why I was going down that path a little bit though was, given the testimony regarding new producers and given the trend in volume -- without assessing it qualitatively, but just looking at the increasing volume that was coming into the United States -- any information that we can get that kind of gets a sense of both the overall pictures, as well as the picture of the leading exporters, I think, is particularly helpful.

I actually had another question, too, that involves both Chinese mills; but it involves the United States, as well. It's a follow-up to a question that Mr. Van Toai asked this morning.

Is there anything else that you can share with us about the plans for opening facilities in the United States at least by two of the Chinese producers? Tianjin announced plans to build a pipe mill in Texas.

There's a second plan though by Wuxi to build in the Houston area. I was just wondering if there was anything that you could elaborate on, on either of those two projections?

MR. REECE: On the Wuxi or the WSP, as it's more commonly called, they have plans. They have purchased a 30 acre track with a facility that's about 10 acres under roof to begin production. Their production will include inspection and threading and heat treating of green tubes brought into the U.S.

That's pretty much phase one, two, and three. At some point then, financing available, the need being suitable, they could put in a piercing mill. Current plans are for heat treat, threading inspection. That has been started.

MR. CORKRAN: Thank you, I appreciate that. Where I was drawing the information from, it seemed to indicate that it was a processing operation, or at least the early phases were for a processing operation. It would source unfinished casing and tubing then from the Chinese parent?

MR. REECE: The actual plan, WSP as totally integrated. They have facilities in China for billets. I'm not sure how it would work. But it would be green tubes brought in from Indonesia, from

Vietnam, brought in to be processed in the U.S.

They would set up a new mill, in probably Vietnam. They've been negotiating it for some time. They knew this was coming. They've been working on this for two years. You know, they're not stupid. So he will move one of his mills potentially to Vietnam or Indonesia, and do the piercing there and bring it in, and have it finished here in the U.S.

MR. PORTER: With respect to TPCO, we will try to get you additional information in our post-conference submission. At present, I know of nothing that has altered the announcement that they made in Texas, I guess, the early part of this year about their, you know, sort of design to put a fully integrate mill in Corpus Christi, Texas. I know nothing about that, that the plans have changed. But we'll get more information in our post-conference submission.

MR. CORKRAN: Thank you very much; thank you both, that was very helpful. In terms of looking at the inventories that are currently being held in the United States, would it be a fair approach to look at, say, the relative volumes of U.S. shipments and U.S. imports on perhaps a monthly or a quarterly basis, based on maybe AISI or other data for the domestics and U.S. import data, to try to get an approximate sense of the composition of distributor inventories that are being held; or is that an approach that would likely yield unreliable information?

MR. PRUSA: I think if you do that, you're just guessing. I mean, we don't have a distributor here that can testify exactly how they allocate their inventories.

I mean, that is an approach. I agree. But there's no reason to think that it actually bears relationship with the inventory that's there. So I would be a little bit concerned.

MR. DURLING: Mr. Corkran, I mean, I agree, it's hard. We will think about it. If we come up with any ideas, we'll raise them in the post-conference.

What I'll just call your attention to was, this morning the representative from Sooner Steel testified that he imported basically to fill out his inventory. So it seemed that his basic philosophy was to kind of, you know, ship domestic steel.

I think if you were to talk to all the distributors and actually, you know, find out what their inventory was, that might give you some sense.

MR. PRUSA: Can I follow-up on what Jim just said? Right, so Sooner Steel gives the impression that your method would over-attribute the amount of inventory to China, if that's the case.

The other thing I'd say about inventory -- d I know you're not suggesting this -- but there's clearly huge variety in product type and inventory. So the other complicating factor is, you know, you say alloy and the sizes and in some applications, it needs to be seamless.

So knowing for sure exactly the amount of inventory, I don't know any inventory statistics for OCTG that give any kind of detail or breakout that you'd be able to then go look at. Because, I mean, HTS codes give us a much better sense of what came in versus what's exactly being held inventory. We just have an inventory tonnage. That could all be welded, and that would suggest then it's mostly domestic.

MR. CORKRAN: Thank you; those were all very fair points. While we're on inventories, one of the suggestions made in the presentation this morning was, you know, since you can even put aside the country of origin of the inventories that are being held now -- and I apologize if I've misrepresented the argument -- but it seemed to me that you can essentially attribute the large increase in the inventories to imports from

China, whether or not that increase is made up of Chinese products or not.

I was wondering if I could get a response or any thoughts on that, at any rate.

