

UNITED STATES  
INTERNATIONAL TRADE COMMISSION

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In the Matter of:	)	
	)	
CERTAIN SEAMLESS CARBON AND	)	Investigation Nos.:
ALLOY STEEL STANDARD LINE	)	701-TA-469 and
AND PRESSURE PIPE FROM CHINA	)	731-TA-1168 (Preliminary)
	)	

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Wednesday,  
October 7, 2009

Main Hearing Room  
500 E Street, N.W.  
Washington, D.C.

The preliminary conference commenced, pursuant to notice, at 9:34 a.m., at the United States International Trade Commission, CATHY DEFILIPPO, Director of Investigations, presiding.

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I N D E X

	PAGE
OPENING STATEMENT OF JAMES C. HECHT, SKADDEN, ARPS, SLATE, MEAGHER AND FLOM	6
OPENING STATEMENT OF DONALD B. CAMERON, TROUTMAN SANDERS LLP	10
TESTIMONY OF GEORGE H. THOMPSON, GENERAL MANAGER - Commercial, Tubular Products, Inc. UNITED STATES STEEL TUBULAR PRODUCTS, INC.	21
TESTIMONY OF ROGER LINDGREN, PRESIDENT V&M STAR, L.P.	28
TESTIMONY OF CHRISTOPHER M. REITER, MANAGER - Commercial Standard & Line and Specialty Tubing UNITED STATES STEEL TUBULAR PRODUCTS, INC.	34
TESTIMONY OF JAMES DURHAM, PRESIDENT DIXIE PIPE SALES, INC.	37
TESTIMONY OF BOB GILLELAND, SENIOR VICE PRESIDENT EDGIN MURRAY	41
LINDA ANDROS, LEGISLATIVE REPRESENTATIVE United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union	44
TESTIMONY OF YVES POGNONEC, VICE PRESIDENT, Sales For Seamless Pipe V&M STAR, L.P.	51
CLOSING STATEMENT OF ROGER B. SCHAGRIN, SCHAGRIN ASSOCIATES	156
CLOSING STATEMENT OF STEPHEN P. VAUGHN, SKADDEN, ARPS, SLATE, MEAGHER AND FLOM	162
CLOSING STATEMENT OF DONALD B. CAMERON, TROUTMAN SANDERS LLP	165

P R O C E E D I N G S

(9:34 a.m.)

1  
2  
3 MS. DEFILIPPO: Good morning and welcome to  
4 the United States International Trade Commission's  
5 conference in connection with the preliminary phase of  
6 antidumping duty investigation Nos. 701-TA-469 and  
7 731-TA-1168 concerning imports of certain seamless  
8 carbon and alloy steel standard, line, and pressure  
9 pipe from China. My name is Cathy DeFilippo. I am  
10 the Commission's Director of Investigations and I will  
11 preside at this conference.

12 Among those present from the Commission  
13 Staff are from my far right: Douglas Corkran, the  
14 supervisory investigator; Joanna Lo, the investigator;  
15 Patrick Gallagher, the attorney/advisor; Clark  
16 Workman, the economist; Charles Yost, the auditor; and  
17 Alan Treat, the industry analyst. I understand the  
18 parties are aware of the time allocation. I would  
19 remind speakers not to refer in your remarks to  
20 business proprietary information and speak directly  
21 into the microphones. We also ask that you state your  
22 name and affiliation for the record before beginning  
23 your presentation.

24 Also, as a reminder if everyone could please  
25 turn off or silence their cell phones, that would be

1 helpful, thank you. Are there any questions? If not,  
2 welcome, Mr. Hecht. Please proceed with your opening  
3 statement.

4 MR. HECHT: Good morning. I would like to  
5 begin by congratulating Ms. DeFilippo. We understand  
6 this may be the first staff conference over which you  
7 have presided, and we certainly wish you the best in  
8 your new role. The facts of this case tell a  
9 straightforward and unfortunately all too familiar  
10 story in terms of unfair trade from China and the  
11 devastating impact it is having on an American  
12 industry.

13 A few years back, in the context of sunset  
14 reviews of orders, other orders on seamless pipe,  
15 industry witnesses described the emerging threat from  
16 subsidized and dumped product coming out of China.  
17 Witness after witness spoke in ominous terms about  
18 what this portended for U.S. and global markets,  
19 particularly as Chinese product became more and more  
20 accepted by end users.

21 As stark as that testimony was, I'm not sure  
22 anyone could have predicted the speed and severity  
23 with which Chinese imports could and would overrun  
24 this market, particularly in the wake of unusually  
25 strong demand conditions. Last year the same Chinese

1     seamless pipe industry that was flooding this market  
2     with OCTG was also pouring enormous volumes of  
3     seamless standard, line, and pressure pipe into the  
4     United States.

5             U.S. imports of the subject product from  
6     China soared from 172,000 tons in 2007 to 366,000 tons  
7     in 2008, an increase of over 112 percent. Most of  
8     this volume, almost 250,000 tons worth, entered during  
9     the last six months of the year. While 2008 was  
10    generally a strong year in terms of demand, the U.S.  
11    market simply could not handle such an enormous influx  
12    of supply in such a short period of time. By the end  
13    of the year domestic producers had seen their order  
14    books dry up, and distributors were faced with an  
15    unprecedented surge in inventories.

16            Unfortunately, with all the indications of a  
17    pending market disaster evident, unfair Chinese  
18    imports did not and have not stopped. In the first  
19    seven months of this year another 74,000 tons of  
20    subject imports from China have entered the United  
21    States, a figure more than twice total domestic  
22    shipments over the same period. In July alone, the  
23    United States imported over 7,000 tons of subject  
24    merchandise from China, and those imports carried an  
25    average unit value of only \$772 per ton, over \$1,000



1 per ton below market prices last summer.

2 Remember that these imports are coming into  
3 a market where domestic mills have been largely shut  
4 down or are operating at drastically reduced rates and  
5 where most of the industry's workforce has been laid  
6 off. Every additional ton of unfair trade from China  
7 is making it that much harder for domestic mills to  
8 resume normal operations, and is extending the time  
9 when hardworking Americans will be without a job  
10 through no fault of their own.

11 The evidence that Chinese imports threaten  
12 additional material injury is overwhelming and, we  
13 would submit, undeniable. To begin with, the sheer  
14 scale of China's production is staggering. Last year,  
15 Chinese mills produced by one estimate 22 million tons  
16 of all seamless tubular goods, including the subject  
17 product. The next largest producer was Russia with  
18 only 3.1 million tons of production.

19 In light of these facts, it is not  
20 surprising that the Chinese themselves recognize that  
21 their market is oversupplied. Nevertheless, they are  
22 in the midst of adding millions of tons in additional  
23 capacity. That new capacity will certainly be used to  
24 increase shipments to the United States, which is by  
25 far China's largest export market for the subject

1 product. Indeed, Chinese mills are running out of  
2 alternative markets, with their exports of seamless  
3 tubular goods now limited by trade relief in other  
4 markets like the E.U., Canada, and India. Meanwhile,  
5 poor economic conditions make it likely that demand  
6 will remain weak for some time.

7           To summarize, domestic producers are largely  
8 shut down or running at a fraction of their capacity  
9 and most of their workforce is laid off. Chinese  
10 imports have led to an unprecedented and crippling  
11 buildup in inventories. The same Chinese mills who  
12 ruined this market are sitting on massive amounts of  
13 unused seamless pipe capacity. Chinese mills are  
14 adding tremendous amounts of new capacity, and these  
15 mills have essentially nowhere else to go. Further  
16 material injury is not just imminent, but certain if  
17 unfair trade is not addressed in this market.

18           Indeed, it is hard to see how normal, market  
19 based competition can ever resume with a practically  
20 unlimited supply of dumped and subsidized pipe  
21 offshore that can destroy this market at any time.  
22 This is of course exactly what our laws were designed  
23 to address. We ask that the Commission extend relief  
24 to an industry already devastated by Chinese unfair  
25 trade practices and give it a chance to regroup and

1 recover in the days ahead. Thank you.

2 MS. DEFILIPPO: Thank you, Mr. Hecht. And  
3 now, Mr. Cameron please? Thank you.

4 MR. CAMERON: Don Cameron on behalf of  
5 Hengyang Valin. I am with Troutman Sanders. We would  
6 also like to add our congratulations to Ms. DeFilippo.  
7 Obviously the promotion is well justified, and  
8 congratulations, that's terrific. You know, we just  
9 heard today, this morning, five minutes ago, that this  
10 is a very straightforward story, slam bam, I don't  
11 even know why we're having this hearing. But  
12 actually, this is not the OCTG case, and this case is  
13 not that straightforward.

14 In fact, it's clear from the data that  
15 imports from China have not injured the U.S. industry  
16 whatsoever. And the reality is that those imports  
17 don't threaten the U.S. industry. Let's look at the  
18 facts of the case rather than the atmospherics, and  
19 let's also think about the record in the OCTG case and  
20 see whether this is really the same thing, because  
21 that's really what they're trying to suggest. The  
22 fact is it's not.