MR. PRUSA: I mean, it seems preposterous that without any sense of what the Chinese have brought in and the type of product that's being held inventory, whether the domestic mills had enough heat treating at the time in 2008 when these orders were coming in, and that might be what's held, the idea that well, it must all be China because, well, the import tonnage was this much and it's kind of about what I see.

That's ridiculous. That makes this industry seem like there's no product difference at all. That's one of the complications; natural gas pipe, sizes, et cetera, is not the same as the size of the oil pipe and the thickness. That's an incredible simplification that clearly ignores important market factors.

MR. PORTER: Let me just add a point, Mr. Corkran. I think we all agree that with the data that you have now -- and you're obviously on a very short time frame -- you're not going to get precision on the quantity of domestic versus quantity of import inventory. I think that's a given.

So then the question is, well, you know, is there other evidence that might get at whether there's an imbalance in the inventory between China and domestic, even assuming that's relevant?

And I think what you saw today, this afternoon, in their charts, the other evidence suggest the answer is no. Because when you take into account the lag, you saw that orders or Chinese shipments correlate exactly with demand. So because they correlated exactly with demand, you would not expect an imbalance in inventory.

If you didn't see that, if you saw that, in fact, what the domestics were claiming, which is not true, that the Chinese were shipping not in correlation with demand, then you could lead to a premise that perhaps there was more inventory from China. But because we have demonstrated that the orders correlate with demand, there's no basis to adopt that premise.

MR. DURLING: If I could just supplement that, it was really kind of a remarkable theory that you heard this morning; that basically under the domestic industry's theory, the Chinese basically, or imports in general, should either just completely stay out of the market entirely; or if they're in the market, basically, if there's a change in economic circumstance, they have to respond instantaneously, so they completely ignore the domestics lags.

I think what they would actually prefer is, even in a year like 2008, where there is unprecedented demand, an people are scrambling to get pipe, they'd be just as happy for the supply shortage to be worse and worse and worse, and for the prices to go higher and higher and higher, and the profits to go higher and higher and higher.

What's remarkable is that even with the relief to the market provided by imports in 2008, even with that, prices were up so far above costs, that they were able to achieve what they did. I shudder to think what the numbers would have looked like, if there had not been some relief to the market from imports, both from China and from other sources in 2008. You know, I found the whole presentation rather breathtaking.

MR. PRUSA: One more thing on the injury point, which is not directed towards your question. I think we really want to emphasize how important it is because this was certainly not conveyed this morning is the number of months of adjustment needed to get to normal. Normal is not zero tons of inventory. They give the suggestion that, well, there is a whole year of production out there. That's never been normal. Seven months is normal, and you get the impression from the industry people here that in many of these product grades we're talking inventory, excessive inventory, the overhang will be worked out within, you know, late summer. So this is not, you know, two years as someone said this morning of inventory overhang.

MR. CORKRAN: Thank you. I appreciate that.

Moving a little bit to pricing. For the purchasers on the panel, can you shed any, or can you make any additional comments on the issue of program sales. Is that something that you are involved in as well?

MR. JORDAN: Yes. I'm involved in program sales. Basically what you heard this morning a client will come to you, tell you how many wells he's going to drill over what period of time. You negotiate your tubular price, and they expect and they want you to stay with that price because everybody wants a fixed cost as to what they're going to be spending for these programs. And then over a period of time they expect you, at that price and to have that pipe available for them.

MR. CORKRAN: Thank you very much, and that has been a very informative presentation. I really appreciate all the time that you all have spent, and I have no further questions. Thanks again.

MR. ASCIENZO: Thank you very much. I have just a few follow-on questions, I think. I think the very last page of the presentation: "Conclusions of Threat of Injury," the second bullet is "Domestic prices continue to be very strong." That's kind of different than what I remember hearing this morning. Is this "domestic prices continue to be very strong," is that based on the first quarter of '09 or is that based on April 29, '09?

MR. PRUSA: Well, it's based on the evidence collected by the Commission from Petitioners. U.S. Steel does not price list to me. It would be great. They don't. So all I can do is rely on the data that you collected and the data you collected says prices are still very high. That's what I used.

MR. ASCIENZO: Okay, thank you. So you're talking first quarter '09?

MR. PRUSA: Right.

MR. ASCIENZO: Okay.

MR. PRUSA: The data submitted on the

record.

MR. ASCIENZO: On the record. Okay.

I asked some questions this morning about the approximate percentage of commodity versus high end, and I think the figure for the domestic market was like 85 to 90 percent. Is that about the same as what's coming in from China?

MR. REECE: Eight-five to 90 percent -- I think I may have smoked a cigarette. Eighty-five to 90 percent of the higher alloy to carbon?

MR. ASCIENZO: No, 85 to 90 percent was considered commodity OCTG versus say 10 to 15 percent high end.

MR. REECE: Okay. And it certainly depends on your definition of high alloy versus carbon, and out of the Chinese markets you'd have very large amounts of the heat-treated, the L-80, the L-81s, the high COPs, some Q-125s, and the vast majority of it coming in from China, let me restate that.

From what I do it's all heat-treated material that I actually bring into the U.S. There are some people that bring carbon in, and some of the mills that are -- will give testimony and information are high carbon users, but I can only address that at least 80 percent of what I'm aware of and what I help bring in is let's call it high alloy. It's heat-treated material, and I'm not sure if that answers your question.

MR. ASCIENZO: Yes, thank you. You can only answer to what your experience, so thank you very much.

We heard a lot of testimony this morning that the U.S. order books were down 94 percent, or a lot, a whole heck of a lot. To the extent you can comment on this, what are the Chinese order books like? Do we have any comments on theirs?

MR. PORTER: Are you talking about U.S. order books or total -- the total shipments?

MR. ASCIENZO: Well, Chinese order books, is there any information on that?

MR. PORTER: Again, in terms of order books, I don't know specifically we have provided that. What we have provided is the questionnaire asked for actions in various markets.

MR. ASCIENZO: Right.

MR. PORTER: And if you would like we can get order book information for those markets, but I think the projections obviously are some reflection of where they think the order books are going to be.

MR. ASCIENZO: Okay . Any other information that you can provide would be very helpful. Thank you.

And one last question, I think. Mr. Prusa, getting back to you. I think you were talking to Mr. Corkran about the months of usage in inventory, and I thought I heard this morning it was 12, 14, 16 months. Are you saying that that's a bit high?

MR. PRUSA: The data I had from Preston on a quarterly basis, yes, it was -- I don't know if they will be exact last month of data I had. I think it was something around 11 -- around 12 months. I thought in the last issue of Preston, Preston was reporting about 12 months of inventory. So that's my memory. I don't know exactly how they did their calculation. There was something some guy was talking about rig counts. All I know is that's what Preston does. So I would say it's about a year, and I calculated on a quarterly basis.

MR. ASCIENZO: Thank you very much.

Does anyone have any follow-on questions? Mr. Van Toai?

MR. VAN TOAI: Yes, I have a follow-up question.

Well, thank you very much for coming. Appreciate all the answers. My name is Norman Van

Toai. I am international trade analyst from the Office of Industries. Let me ask you a quick question regarding the effect of the stimulus plan of the Chinese government, particularly on the OCTG productions in China.

I understand that it's the fact that the stimulus side was only about $586 billion, but the part that were -- that are devoted to the steel and the steel industry in general is much higher than the one -- as compared to the stimulus plan in the United States. So could you please have some comments on it? How much does it affect the OCTG industry there and the production and the exports?

MR. JORDAN: Yes, we're actually looking a that right now. In our post-conference submission we hope to provide more information on the extent of the stimulus that will be going to oil and gas exploration, and we expect to see actually a fair amount which will, of course, indicate an increased demand for OCTG in China.

MR. ASCIENZO: Thank you very much. Any further questions?

(No response.)

MR. ASCIENZO: No further questions. With that let's take a -- I'm sorry. Thank you very much for your presentation and your answers to the questions. Thank you very much for coming here today, and we are going to take a 10-minute break, and then follow up with closing comments. Thank you very much.

(Whereupon, a short recess was taken.)

MR. ASCIENZO: Gentlemen, please proceed when ready.

MR. PRICE: Thank you, Mr. Ascienzo and the Commission staff. I'm going to give you two numbers to remember, 360,000 tons and 625,000 tons. I'm going to come back to those later.

As the Commission is aware, at this preliminary stage of an investigation the statute requires the Commission to ask whether there is a reasonable indication that the domestic industry is suffering from material injury or threats thereof by reason of subject imports.

The answer to this question in this case is an emphatic yes. As the evidence and testimony you have heard today indicates, the industry is shutting down. Workers are laid off. The few that are working are working minimal hours, and earning minimal wages. Production and shipments have been flat. Capacity utilization is a fraction of prior years. Capital expenditures have been reduced significantly, and for the first time ever the domestic industry accounts for less than 50 percent of total consumption.