23 U.S. industry alleges that subject imports  
24 surged in 2008. Well, actually I think that that's  
25 really not that accurate. U.S. producers at that time

1 appear to have shifted as much production as possible  
2 to OCTG during the 2006 to 2008 period, and imports  
3 filled the gap. The surge in import was totally  
4 demand driven and had no impact on the U.S. producers.  
5 Imports from nonsubject sources and even U.S.  
6 producers increased as well.

7 I mean stand back for a second, exactly who  
8 was going to fill that 2008 demand if it weren't for  
9 the imports, and specifically imports from China? The  
10 domestic industry? In the OCTG case, this Commission  
11 found that OCTG production was allocated by U.S.  
12 producers. Do you really think that U.S. producers  
13 weren't allocating line pipe, seamless line pipe,  
14 seamless standard pipe, that's produced on the same  
15 mills, in that same period? I don't think so.

16 There were allocations, which is exactly the  
17 reason that people had to buy imports. And to suggest  
18 that there weren't, I think, defies reality. But you  
19 should ask them, because in the OCTG case, this  
20 Commission found that there were allocations, and  
21 they're producing this product on the same mills. In  
22 2009, imports from China declined more rapidly than  
23 imports from other sources. Is this what happened in  
24 OCTG?

25 In OCTG imports continued to come in at very

1 high levels after the market had gone down. In the  
2 case of the seamless pipe from China, the market  
3 turned down and so did imports from China. They  
4 turned down more rapidly than imports from other  
5 sources. U.S. producers allege that prices were  
6 depressed. Well, actually in 2008, prices couldn't  
7 have been stronger.

8 And this was in the year of peak imports  
9 from China and elsewhere. This is the year of peak  
10 Chinese import penetration. Well, what exactly  
11 happened if the United States industry is getting the  
12 highest prices that they can? In addition, sales  
13 volumes and AUVs were strong during that period.  
14 There is no evidence of price depression. Prices in  
15 the first half of 2009 appear to have improved, based  
16 on AUV data, and AUVs at the end of the period appear  
17 to have increased.

18 U.S. producers allege that prices were  
19 suppressed, but there's no evidence of price  
20 suppression on this record. Raw materials as a  
21 percentage of net sales appear to be flat in 2007 and  
22 2008 and have declined in 2009. U.S. producers allege  
23 that inventories have grown dramatically, but there's  
24 no evidence of that in this case. Domestic producer  
25 inventories do not appear to have increased, and

1 importer inventories are stable. This is nothing like  
2 what we saw in OCTG, and that's not coincidental.

3 Why is it that we had the inventory buildup  
4 in OCTG? Because imports continued at very high  
5 levels after the market had turned, and that is  
6 exactly not what happened in this case. U.S.  
7 producers argue that operating income declined. Okay,  
8 let's talk about operating income for a second.  
9 Operating income as a percentage of sales increased  
10 through 2008 when Chinese imports were at their  
11 highest and when Chinese market share peaked.

12 Just look at the OCTG case, and the OCTG is  
13 a useful tool because a lot of the same producers are  
14 producing the same pipe on the same mills. U.S.  
15 producers in OCTG achieved a 32 percent profitability  
16 in 2008, and since they're using the same facilities  
17 and it's a lot of the same producers, we suspect that  
18 there is a similar result in that case, we suspect  
19 that profitability in 2008 was strong.

20 Clearly sales have declined in 2009 due to  
21 the recession, but operating profits as a percentage  
22 of sales appear to have remained healthy in 2009,  
23 especially considering the condition of the overall  
24 economy. The performance of the U.S. industry in 2009  
25 is actually quite remarkable when viewed in the

1 context of the economy as a whole. Threat of injury,  
2 this industry is not vulnerable. The industry is  
3 profitable, AUVs remain strong. And they allege that  
4 Chinese producers continue to exert pressure, and  
5 frankly the data doesn't support that, we'll get into  
6 it. Thank you very much for your patience.

7 MS. DEFILIPPO: Thank you, Mr. Cameron.  
8 Next we'll hear from those in support of imposition of  
9 antidumping duties. Welcome, everyone, and thank you  
10 for being here today. Proceed when you're ready.

11 MR. VAUGHN: Thank you. I am Steven Vaughn  
12 representing U.S. Steel. Before turning to our  
13 industry and distributor witnesses, we would like to  
14 provide you with an overview of the critical facts in  
15 this case. There are five key points in this  
16 investigation. One, last year the U.S. market for  
17 seamless standard, line, and pressure pipe was  
18 overwhelmed by a tremendous surge of dumped and  
19 subsidized Chinese imports.

20 Two, because of the those imports the market  
21 was significantly oversupplied, leading to an enormous  
22 overhang of inventory. Three, because of this  
23 inventory, major distributors largely stopped buying  
24 the domestic like product last fall and have made very  
25 few domestic purchases for almost a year. Four, as a

1 result, domestic mills have suffered widespread  
2 shutdowns and layoffs. Five, Chinese mills remain  
3 very active in this market, and the threat of  
4 additional material injury is simply overwhelming.

5 The Commission's traditional factors support  
6 the finding of a single like product in this  
7 investigation. All of the subject pipe has similar  
8 physical characteristics and is employed in similar  
9 uses. There is no difference in interchangeability  
10 between small diameter and large diameter pipe.  
11 Interchangeability between all sizes of the subject  
12 product is equally limited.

13 All of the subject pipe is sold in the same  
14 channels of distribution. Customers and producers  
15 view all of the subject pipe as a single like product.  
16 There is a significant overlap in terms of production  
17 processes, inputs, and facilities where the subject  
18 product is made, and there are no clear dividing lines  
19 with regard to price. Now, here you see the surge of  
20 imports that wiped out this market.

21 In the fourth quarter of 2008 alone, the  
22 volume of U.S. imports from China was almost equal to  
23 the volume of total Chinese imports during all of  
24 2006. And here you see how China's imports compare to  
25 domestic shipments. These charts show that China's



1 market share grew over the period of investigation and  
2 that last year China's market share exceeded that of  
3 the entire domestic industry.

4 This year, Chinese imports are down from the  
5 incredible levels we saw in 2008, but that hardly  
6 means Chinese producers have left the market. They  
7 remain very active here, despite the fact that the  
8 U.S. market has been heavily oversupplied for some  
9 time. In fact, China's market share during the first  
10 half of 2009 was more than twice as great as that held  
11 by domestic mills.

12 In light of these facts, the Commission  
13 should have no problems finding that the likely volume  
14 of subject imports is significant. The likely price  
15 effects of subject imports are also significant. As  
16 we have detailed in our petitions, Chinese imports  
17 consistently undersell the domestic like product,  
18 often by hundreds of dollars per ton. Over the last  
19 year, the low prices offered by Chinese mills and the  
20 significant oversupply in this market have caused  
21 prices to plummet.

22 As you can see here, the most recent  
23 available data from the Preston Pipe and Tube Report  
24 indicates that prices fell \$300 to \$500 per ton from  
25 last August to this July. We believe that prices have

1     fallen further since that time. Moreover, prices will  
2     likely continue falling as distributors try to work  
3     off their inventories. Now let's look at the impact  
4     of subject imports on the domestic industry.

5             Here you see indexed numbers with respect to  
6     Petitioner's orders for domestic pipe. Last fall,  
7     distributors grew worried about oversupply and began  
8     slashing orders. This year, oversupply has made it  
9     almost impossible for domestic mills to obtain new  
10    orders. Not surprisingly, the lack of orders has had  
11    disastrous consequences for domestic producers. Here,  
12    again using indexed numbers, you can see that domestic  
13    shipments fell almost 80 percent from the first half  
14    of '08 to the first half of '09.

15            The collapse in volume led to a collapse in  
16    operating income. As you can see here, using indexed  
17    numbers, Petitioner's operating income plunged by over  
18    70 percent from the first half of '08 to the first  
19    half of '09. Furthermore, due to their lack of  
20    orders, domestic mills have been shut down for most of  
21    the year. Indeed, as the chart shows, most of the  
22    employees who make the domestic like product are out  
23    of work. This fact is compelling evidence that  
24    Chinese imports have had a significant impact on the  
25    domestic industry.

1           The next few slides make clear that Chinese  
2 imports constituted a unique and harmful factor in the  
3 market. Here for example you see that while there  
4 were imports from other countries in this market  
5 during 2008, no other country even approached China as  
6 a source of supply. And here you see that Chinese  
7 mills remained a dominant source of supply during the  
8 first half of 2009.

9           But the harmful impact of Chinese imports is  
10 not merely a function of their volume, it is also a  
11 function of their price. As this chart shows, Chinese  
12 imports have been consistently priced hundreds of  
13 dollars below imports from other countries. Notice  
14 that this year prices for imports from nonsubject  
15 countries have fluctuated but generally increased. By  
16 contrast, the average unit value of Chinese pipe has  
17 plunged in recent months, apparently because Chinese  
18 mills are cutting their price in a desperate attempt  
19 to increase sales.