While the industry was profitable in 2008 and the first quarter of 2009, the largest domestic producer, U.S. Steel announced yesterday that their tubular division will lose money in the second quarter due to the impact of Chinese imports.

It is not necessary for Chines OCTG imports to be the only or principal cause of material injury. They only need to be more than an immaterial or inconsequential cause of injury for an affirmative determination by the Commission. Given the massive inventory overhang caused by the Chinese OCTG, and production shutdowns that resulted from that inventory, there is no question that there is a reasonable indication that as of your vote day the Chinese imports are a cause of injury suffered by the domestic industry.

When the number of feet going down hole, which is real operator consumption, increased by 13 percent in 2008, and that's all it increased by, the Chinese used this as an excuse to flood the market, just like they have done in other pipe markets around the world, this surge was not demand driven. Actual operator demand simply did not increase enough to justify a 165 percent increase in Chinese OCTG imports in the second have of 2008.

As Mr. Balkenende testified, in order to prevent an inventory explosion the rig count would have had to have totaled 2,900 rigs in the fourth quarter or nearly 40 percent above peak drilling levels in 2008. This volume was injurious and irresponsible. It was not brought into support actual drilling, and based upon some of the testimony we heard from one of the Respondent witnesses, apparently some of it was financed by the Chinese mills.

After the financial crisis began, the domestic industry knew demand would decline and there would be though times ahead, but tough times are made worse by unprecedented volumes of Chines imports and the resulting inventory overhang. A similar historic rig counts, the domestic industry was not shutdown, the difference between then and now is the existence of these extraordinary volume of unfairly traded Chinese OCTGs. These volumes caused material injury and their impasse will unfold for more than a year to come.

Turning to threat, even a small volume of additional subsidized Chinese OCTG in this market will cause material injury to the domestic industry, the industry is basically shutdown. It's essentially not producing. Demand has declined to the point where inventories on the ground are sufficient to satisfy current demands for the next 12 to 15 months. Again, I guess the Respondents more or less agree with us on that, and much of this is Chinese inventory. Demand is not projected to recover for several years. Yet the Chinese producers who have filled out questionnaires and filed them, and those only represent a small fraction of Chinese supply project significant shipments for the remainder of this year, 360,000 tons in 2009, and 625,000 tons in 2010.

While we believe that these well-coached projections understate the actual future exports without import relief, these volumes will kill any recovery by the domestic industry before it even has a chance to begin. The U.S. industry shutdown. We don't need a single ton of additional imports from China in 2009 or 2010. We certainly don't need another 360,000 tons this year or 620,000 tons next year. They have confessed that there will be real and imminent future injury based upon the few questionnaire responses from the foreign produces that are on the record.

China will not back off. Despite claims to the contrary, much of the Chinese capacity has no home other than servicing the U.S. market. Demand in China is simply insufficient to absorb the massive capacity possessed by the Chinese mills. When they are not coached by their counsel, Chinese OCTG producers admit that the U.S. is their largest and most important market, and that they are currently operating at 50 percent capacity utilization, and don't have alternative markets.

Maybe this is why no Chinese producers are testifying. Apparently Wuxi is already working on circumventing this case. They need this market. They will not back off. Even with their underreported projections, there is a real and certain volume here that will cause injury. They have essentially told you that, and this volume that they have projected is entirely unnecessary given the minimal and nonexistent domestic production. They said they are going to take every single sale that this industry could produce going forward.

Thank you.

MR. VAUGHN: I'm Stephen Vaughn representing U.S. Steel. I would just like to make a few points.

First,the other side acts as though operating margin is the only measure of injury, but

Congress is smarter than that. Congress recognized that material injury can take many forms, and so it instructed the Commission to evaluate all relevant economic factors, including declines in outputs, sales, market share, productivity, capacity utilization, as well as negative effects on employment, wages and growth. In short, the law plainly requires the Commission to properly consider the time of material injury the domestic industry as suffered here, and an injury that results from a collapse in orders due to inventory overhang, and that initially takes the form of shutdowns and layoffs.

As you have heard today, hundreds of people have lost their job. Practically every mill in the United States is either shutdown or running at extremely low levels, and there are virtually no orders going forward. It would be absurd for the Commission to disregard this powerful evidence of injury merely because the first quarter data reflects the lingering effects of last year's higher pricing.

Second, I just want to pick up on a point that Alan made, which is that you do not have and apparently will not receive questionnaire data from an enormous percentage of an enormous industry. When this case is finished, you will have -- the testimony this morning was they represented approximately 60 percent of the exports. Even if that's true, that means that companies accounting for 40 percent of he exports into this market, close to a million tons last year, will give you no capacity data, no production data, no projected exports to the U.S., no projected exports to other countries. How can the Commission possibly find that China represents no threat to the United States going forward when you have no information on such a vast and unknown panoply of players?

Finally, listen to the implication of what they are saying. They have argued that everything would be fine if demand had stayed strong. We totally disagree with this. As you heard this morning, the volume that they shipped was literally unsustainable. Even if rig counts had remained at September 2008 levels, Chinese imports would have significantly oversupplied the market. But let's think about this more.

Under their view foreign producers could simply pour as much dumped and subsidized imports as possible into any strong market and then disclaim all responsibility for injury whenever there was a market downturn. But that is not how our law works. If you ship huge volumes of unfairly traded goods into a cyclical market and those goods cause injury in the course of the business cycle, you are responsible for that injury.

Thank you.

MR. HAUSMANN: I just have three quick responses to Professor Prusa.

First, on page 34 of the Winston & Strawn presentation, and in his explanation, he quoted one person, saying that natural gas prices would be seven to nine dollars in 2010. I am sure Ms. Mic, your economist, will tell you that economists look at markets, not just the one outlying person who is maybe trying to build up his stock.

So what I did instead was I went to the EIA, the Energy Information Agency, and I also went to the NYMEX which has an actively traded market in natural gas because the NYMEX and EIA say the average price in 2010 is going to be about $5.50, not seven to nine dollars.

So if Dr. Prusa really believes what he says, I think he should borrow a lot of money from Bank of America and speculate on NYMEX and really become rich; nothing like becoming a rich professor.

So I say he's just picked one outlying

observation and he cherry-picked it, and markets are saying different, and I am sure that Ms. Mic will tell you that you should trust markets rather than just one self-interested observer.

Second, they are still importing. They admitted that, and everybody agrees there is significant overhand in inventory, and we can argue about how many months it is, but it's still there. So we know that the U.S. plants are pretty much shutdown. Any imports that may come in are going to injure the U.S. industry because the U.S. industry is producing nothing. If the imports didn't come in, the U.S. would produce more. There is going to be some demand out there, but it is going to take six to 12 to 18 months, you know, to work off that inventory. So if imports come in, as I understand the law, if they are below what price they should be, that means they are unfairly traded. That means it's going to injure the U.S. industry.

MR. ASCIENZO: Could you please wrap it up? Thank you.

MR. HAUSMAN: And then the last point is is this question about, you know, the percentage that was asked of inventories. Well, if you look at Dr. Prusa's page 42, you can see that the imports peak in

November of 2008, and there is this big run-up. So if you look at how much the U.S. produced and how much was imported, page 4 of the Skadden presentation, you will see that about 58 percent was Chinese imports.

So unless these imports are so special that they were all sold and it's only U.S. stock in inventories, one would conclude that some are between probably 50 and 60 percent of current inventories are due to Chinese imports.

Thank you.

MR. ASCIENZO: Thank you very much gentlemen.

Mr. Porter, sir. If you'd like, you have two extra minutes to go up to 12. Thank you.

MR. PORTER: Thank you. I don't think we will need the time. Needless to say we attempted to respond to their presentation in our presentation, so I just want to go over a few things that we may not have addressed.

First, I want to talk a little bit about what I call false comparisons. The other side repeated over and over that they compared the increase from China to their increase in 2008, and somehow it wasn't fair that the Chinese increased more. But what we've heard, of course, was that the domestics were capped out, and so necessarily the increase from other sources would be more if they are starting from a lower base and had the capacity to ship more. So again, this idea of a false comparison doesn't seem to work.

Next comment, Professor Hausman made the comment that basic economics, that when imports come in the supply curve shifts out and prices are lower. With all due respect, Professor Hausman has not looked at this market. Imports came in in 2008, and yet domestic prices increased, increased, increased some more. So again the OCTG market was different.

The other point I wanted to make is you heard a lot about underselling. Under the trade law, underselling by itself is not a sin. Underselling is only a problem if it has price effect. The Commission typically looks at price depression and price suppression. There was no price suppression because, as I just said, domestic prices increased time and time again in the face of the imports. There was no price suppression because domestic was able to increase prices beyond their increase in raw material costs. So again the fact of underselling in this particular case is not very relevant.