20           Furthermore, the problems facing domestic  
21 mills cannot be blamed entirely on the current  
22 economic downturn. One of the major sources of demand  
23 for the pipe at issue here is the energy industry, and  
24 one can analyze conditions in that industry by looking  
25 at the rig count. As you can see here, while the rig

1 count has declined in 2009, it has simply returned to  
2 its historic average. It certainly has not fallen to  
3 the point where one would expect demand for domestic  
4 pipe to almost completely disappear.

5 Thus, changes in demand cannot fully explain  
6 the disaster that has befallen domestic producers. At  
7 the same time, however, the relative decline in the  
8 energy market, combined with the overall weakness in  
9 the U.S. economy, shows that domestic producers are  
10 highly vulnerable to additional material injury going  
11 forward. Now let us focus more closely on the severe  
12 threat from Chinese imports.

13 As you see here, China's production of all  
14 seamless tubular goods, including the seamless  
15 standard, line, and pressure pipe at issue here, rose  
16 by over 5.3 million tons from 2006 to 2008. This  
17 helps to explain the devastating increase in imports  
18 that has hit this market. On this slide you can see  
19 that while other major producing nations cut their  
20 overall production of seamless tubular goods,  
21 including the subject product, by double digit margins  
22 during the first part of 2009, Chinese production grew  
23 by 9 percent.

24 These facts compel the conclusion that  
25 Chinese mills are determined to make as much pipe as

1 possible regardless of clear market signals to the  
2 contrary. There is also no reason to believe that  
3 Chinese demand will be sufficient to use the enormous  
4 volume of seamless goods being produced within China.  
5 These recent quotes from China show that the Chinese  
6 themselves recognize that their market is oversupplied  
7 with seamless tubular products.

8               Nevertheless, China's policy of adding new  
9 capacity continues its apparently unstoppable pace.  
10 Our research has identified literally millions of tons  
11 of new capacity for seamless tubular goods that has  
12 been added or is scheduled to come on line between  
13 2008 and 2010. Here is a list of those projects,  
14 which we will discuss in more detail in our  
15 postconference brief.

16               Please note that even a small percentage of  
17 this capacity would enable Chinese mills to match the  
18 366,000 tons of subject product they shipped to the  
19 United States in 2008. And there can be no doubt that  
20 in the absence of trade relief, China will increase  
21 shipments to the United States. Where else can  
22 Chinese mills go? Their own market is oversupplied.  
23 As we have shown in the petitions, China faces  
24 significant trade relief with regard to its seamless  
25 tubular goods in a number of markets, including the

1 European Union, Canada, and India.

2 And as you can see here, the United States  
3 is the largest export market for the subject product.  
4 Under these circumstances, Chinese mills will be  
5 desperate to resume shipping large volumes to this  
6 market. In conclusion, domestic producers have  
7 certainly suffered material injury, as shown by their  
8 plummeting production, employment, and profits.

9 That injury can only be explained by the  
10 fact that a surge of Chinese imports led to a  
11 significant oversupply. Furthermore, there can be no  
12 doubt that additional Chinese imports threaten  
13 additional injury going forward. Under these  
14 circumstances, the Commission should reach affirmative  
15 determinations.

16 MR. THOMPSON: I'm George Thompson, General  
17 Manager, Commercial, Tubular Products for United  
18 States Steel Tubular Products. I'm here to testify  
19 about the ongoing crisis facing U.S. manufacturers of  
20 tubular steel products. That crisis is a direct  
21 result of the unfair and irresponsible behavior of  
22 Chinese producers who have buried this market in  
23 dumped and subsidized imports.

24 Only a few months ago, I testified about how  
25 this crisis has affected U.S. producers of oil country

1 tubular goods. Today, I am here to discuss how it has  
2 affected U.S. producers of seamless standard, line,  
3 and pressure pipe. In both instances, the cause our  
4 problems is the same. Unfairly traded imports from  
5 China have flooded this market far beyond its  
6 saturation point. And in both instances, trade relief  
7 is essential if this industry is going to survive in  
8 any recognizable form.

9           We recognize that a lot of work goes into  
10 these cases, particularly by members of the Commission  
11 staff. Please understand, however, that we are here  
12 out of necessity, not out of choice. Every domestic  
13 witness and distributor at this table would rather be  
14 back in the field selling pipes than testifying at a  
15 hearing. But this is an emergency. We have mills  
16 that have only operated at a small fraction of normal  
17 levels over the last six months. In fact, these mills  
18 have essentially been shut down.

19           We have hundreds of American workers who  
20 have been laid off for most of this year. And there  
21 is no end in sight at this point in time. We need  
22 trade relief from dumped and subsidized Chinese  
23 imports and we need it now. Last year started off  
24 very well for our seamless pipe operations with a  
25 solid order book and strong market conditions. These

1 conditions made it possible for us to obtain higher  
2 prices, and we significantly increased production from  
3 2007 levels.

4           Indeed, we even added a shift to our large  
5 diameter mill in Lorain, Ohio, which is a major  
6 commitment of the kind that we only undertake when we  
7 are reasonably confident that we have good long term  
8 market conditions to justify such a change. By last  
9 summer we were even giving serious consideration to  
10 adding another shift at our small diameter mill in  
11 Lorain. But by the fall of 2008 these generally  
12 favorable market conditions were being overwhelmed by  
13 the growing impact of Chinese imports.

14           In the first six months of 2008, U.S.  
15 imports from China averaged almost 20,000 tons per  
16 month, a striking increase from 2007 levels. In the  
17 second half of the year, however, Chinese imports  
18 averaged over 41,000 tons per month, an annual rate of  
19 almost 500,000 tons per year. To put that figure in  
20 context, Preston Pipe and Tube Report states that  
21 total U.S. shipments of seamless standard and line  
22 pipe in 2008 by all of the domestic mills were about  
23 331,000 tons. And that figure includes production of  
24 nonsubject pipe greater than 16 inches in outside  
25 diameter.



1           In other words, China's market share was  
2 greater than the entire domestic industry.  
3 Furthermore, those Chinese imports were priced so low  
4 as to be highly injurious to domestic producers.  
5 Throughout 2008, subsidized Chinese pipe was  
6 consistently priced hundreds of dollars below everyone  
7 else in the market, including imports from other  
8 countries. There is simply no good option for a  
9 domestic producer faced with such unfair practices.

10           If we don't slash our own prices in  
11 response, we will inevitably lose sales and market  
12 shares. But we've also learned from painful  
13 experience that no one can compete with the Chinese on  
14 price. If you cut your prices, they cut theirs even  
15 more. As a practical matter, therefore, we could only  
16 watch as Chinese imports kept coming in and Chinese  
17 mills took more and more of our market.

18           By last September, distributors were telling  
19 us that there was too much seamless pipe in the U.S.  
20 market, and they began cutting their own orders in  
21 response. In fact, the total volume of seamless pipe  
22 on our order books fell by 57 percent from the end of  
23 the second quarter to the end of the third quarter,  
24 just three months. Meanwhile, however, the rate of  
25 Chinese shipments actually increased over that time

1 period.

2 In the fourth quarter of 2008, U.S. imports  
3 of the subject product from China totaled almost  
4 149,000 tons, an annual pace of almost 600,000 tons  
5 per year. That massive tonnage on top of the  
6 significant volumes Chinese mills had already shipped  
7 here had devastating consequences. Distributor  
8 inventories soared to record levels and there were  
9 virtually no more orders to be had by domestic  
10 producers.

11 By the end of March, 2009, our order book  
12 was down over 83 percent from where it had been in  
13 June of 2008. We had to idle one of our mills at  
14 Lorain, Ohio, and we had to dramatically reduce  
15 production at our other Lorain facility as well as our  
16 mill in Fairfield, Alabama. That was over six months  
17 ago, and none of these facilities has consistently  
18 operated at anything approaching a normal level since,  
19 and we really don't see any improvement in the future.

20 That type of prolonged shutdown is extremely  
21 harmful to any manufacturer. Our customer  
22 relationships are disrupted and our employees seek  
23 jobs elsewhere. We have to spend money to keep idle  
24 facilities in ready condition so that the equipment  
25 will be ready to start up if necessary, and in fact

1 from time to time, in order to maintain a position in  
2 the market, we restart the facility in order to make a  
3 very small volume of pipe, perhaps in response to a  
4 single order in some cases.

5 This costs money and it's a highly  
6 inefficient way for us to operate. We then return to  
7 idle status, which costs even more money. We are  
8 managing this extremely difficult situation as best we  
9 can, but even our best options under these  
10 circumstances are very poor options. And make no  
11 mistakes, all of these problems were caused in large  
12 part by Chinese imports, not the current economic  
13 downturn.

14 There is no plausible economic scenario  
15 under any market condition where this market can  
16 absorb 149,000 tons of unfairly traded Chinese imports  
17 in a single quarter. Furthermore, we saw a  
18 significant decline in orders during the third  
19 quarter, well before the broader economic crisis  
20 began. Indeed, last year was generally a strong year  
21 for demand, and yet Chinese mills still overwhelmed  
22 our markets.

23 To turn this situation around we need trade  
24 relief. Reports from China indicate that the Chinese  
25 themselves recognize that they have too much seamless

1 pipe capacity. Incredibly, however, Chinese mills are  
2 adding millions of tons of new capacity, even a small  
3 percentage of which would be sufficient to swamp this  
4 market. Chinese producers are still extremely active  
5 here. Despite the enormous volume of pipe already in  
6 inventory, China continued to export pipe into the  
7 United States, 74,000 tons over the first seven months  
8 of the year, tonnage that must have gone into  
9 inventory as there is practically no demand for new  
10 product in the marketplace.

11 In short, even if market conditions were as  
12 strong as they were last year, Chinese excess capacity  
13 has become such a problem that Chinese imports would  
14 pose a dire threat to domestic mills. But market  
15 conditions are not good. We are in the midst of a  
16 severe economic contraction, and end users want much  
17 less seamless pipe than they did last year. In such a  
18 market, allowing Chinese mills unlimited access to  
19 this market will continue to have disastrous  
20 consequences, make no mistake about it.

21 Accordingly, we have come to this Commission  
22 seeking necessary trade relief. We need trade relief  
23 in order to allow the true market competition to  
24 return to give us a chance to recover from the injury  
25 we have already suffered and to avoid additional

1 injury going forward. I urge the Commission to grant  
2 such relief. Thank you very much.

3 MR. SCHAGRIN: This is Roger Schagrin of  
4 Schagrin Associates on behalf of V&M Star TMK IPSCO  
5 and USW. Before introducing Mr. Lindgren I just  
6 wanted to add to my colleagues' congratulations on the  
7 record, Ms. DeFilippo. I am so pleased that this  
8 Commission has been able to recruit a new Director of  
9 Investigations from within its extremely capable  
10 professional staff. And I wish you every success and  
11 hope a decade or so from now you will join the long  
12 list, or short list actually, of really excellent  
13 Directors of Investigations that we have had since the  
14 founding of this Commission. With that, I am pleased  
15 to introduce Roger Lindgren, the President of V&M  
16 Star.

17 MR. LINDGREN: Good morning, Ms. DeFilippo  
18 and members of the Commission staff. My name is Roger  
19 Lindgren, I am President of V&M Star. I have been in  
20 the steel industry for 40 years and have been the  
21 President of V&M Star since the March of 2003. You  
22 may recall that V&M purchased Northstar Tubulars and  
23 Manufacturing Facilities in July of 2002. I am  
24 accompanied today by Yves Pognonec, Vice President for  
25 Sales of Seamless Pipe. Yves has over 35 years

1 experience in the sales of seamless pipe.

2 V&M Star is an integrated producer of  
3 seamless standard, line, and pressure pipe. We  
4 produce these products entirely in our facility in  
5 Youngstown, Ohio, a devastated northern industrial  
6 city in which we are the largest private employer.  
7 Between 2006 and 2008 we invested approximately \$100  
8 million in order to expand our capacity and product  
9 range at this Youngstown facility.

10 Seamless standard, line, and pressure pipe,  
11 all of which we generally refer to as seamless line  
12 pipe, is usually multiple stenciled to line pipe,  
13 standard pipe, and pressure pipe specifications in  
14 order to benefit our distributor customers who sell  
15 these products into multiple end use markets. This is  
16 an extremely important product for V&M Star. We have  
17 traditionally allocated 20 percent of our rolling mill  
18 capacity to seamless line pipe.

19 Regardless of the demand for OCTG products,  
20 we do not shift production away from seamless line  
21 pipe. We are committed to this product and to our  
22 customers, and it helps us balance our mill capacity  
23 and our heat treat capacity for OCTG. Our seamless  
24 line pipe distributors, many of whom like Dixie Pipe,  
25 are not also OCTG distributors, and they know that

1 they can depend on V&M Star and our related V&M  
2 suppliers to meet their inventory needs.

3           Specific contract orders are a very small  
4 part of our seamless line pipe business. We generally  
5 produce this product to order for the distributors,  
6 and it is their job to inventory the products for end  
7 user markets. Unfairly traded imports from China have  
8 had a devastating impact on V&M's seamless line pipe  
9 business. Massive imports from China that began  
10 arriving in the third quarter of 2008 had an almost  
11 immediate impact on our order book.

12           As order books fell, production and shipment  
13 declines followed, and by the first quarter of this  
14 year, production levels had declined so far that we  
15 were forced to reduce a number of our workforce by  
16 more than 50 percent through layoffs and reduced work  
17 hours. These were the first layoffs in our history,  
18 in the Youngstown plant's history. But it was clear  
19 from the massive overinventory situation created by  
20 imports from China that there was simply no way to  
21 keep our workers occupied doing maintenance of other  
22 activities awaiting an upturn in production of these  
23 products.

24           Unlike what you may have read about upturns  
25 in the steel market for other products as distributors

1 had to finally restock inventory, that is certainly  
2 not the case in seamless line pipe. As Mr. Durham can  
3 corroborate, our market information is that  
4 distributors of seamless line pipe are sitting on  
5 massive amounts of inventory, largely of Chinese  
6 products. There is simply no need for those  
7 distributors to place new orders with domestic mills  
8 for delivery of a product in 30 to 60 days.

9           Seamless line pipe from China meeting the  
10 same specifications and in the same sizes is available  
11 tomorrow from other distributors or from Chinese mills  
12 or trading companies that have their own inventory at  
13 the Houston port. These Chinese imports are being and  
14 have been sold at extremely low prices compared to  
15 prevailing market prices. While our first half data  
16 may reflect some relatively high prices from products  
17 produced and invoiced just after the beginning of this  
18 year from orders that were placed last year, I can  
19 tell you that the effect of the Chinese import pricing  
20 on domestic prices has been very severe.

21           The few orders that are being placed with us  
22 today reflect severely depressed price levels compared  
23 to last year's prices. As has been previously  
24 mentioned in today's conference, the United States is  
25 not the only market that is experiencing injury



1       because of a subsidized and dumped Chinese seamless  
2       pipe. The massive overcapacity for seamless pipe  
3       production in China, which now could furnish the  
4       entire U.S. demand, appears to be causing problems  
5       throughout the world.

6               Our related companies in Europe,  
7       Valarakimanisman, joined with other European producers  
8       in 2008 in an antidumping case on seamless pipe and  
9       tube imports from China which included all seamless  
10      standard, line, and pressure pipe. In August of 2009,  
11      the E.U. imposed antidumping duties on imports from  
12      China ranging from 18 to 39 percent. Mexico and  
13      India, two other major markets, have just begun new  
14      investigations.

15             Yves can tell you that V&M sees Chinese  
16      competition in markets throughout the world. Many of  
17      the Chinese producers have brand new facilities and  
18      their product quality is now accepted by many major  
19      international oil and gas companies. Since V&M's  
20      purchase of Northstar's tubular facilities in 2002,  
21      the company has constantly reinvested in upgrading  
22      facilities and increasing productivity, improving  
23      quality, and expanding our product range and capacity.

24             Further investments require both positive  
25      cashflow and a confidence by our management and board

1 of directors that the company would be able to  
2 maintain a return on investment based on normal demand  
3 or with the cyclical peaks and valleys without having  
4 to compete with massive amounts of unfairly traded  
5 imports. During this debacle caused primarily by  
6 surges of Chinese unfairly traded imports, no one has  
7 suffered more than our employees.

8 While we have spread this pain by  
9 implementing a series of companywide unpaid furloughs  
10 of salaried employees, including me and the rest of  
11 top management, this has been extremely hard on our  
12 workers and their families. I want to reiterate that  
13 during the past downcycles in demand, and we have seen  
14 several at V&M Star and its predecessor Northstar  
15 Steel, we never laid off our employees.

16 The difference this time is the  
17 unprecedented inventory buildup of unfairly traded  
18 imports from China. Therefore, without relief from  
19 these unfair trade practices, any future recovery in  
20 demand will not result in a rebound in our orders and  
21 the recall of our laid off workers. Even as we speak,  
22 just as occurred in the OCTG after those cases were  
23 filed, we understand Chinese producers and trading  
24 companies are rushing seamless line pipe into the U.S.  
25 market in order to avoid future countervailing and

1        antidumping duties.

2                This is being done in spite of extremely low  
3        demand levels and the fact that there no rebound in  
4        the end use demand justifies increased market supply  
5        at this time. For all of these reasons and on behalf  
6        of V&M Star and our valued employees, we ask this  
7        Commission to make a preliminary affirmative  
8        determination. Thank you.

9                MR. REITER: Good morning. My name is Chris  
10        Reiter, and I am U.S. Steel's Manager Commercial for  
11        Standard and Line Pipe. In this job, I oversee our  
12        efforts to sell the seamless pipe covered by these  
13        investigations. As part of my responsibilities, I  
14        maintain close contact with the distributors who are  
15        our primary customers for this product. In short, my  
16        job requires me to study and analyze the market  
17        conditions presented to you today.

18                I fully agree with the statements made by  
19        the other domestic witnesses, but I would like to  
20        focus your attention on the following points. First,  
21        you should reject the notion that Chinese mills were  
22        responding to market dynamics when they flooded this  
23        market with seamless pipe. Indeed, this notion is  
24        completely belied by the fact that China continues to  
25        ship significant volumes of seamless pipe into a

1 market devastated by excess supply.

2 In the first seven months of this year, the  
3 United States imported almost 74,000 tons of seamless  
4 pipe from China. While this represents a decline from  
5 the astonishing volumes shipped by the Chinese mills  
6 during 2008, let me assure you that this is enormous  
7 in the context of this market, where orders for  
8 domestic mills are practically nonexistent. As you  
9 have already heard, because of the significant volumes  
10 in inventory there has been almost no demand for new  
11 seamless pipe all year.

12 Indeed, many of our best customers haven't  
13 purchased any seamless standard and line pipe from us  
14 since last October. China's 74,000 tons of imported  
15 product is more than three times U.S. Steel's  
16 production over that same period. It is difficult to  
17 overstate the impact that China's continued shipments  
18 of unfairly traded pipe has had and is having on  
19 domestic producers. Those imports are the reasons we  
20 have been shut down most of the year. They are the  
21 reason we have shed so many jobs. And now they are  
22 preventing us from digging out of the oversupply  
23 crisis that they created.

24 While we do face imports from other  
25 countries, no other country has been so disruptive or

1 presents such an immediate threat as China. Last  
2 year, China shipped over 366,000 tons of subject  
3 product to the United States. No other country  
4 shipped more than 45,000 tons during that same period.  
5 Chinese pipe is also priced at levels matched nowhere  
6 else. In the first seven months of this year, the  
7 average unit value of all imports of seamless pipe was  
8 \$1,943 per ton. But the average unit value for  
9 Chinese imports was only \$1,270 per ton, a difference  
10 of almost \$700 per ton.

11 And we have received multiple reports that  
12 Chinese imports are now being offered at much lower  
13 prices, as low as \$750 per ton. Chinese pipe has  
14 become increasingly accepted in this market in recent  
15 years because of this aggressive pricing structure.  
16 This fact can be seen in the phenomenal growth in  
17 their import volume. Chinese mills are marketing  
18 themselves throughout the country in all of the size  
19 ranges covered by these investigations.

20 Indeed, they charge a single low price  
21 regardless of outside diameter, thereby devaluing  
22 larger products that have traditionally carried higher  
23 pricing. Unless we have effective relief on all  
24 Chinese pipe up to 16 inches in outside diameter, we  
25 will continue to face crippling injury going forward.

1 Finally, I would like to emphasize the vast damage we  
2 have seen across the range of our pipe products and  
3 the critical need for a comprehensive and effective  
4 response to Chinese unfair trade practices.

5 As you have seen in other pending  
6 litigation, Chinese OCTG imports in 2008 and 2009  
7 literally caused the shutdown of virtually the entire  
8 U.S. industry in the space of just a few months. A  
9 flood of Chinese imports of the product at issue  
10 today, which is often made in the same facilities and  
11 on the same mills as OCTG, has similarly led to a  
12 massive oversupply and complete collapse in demand for  
13 our product.

14 Since OCTG imports are now subject to  
15 preliminary relief, we have seen even greater efforts  
16 by the Chinese producers to attack the U.S.  
17 marketplace with seamless line pipe. It is a  
18 relatively straightforward prospect to shift from  
19 supplying one product to the other. This case is  
20 tremendously important if we are to see true  
21 competition prevail and to get domestic workers and  
22 producers back on the job. Thank you for your time.

23 MR. DURHAM: Good morning. I am James  
24 Durham, Chief Executive Officer of Dixie Pipe Sales.  
25 We are a major distributor of seamless standard, line,

1 and pressure pipe. Dixie Pipe has been in the  
2 distribution business for over 50 years. We carry a  
3 large inventory of seamless pipe, which includes A53,  
4 A106, and API grades of seamless.

5 I'd like to begin by talking about  
6 inventory. In my entire career, I've never seen an  
7 inventory situation as bad as the one that exists  
8 today. At the moment, Dixie is stocking inventories  
9 on 40 acres of land that we own as well as two other  
10 locations that we lease. Our competitors are in a  
11 similar situation. There is enough inventory out  
12 there to fully serve the market for at least 12  
13 months.

14 The imports from China that are the subject  
15 of this case bear a major responsibility for these  
16 excessive inventories. These imports surged in 2008,  
17 and as a result we estimate that these imports caused  
18 inventories to double in quantity over the course of  
19 2008. Beginning in September and October of 2008, we  
20 concluded that this situation was getting way out of  
21 hand. So we stopped ordering pipe and tried  
22 unsuccessfully to cancel some orders we had already  
23 placed.

24 We haven't placed a new order for seamless  
25 pipe since October of last year, one year ago. Yet we

1 still find ourselves facing a terrible situation. To  
2 be sure, inventories are starting to be worked down  
3 slowly, but it's going to take a very long time for  
4 them to return to levels that we would consider  
5 normal. Moreover, from our perspective, that isn't  
6 going to happen at all if imports from China are  
7 permitted to come into this market the way they did  
8 previously.

9 Even though the market remains vastly  
10 oversupplied, Chinese mills and trading companies are  
11 still trying to push even more seamless pipe into this  
12 market by offering extraordinarily low prices,  
13 generally on the level of \$750 to \$850 for a short  
14 ton, and on one occasion we had an offer of \$660 for  
15 short ton. We have firsthand knowledge of how the  
16 Chinese mills are behaving, and I would like to share  
17 with you one experience that we have had that you  
18 might find interesting in light of the cases against  
19 the Chinese OCTG that are now pending.

20 A few months ago we were approached directly  
21 by one major Chinese mill that had told us that due to  
22 the OCTG cases they were out of the OCTG business in  
23 the United States for now but wished to sell seamless  
24 pipe to companies like Dixie Pipe instead. I'd be  
25 happy to share more details about this discussion with



1       you in a confidential submission. This highlights the  
2       fact that as bad as experience with the surge of  
3       imports of seamless pipe from China has been, it may  
4       very well get even worse.

5               Most of the Chinese mills that make seamless  
6       pipe also make seamless OCTG, and there is no doubt in  
7       my mind that trade relief against OCTG is going to  
8       lead them to try to stuff the trade channels for  
9       seamless pipe in this country to try to make up for  
10      the shortfall that they would have had from OCTG.  
11      Because the market for seamless pipe in this country  
12      is a lot smaller than the market for OCTG, this would  
13      simply overwhelm the seamless pipe market that we  
14      participate in.

15             Finally, there are just two other issues I'd  
16      like to touch on briefly, the quality of the Chinese  
17      product and the question whether so called small  
18      diameter should be seen as a separate product from  
19      large diameter pipe. As for the quality issue,  
20      Chinese seamless pipe is viewed as acceptable by most  
21      end users for most applications. We have bought  
22      seamless pipe from major mills like Tianjin and Bao,  
23      and we can tell you that they have excellent products  
24      and are perceived as such by customers who have bought  
25      their pipe from us.

1           I suspect that you may wonder whether the  
2     fact that Chinese seamless pipe is not on the approved  
3     manufacturers list of some companies significantly  
4     limits the ability of the Chinese mills to sell in  
5     this market. I would suggest to you that the proof is  
6     in the pudding. If that were a significant barrier to  
7     sales of Chinese pipe in this country, you simply  
8     would not see such enormous volumes of Chinese pipe  
9     being sold here. Moreover, AMLs are much less  
10    important than you might think. Many end users do not  
11    use AMLs, and of those who do, they generally govern  
12    only purchases by headquarter office personnel, not  
13    personnel in the field.

14           Finally, on the question of whether small  
15    diameter pipe and large diameter pipe are seen as  
16    discreet products, we can tell you that we do not see  
17    it that way and neither do our customers. As you can  
18    see if you looked on our website, we do not recognize  
19    a break point at 4 and a half inches, and we are  
20    unaware of anyone else in the market that does either.  
21    Thank you for the opportunity to speak to you today.

22           MR. GILLELAND: Good morning. My name is  
23    Bob Gilleland. I am Senior Vice President for Edgen  
24    Murray. We are one of the nation's largest  
25    distributors of seamless pipe. I personally have

1     bought and sold this product for more than 30 years.  
2     I've seen this market in good times and bad. But I've  
3     never seen anything like the events of the last few  
4     years.

5             In my opinion, Chinese imports certainly  
6     have harmed domestic producers, and those imports  
7     constitute a major threat to the long term future of  
8     the industry. I'll explain why. My job requires me  
9     to be familiar with seamless pipe producers both here  
10    and abroad. I have myself gone to China, and what I  
11    saw astonished me. China has an enormous capacity to  
12    make seamless pipe. Indeed, it seems clear that the  
13    Chinese mills already have more capacity than the  
14    market will bear.

15            But they are building millions of tons of  
16    additional capacity. These are often high quality  
17    mills with the world's most advanced technology. They  
18    are built on an enormous scale. When you visit a new  
19    mill, it seems to be five times bigger than what you  
20    see over here. Why are they adding so much capacity?  
21    From the Chinese perspective, however, the primary  
22    purpose of the steel industry appears to be to employ  
23    as many people as possible.

24            Indeed, in my opinion the main reason  
25    Chinese prices are so low is that Chinese mills focus

1 on maximizing production and not profits. Even now in  
2 the midst of a severe recession we continue to receive  
3 aggressive low priced offers for Chinese seamless  
4 pipe. While most mills are proceeding with caution in  
5 this difficult environment, Chinese mills are still  
6 looking to move as much product as possible. That  
7 attitude is directly responsible for the current  
8 prices facing domestic producers.

9 Last year was one of the strongest years for  
10 demand I can remember, but that didn't stop Chinese  
11 mills from oversupplying this market. Almost every  
12 day we were inundated with low priced offers for  
13 Chinese pipe, often from companies with which we were  
14 not familiar and that clearly had little knowledge  
15 about the size of the U.S. market.

16 These companies were not responding to  
17 demand, instead they were focused on selling their own  
18 vast supply. Even if the economy had remained strong,  
19 the market simply could not handle so much pipe.  
20 Inventories soared to record levels. In fact, Edgen  
21 Murray has not bought one ton of seamless pipe for  
22 inventory in almost a year, something I can never  
23 remember happening before.

24 Furthermore, I don't see how things get  
25 better without trade relief. The whole market is

1 under the shadow of a vast supply of unfairly traded  
2 pipe from China. As long as distributors know that  
3 the market could be flooded at any time with low  
4 priced imports, we have to be extremely cautious in  
5 our purchases. We cannot afford to get stuck with a  
6 significant volume of domestic pipe if yet another  
7 surge of imports is about to send the market into a  
8 tailspin. Accordingly, I fear that unless this crisis  
9 is addressed, domestic mills will struggle to make  
10 sales and will likely find it impossible to resume  
11 normal operations at their facilities. Thank you.

12 MS. ANDROS: Good morning. My name is Linda  
13 Andros. I'm legislative counsel for the United Steel,  
14 Paper and Forestry, Rubber, Manufacturing, Energy,  
15 Allied Industrial and Service Workers International  
16 Union, also known as the United Steel Workers, or USW  
17 for short.

18 United Steel Workers is the largest  
19 industrial union in North America with about 850,000  
20 active members. Every day we've been fighting for  
21 workers against foreign governments and foreign  
22 companies who seek to gain an unfair competitive  
23 advantage by violating our trade laws. We represent  
24 workers who make seamless pipe in the United States  
25 for United States Steel Corporation and TMK IPSCO, and

1 I'm here today to speak for them.

2 In order to understand what's happening to  
3 domestic producers of seamless tubular products  
4 including both OCTG and seamless pipe at issue here, I  
5 think it's important that you focus on the issue of  
6 jobs. Clearly, China wants jobs for its people, and  
7 they're willing to do whatever it takes including  
8 violating our trade laws to create those jobs.

9 Chinese policymakers have recognized its  
10 successful factories in China that produce high-end  
11 products like seamless pipe at issue today tend to  
12 generate a good number of jobs. With that in mind,  
13 what happened to this industry has been described  
14 today to you follows really as logically as A follows  
15 B. In this case, my understanding is that first,  
16 China provided massive government support in the form  
17 of subsidies, currency manipulation and other unfair  
18 practices to its seamless pipe producers.

19 Second, this brought China far more seamless  
20 pipe capacity than otherwise would be justified in a  
21 market-based environment. Third, Chinese pipe started  
22 to flood markets worldwide, including the United  
23 States as well as other markets that were described to  
24 you here today where they have taken action. Fourth,  
25 as a result of that import flood and because so much

1 Chinese pipe was sitting in inventory, again described  
2 here today, American producers saw demand for their  
3 product literally disappear.

4 Finally, the American firms announced that  
5 there were shutdowns and layoffs. Clearly, for  
6 example, in Lorain, Ohio, and Fairfield, Alabama, that  
7 impacted directly USW members. We've seen this  
8 pattern over and over again with our union, and we  
9 know that the very policies designed to create jobs in  
10 China and to maintain those jobs in China can often  
11 destroy jobs in the United States, our jobs.

12 Those lost jobs certainly constitute  
13 material injury under U.S. law which specifically  
14 instructs the Commission to consider employment and  
15 wages when it analyzes the impact of subject imports  
16 on domestic industry. The USW would urge the  
17 Commission therefore not only to recognize the impact  
18 of Chinese imports on the bottom line of the companies  
19 who have spoken to you today, but also to consider how  
20 these imports affect working men and women in the  
21 towns where seamless pipe is produced, like Lorain and  
22 Fairfield.

23 Imagine for a moment losing your job due to  
24 government policies that are being created in a  
25 foreign country. Imagine having to look for work in

1 Ohio where right now the unemployment rate is 10.8  
2 percent or in Alabama where currently the unemployment  
3 rate is 10.4 percent, two states where seamless pipe  
4 had been produced.

5 Imagine telling your spouse that you have to  
6 leave town or telling your children they're going to  
7 have to change schools just so you can give them the  
8 basics like food on the table or clothes on their  
9 backs, and then imagine that all this happened not  
10 because you did anything wrong as a worker or because  
11 your company did anything wrong as a company operating  
12 in a market-based economy but because some Chinese  
13 government bureaucrat has decided to target your  
14 industry so that they can create jobs and employment  
15 in their country.

16 Not only is that material industry under  
17 your standard, but it's absolutely devastating in the  
18 terms of lives that have been affected in the  
19 industry. It's not fair, and it's not right.  
20 Fortunately, under U.S. law, American workers do have  
21 recourse. They can come to this Commission, which we  
22 have today, and seek relief from unfair trade. Our  
23 presentation that you've seen has shown beyond a doubt  
24 that Chinese imports cause the problems we face in the  
25 industry.



1           We've shown that last year the United States  
2   imported over 366,000 tons of seamless pipe from  
3   China, more than double the volume in 2007. We've  
4   shown that those imports caused inventories to soar to  
5   record levels, and then as a result, domestic mills  
6   saw their order books basically collapse.  
7   Furthermore, we've shown that China continues to  
8   subsidize seamless pipe production and that Chinese  
9   imports are a grave threat to this industry going  
10   forward and clearly to our workers represented by the  
11   United Steelworkers.

12           There can be no doubt that the Commission  
13   should reach affirmative determinations, and I thank  
14   you for the opportunity to appear today to speak to  
15   you. Thank you.

16           MR. SCHAGRIN: That concludes our  
17   presentation.

18           MS. DEFILIPPO: Thank you very much,  
19   everyone. That was very helpful. We will start  
20   questioning with staff today with Ms. Joanna Lo our  
21   investigator. Thanks.

22           MS. LO: Hello. Thank you all for coming  
23   today. Before I forget, I wanted to ask Mr. Durham if  
24   he would please submit the details of being approached  
25   by the Chinese OCTG producer to provide seamless pipe

1 in a post-conference brief perhaps. Thanks. I had a  
2 question on capacity allocation for the domestic  
3 producers. Just how quickly can you convert from  
4 making a subject pipe to any of the nonsubject pipes  
5 on the same equipment?

6 MR. THOMPSON: It's a very easy switch, and  
7 some mills are easier than others. Our facility in  
8 Fairfield can switch in a matter of hours. One of the  
9 facilities in Lorain can do the same, and the larger  
10 facility at Lorain, it can take as long as 16 hours,  
11 but that's on the high end. Probably a full day is as  
12 long as it takes to switch.

13 MS. LO: Are there any costs associated with  
14 switching?

15 MR. THOMPSON: Absolutely. Absolutely.  
16 Between man hours and equipment and everything else,  
17 there's a number of costs associated with it.

18 MS. LO: But technically do you have to add  
19 any additional equipment or anything for switching?

20 MR. THOMPSON: Yes. You take equipment out  
21 and put other equipment in order to make the product.  
22 It's more of a size issue than anything else.

23 MS. LO: Okay. Thank you very much.

24 MR. LINDGREN: If I could to add to that?  
25 The only thing I would add to George's comment is

1       there's different finishing equipment, so OCTG is  
2       finished on one line. Line pipe is finished on  
3       another finishing line.

4               MS. LO: Great. Thank you.

5               MS. LO: I have a separate question on  
6       nonsubject volume. How do you think the market will  
7       be able to respond for other nonsubject countries to  
8       replace the Chinese imports?

9               MR. THOMPSON: I think given the volume and  
10      the pricing level of the Chinese, and I refer back to  
11      Steven's chart, there is no replacement for the  
12      position in the market they have given the volume and  
13      the pricing levels they're willing to go to. We don't  
14      see that from other subject countries at all.

15              MR. VAUGHN: Joanna, Stephen Vaughn for the  
16      record. I just want to follow up on that point and  
17      just give you a data point which is that during the  
18      first seven months of the year, the AUV for imports  
19      from China during that whole period was about \$1,271  
20      per ton. The AUV for the rest of the world is \$2,398  
21      per ton, so it's a pretty significant difference.

22              MR. LINDGREN: And Ms. Lo, I'll invite Mr.  
23      Pognonec to also add, but we also believe that besides  
24      the pricing differentials that a lot of the nonsubject  
25      imports tend to be a little bit more focused on the

1 end-user market rather than distributor market whereas  
2 most of the Chinese like most of the domestic product  
3 is focused on the distributor market. Mr. Pognonec?

4 MR. POGNONEC: Yes. Good morning. I'm Yves  
5 Pognonec, Vice President of Sales for Line Pipe at V&M  
6 Star. We have seen imports of products coming for end  
7 contracts, so those two skinny year for use by end  
8 user are not going to increase the inventory level  
9 that we've been talking about, so that's the  
10 difference on the other reports.

11 MS. LO: Okay. I have another question just  
12 quickly on subject sizes. Are there any size pipe  
13 within the range that's subject here that Chinese  
14 producers can make that U.S. cannot?

15 MR. THOMPSON: Not that I'm aware of, no.

16 MR. SCHAGRIN: We would agree. Even though  
17 producers around this table may not make every size up  
18 to 16 inches, we believe within the U.S. industry  
19 because of some producers who have traditionally cold  
20 drawn in the smaller sizes that the U.S. industry  
21 literally can produce every size in the size range  
22 from half inch through 16 inches.

23 MS. LO: That brings me to my question  
24 related to like product but in the manufacturing  
25 process. Do the domestic producers here today, do you

1 have separate mills for small versus large diameter  
2 pipe and also in your business, why would you make one  
3 four and a half and below or the larger one for any  
4 reason? First if there are separate mills, and why  
5 would you focus one or the other if they are the same  
6 to the distributors.

7 MR. THOMPSON: You reference small and large  
8 diameter pipe. What do you mean by that?

9 MS. LO: I'm sorry. I mean, four and a half  
10 or below or up to 16 for the second.

11 MR. THOMPSON: Okay. With Fairfield, our  
12 one mill makes four and a half through nine and five-  
13 eighths, so we kind of bridge the gap. We have  
14 another mill that makes 1.9 inch through four and a  
15 half, and our other mills makes 10 and three quarter  
16 through 26 inches actually, and I think it's more of  
17 an engineering phenomenon as to the break off in sizes  
18 than it is any kind of a market segmentation.

19 MR. NARKIN: Ms. Lo, this Steve Narkin from  
20 Skadden Arps. I'd just like to add that Timpkins,  
21 which is not a petitioning company, our understanding  
22 is it makes both the small and the large on the same  
23 facilities.

24 MS. LO: Okay. Thank you. That's all my  
25 questions for now.

1 MS. DEFILIPPO: Next, we'll have any  
2 questions from Mr. Gallagher, our attorney. Mr.  
3 Treat, any questions?

4 MR. TREAT: Hi. Good morning. Allen Treat  
5 from the Office of Industries. I do have a couple of  
6 questions for you all. Thank you for the opportunity.  
7 Mr. Thompson, just to dovetail on Joanna's questions,  
8 you mentioned engineering phenomenon regarding the  
9 breakoff between this equipment that can produce pipe  
10 in diameter smaller than four and a half inches versus  
11 pipe that's produced on equipment for sizes larger  
12 than four and a half inches. Can you talk a little  
13 bit more about that?

14 MR. THOMPSON: Actually, I can't.

15 MR. TREAT: Okay. Can anybody at this  
16 table?

17 MR. THOMPSON: That's way beyond my  
18 expertise in engineering, but I think as you look  
19 across the spectrum of mills out there, and Roger  
20 might be able to speak to that better than I, I think  
21 a lot of it has to do about preference and what kind  
22 of mill you want to build. TMK IPSCO's mill goes two  
23 inch through five and a half. There are other mills  
24 that start at four and a half and go up higher than  
25 nine and five eighths.

1                   So I really think it has more to do almost  
2   when you're building a house as to what kind of house  
3   you want to build. At some point in time, you  
4   probably do reach some sort of a manufacturing theory.  
5   The larger diameters from our perspective that are not  
6   affected by this case, over 16 inch do use a process  
7   of manufacturing that is unique to that, and it's  
8   rotary expansion in which we're actually blowing up  
9   the billet that comes through as opposed to stretch  
10  reducing it and working it through the mill.

11                  That is a significantly different kind of  
12  manufacturing than how all of our other product is  
13  made 16 inch or less, but other than that, like I  
14  said, I'm a little bit out of my element here, but the  
15  process is generally the same, and it has more to do  
16  with the mill that you want to buy and design.

17                  MR. TREAT: Okay. Thank you. I do have  
18  just a couple more questions, please?

19                  MR. LINDGREN: If I could add a little bit  
20  to what George said and point out that V&M Star makes  
21  piping five inch to ten and three quarters, and just  
22  to use technical terms if that's what you wish, we  
23  have an MPM, and that's the size range of our MPM. In  
24  the case of TMK IPSCO, I can't speak at it with a  
25  great deal of authority, but they also have a mandrill

1 mill which is then followed by a stretch reducing  
2 mill, so they can take the output of the mandrill  
3 mill, such as the one we have, somewhat similar.

4           They go through the stretch reducing mill to  
5 make the smaller sizes, so really as George said when  
6 you're building the mill and you're building your  
7 company, you decide how to optimize the whole process.  
8 Typically, you wouldn't have a mill that made as  
9 George pointed out 26-inch down the very smallest on  
10 the same mill, so in the case of V&M Star, we produce  
11 five through ten and three quarter, and we supplement  
12 the other sizes from our sister mills.

13           MR. TREAT: Thank you. My next question  
14 pertains to physical characteristics and uses  
15 recognizing that pipe below four and a half inches and  
16 pipe above four and a half inches in outside diameter  
17 have overlapping end uses. Are there any applications  
18 that are more common for certain outside diameter  
19 ranges than for others?

20           MR. DURHAM: I don't think so. In our  
21 business, the people that we sell pipe to they want to  
22 buy the complete range and for various end-user  
23 applications that they might be reselling it, so a lot  
24 of our business goes to supply companies that will  
25 carry pipe valves and fitting, and they'll come to use



1       for the pipes. We don't really see a difference in  
2       the market between small and the larger, for four and  
3       a half and under and the five through 16-inch. It  
4       doesn't matter.

5               The majority of the market would be for the  
6       whole size range. I'm sure that there are some  
7       exceptions to that, but they would be very small.

8               MR. NARKIN: Mr. Treat, Steve Narkin again.  
9       As you correctly pointed out in the earlier  
10      investigations, the Commission did find that there  
11      were overlapping end uses between the large and the  
12      small. There has been a change in the market since  
13      that time that makes that area of overlap even greater  
14      than it was before, and I'd like to ask Mr. Pognonec  
15      to comment on that.

16              MR. POGNONEC: I would say that if you look  
17      at the process industry when you build the refinery or  
18      processing plant, basically you're going to use the  
19      whole range from the small diameter to large  
20      diameters. The only exception that I see in our  
21      business for the usage to look at a specific diameter  
22      will be in a case of an oil company building a  
23      pipeline as in offshore Gulf of Mexico or on shore.

24              In a design for that single pipeline, they  
25      will look at a type of flow that they will have from

1 the well, and they will specify the diameter according  
2 to the flow that they need for the production, so that  
3 will bring the oil company to specify a very unique  
4 diameter for that specific project, but we are here in  
5 a different market than the process industry, which is  
6 served mostly by the distributors. Those types of  
7 projects usually are direct from the mill to the end  
8 user, not going through distribution.

9 MR. NARKIN: Mr. Pognonec, Steve Narkin, not  
10 to prompt you, but I think you have told us previously  
11 about development with regard to shale gas?

12 MR. POGNONEC: Yes. Over the years as you  
13 know there has been a huge development for the gas  
14 drilling in the U.S. In fact, close to 80 percent of  
15 the drilling is for gas, not for oil, and when you  
16 develop a gas well in a new territory where no  
17 infrastructure exists, you need to be able to gather  
18 in line, let's say transmission line, and those will  
19 be using a diameter that will in a two- to three-inch  
20 range in addition to the main line that will be more  
21 in a six-inch and eight-inch range. So here also you  
22 cover the complete range for those application based  
23 to development of gas drilling.

24 MR. TREAT: Thank you. I think that's maybe  
25 more perhaps what I was getting at, for example, is a

1 two-inch A106 pressure pipe used more in refinery or  
2 petrol chemical applications versus maybe a five-inch  
3 pressure pipe? Are there any differences? That would  
4 be one example. Another example, a line pipe used  
5 four and a half inches outside diameter, is it more a  
6 gathering a feeder lines for new wells versus line  
7 pipe in larger outside diameter ranges?

8 MR. SCHAGRIN: Mr. Treat, I'm going to  
9 answer your question, but let me start out by being  
10 the member of this panel that either deserves the  
11 blame or the credit for the fact that the Commission  
12 has broken up seamless pipe into four and a half and  
13 under and greater than four and a half as different  
14 like products unlike welded pipe, where in circular  
15 welded pipe or welded line pipe has traditionally been  
16 one like product up to 16 inches, and the reason for  
17 that is in 1994 on behalf of a Quanex Tubular Division  
18 of Quanex Corporation, and Quanex still exists.  
19 Quanex Tubular doesn't exist.

20 It became Vision and now became nothing.  
21 They had a mill in Rosenberg, Texas, that only went up  
22 to two and a half inches, and a mill in Michigan,  
23 which is now Michigan Seamless, but I don't think they  
24 make the subject product anymore, which I think only  
25 went up to three inches. In fact, it just seemed

1 tough for us to argue well we want to go up to 16  
2 inches. We were basically only going up to two and a  
3 half.

4 We didn't have any co-petitioners in the  
5 case. There were some standing issues. We wanted to  
6 represent an industry up to just four and a half  
7 inches, and so we established some of these like  
8 product things. Rosenberg no longer exists. That  
9 mill is now in China. The company went through a  
10 Chapter 7 liquidation in about 2002, and it seems the  
11 market has in fact changed. Not only the players in  
12 the market changed, but really the market has changed.

13 How has it changed? I remember in 1994 in  
14 response to your question about using A106 in one  
15 application but line pipe in a different. Multiple  
16 stenciling was just coming on in 1994. That's about  
17 15 years ago if I can do the math property. Today, 15  
18 years later when you say how was A106 used versus  
19 API5L, today I think every producer around this room  
20 and all the Chinese producers, everyone makes quad or  
21 even four-five stencil products, so there is no  
22 difference anymore in the marketplace between A106 and  
23 API5L.

24 I'm not aware of anybody who just stenciled  
25 an API5L versus A106. I think quad stenciling is just

1 the norm. I think these distributors can speak to  
2 that. The lines that used to exist have very much  
3 been blurred, and I really do believe given the  
4 changes there's no more clear dividing lines between  
5 these products. It was always a close call. We I  
6 think helped the Commission make that close call in  
7 our favor given good advocacy I hope and the nature of  
8 the folks who were filing the case.

9 Counsel for the Chinese might disagree with,  
10 and we'll hear what he has to say about this issue  
11 later, but I really think that these lines have  
12 blurred in terms of uses, stenciling, manufacturers.  
13 U.S. Steel has always gone the whole product range,  
14 but now really the other major U.S. producers, even if  
15 they don't make it, they're associated with  
16 international companies, so they bring the entire  
17 product range to distribution.

18 It might be a combination of U.S. and  
19 foreign mills, but they bring the whole product range  
20 to distribution, so it really has become one like  
21 product.

22 MR. NARKIN: Mr. Treat, Steve Narkin --

23 MS. DEFILIPPO: Excuse me.

24 MR. NARKIN: Following up on Mr. Schagrin's  
25 comments about what's changed since the other cases,

1       there were two other major changes that I think will  
2       be evidence in the record here that go to issues that  
3       were important when the Commission broke up small and  
4       large diameters. The first is the question of price  
5       where there was a finding by the Commission that small  
6       diameter was significantly more expensive, and you're  
7       not going to see that here. You're just not.

8               In our response to the deficiency from the  
9       Department of Commerce, we already submitted  
10      information relating to that issue for pricing  
11      products the Commission is using in this case, and  
12      what you saw before in terms of small diameter being  
13      more expensive, you're just not going to see that now.

14             The second thing here, and I am probably at  
15      this point stating the obvious to you, I think when  
16      you look certainly at the importer questionnaires that  
17      have come in thus far, you will see virtually no  
18      evidence that consumers perceive small and large as  
19      separate products, and that goes beyond just a  
20      question of what are the consumer perceptions because  
21      if you know the question asked each of the importers  
22      to comment on the six like product factors.

23             The significance of this questionnaire goes  
24      far beyond the fact that those producers themselves  
25      are telling you they don't see those two size ranges

1 as separate. Thank you.

2 MR. TREAT: Thank you. I do have one final  
3 question, and maybe this is a good segue into my  
4 question which pertains to relative prices. Mr.  
5 Vaughn, on page 6 of your PowerPoint presentation, you  
6 list U.S. prices for seamless pipe as published by  
7 Preston Pipe & Tube Report, and given Mr. Schagrin had  
8 mentioned the prevalence of quad stenciling among a  
9 standard and line pipes of various outside diameters,  
10 one observation I see is that standard pipe in outside  
11 diameters of zero to four and a half inches is  
12 actually priced higher than line pipe of the same  
13 outside diameter.

14 My question is what constitutes U.S. prices  
15 in this graph. Is this U.S. domestic shipments? Is  
16 this going to be a weighted average between U.S.  
17 domestic shipments and U.S. import prices and perhaps  
18 lower import prices is what can drag down the weighted  
19 average?

20 MR. VAUGHN: Yes, there are probably people  
21 around this table who know more about Preston and  
22 their methodology than I do. What they say is is that  
23 it is a combination of domestic and import prices. It  
24 is a single price for the market as a whole, so that's  
25 one thing I know in response to your question. I

1 don't know if anyone else here has other information  
2 more specific about how they decide which prices go  
3 into which basket.

4 MR. DORN: (Away from microphone.)

5 MS. DEFILIPPO: Excuse me one second, Mr.  
6 Durham. If you would mind just stepping up to the  
7 table and using the microphone so the court reporter  
8 can get it in the transcript, that would be great.  
9 Thank you.

10 MR. DORN: Good morning. Once again Scott  
11 Dorn with the United States Steel Corporation. The  
12 Preston Pipe and Tube prices that Mr. Vaughn  
13 referenced are an average transaction price. It's a  
14 weighted average value, and it does include domestic  
15 and import shipments. It's a combination of both.

16 MR. TREAT: Okay. Thank you.

17 MS. DEFILIPPO: Thank you, Mr. Treat. Mr.  
18 Yost, do you have any questions for this panel?

19 MR. YOST: Good morning. Yes, I do thank  
20 you. Charles Yost with the Office of Investigations.  
21 I'm just humble accountant, so I follow some of the  
22 numbers. What I'd like to do is talk about sales, and  
23 what I see from the data that's been presented so far,  
24 sales actually declined, both quantity and value, from  
25 2006 to 2007, and then rebounded fairly strongly I



1 might characterize it from 2007 to 2008. Could you  
2 give me a flavor of what happened from '06 to '07 and  
3 then '07 to '08 that caused us to see this in the  
4 data?

5 MR. LINDGREN: I'll give you my version.  
6 I'm not a salesperson as you know, but 2006 was a good  
7 year, and there was a build in inventory, a certain  
8 build of inventory in 2006, so that went into 2007.  
9 In 2007, business decreased in relation to OCTG, for  
10 example, the drilling decreased in 2007, and so there  
11 was some destocking, which could have an affect of  
12 market prices.

13 At the end of 2007 and going into 2008,  
14 business picked up again, and as we all know, 2008 was  
15 a strong year for us, and that's when we had this huge  
16 build up of inventory and the influx of the Chinese  
17 imports, and that's when the prices went down against.  
18 I don't know if that answered your question.

19 MR. YOST: Yes, it does. Let me expand then  
20 a little bit on 2008 trends. In the OCTG case, there  
21 was evidence presented that there was sort of a  
22 speculative boom in purchases. Was the same thing  
23 happening in the products that we're talking about  
24 here in 2008?

25 In other words, people expected that the oil

1 and gas industry would continue to expand, that  
2 drilling might continue to expand and therefore they  
3 tended to order more inventory including some evidence  
4 that was presented that some of the distributors  
5 bought or ordered many times more than their normal  
6 orders, so my question is did that happen here? Is  
7 that what led to the increase in sales from '07 to  
8 '08?

9 MR. THOMPSON: No. I think there was very  
10 real demand out there that drove most of the increase  
11 in sales, and it was driven by oil and gas prices. I  
12 mean, while this market is very different than the  
13 OCTG market in how it's structured, how it's run.  
14 It's also very much connected to the energy market,  
15 and I think it had the same kind of year that OCTG had  
16 as far as demand was concerned. Was their tightness  
17 in supply? Yes, probably a point in time, but there  
18 was plenty of supply.

19 I mean, if you look at our capacity, we  
20 never came close to reaching maximum capacity on  
21 seamless. Contrary to other comments, our mix never  
22 changed. We maintained the same market share within  
23 the market as we went forward, so while there may or  
24 may not have been speculative buys out there, I think  
25 any speculation in the marketplace was caused by

1 excessive availability of very low-priced product out  
2 of China that led speculators into the business that  
3 may or may not have been in the pipe business before.

4 I think what it was was the opportunity to  
5 move product from China and the lack of any  