Next, Skip Herald talked about an important measure of health is the ability to invest in equipment and manufacturing processes in the future. We agree. That's why we think you should look at the billion dollars that they accumulated over the last -- actually four billion dollars they accumulated over the last few years that they to invest in equipment and manufacturing even in the face of the downturn.

Let me talk a couple of things about threat. First, on page 18, they attempted to put a chart which showed that the U.S. market for OCTG is by far the largest market in the world. Little trouble with this chart though, it cites Baker-Hughes, and everyone knows that Baker-Hughes' data does not include China or Russia, two huge oil and gas markets, and indeed you will see from the questionnaire responses that the Chinese market for OCTG is quite large, which leads to the next point which is on page 19 of their chart.

They make a big deal about -- actually I don't know what period of time this is because it's not labeled, but for some period of time they have calculated that the total exports by the Chinese mills 60 some percent went to the United States. Again, that's not very relevant. The question is of their total shipments, what it is, and you will see from the questionnaire response that exports to the United

States by the mills and which accounts for the largest exporters are only 10 to 20 percent of total shipment; that is, shipments to the United States were only 10 to 20 percent of their total shipments that they made.

Another point, Mr. Kaplan, I'm not exactly sure what he was getting at when he was talking about timing, and it seems to me that his comments reflect a real sort of inconsistent approach that they have in talking about the effects of imports from China.

On the one hand they try really hard to look at the quantity of imports in a particular quarter in a particular month. The suggestion is that in that month that's when they are having their effects. Yet Mr. Kaplan then tried to say, well, you know, we want to have volume effect in November but not price effect until February. You can't do that. The effect is when the import product is sold. And so either you are going to have an effect in November or you're going to have an effect in February. You can't have the same import have the two effects in different months.

Comment, Mr. Lighthizer pointed to the domestic industry's low capacity utilization as reported in the questionnaire responses as an indication of injury. With all due respect, I think you need to look askance at those numbers. By our calculations on an aggregated basis the domestic industry was showing about 60-63 percent capacity utilization for 2008, a period of time when every single industry observer, including their own witnesses, said they were tapped out. The customers were on allocation. So something is amiss if they are suggesting they have excess capacity in 2008, yet everyone knows in the market that they were tapped out. Something is not right with the number.

Next, again I guess it was Mr. Vaughn and Mr. Price tried to raise this issue of coverage. I submit that you have coverage from the Chinese mills that is comparable to many other cases in which you felt you've had sufficient information to render a final determination. This is on the final phase or the prelim. phase. You have all of the largest exporters before you. They have completed their questionnaire responses. We will, of course, get other information, but you have enough information about Chinese mills to make a determination.

Lastly, I want to make a comment about Mr. Lighthizer's opening and throughout his testimony. Mr. Lighthizer, I think I got this right, basically said that if there was no relief given you would see the destruction of the OCTG industry. I believe that was his words -- destruction of the OCTG industry.

I remind you, remind the Commissioners that his client -- U.S. Steel -- made a very similar claim in mid-2007 when they were here on the sunset case. They said if you allow the orders to sunset, our industry will face catastrophe. They will be in peril.

Well, the Commission allowed the order to sunset and then this industry, notwithstanding this prediction of his client, went on to make billions of dollars of profit. So I ask when you're speaking about their lawyer's argument and their claims of destruction you remember the prior history.

Thank you.

MR. ASCIENZO: Thank you very much. I note that I forgot to comment that the exhibit provided by the Respondent parties will be included as an exhibit to their transcript. Thank you.

On behalf of the Commission and the staff, I want 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, 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 Monday, May 4th. If briefs contain business proprietary information, a public version is due Tuesday, May 5th. The Commission has tentatively scheduled its vote on the investigations for May 22nd at 11:00 a.m. It will report its determinations to the Secretary of Commerce on May 26th. Commissioners' opinions will be transmitted to Commerce on June 2nd.

Thank you for coming today, and this conference is adjourned.

(Whereupon, at 3:10 p.m., the hearing in the above-entitled matter was concluded.)

//

//

//

//

//

//

//

//

//

//

//

//

CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Oil Country Tubular Goods

INVESTIGATION NO.: 701-TA-1159 & 731-TA-1159

HEARING DATE: April 29, 2009

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

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: 4/30/09

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Micah J. Gillett
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter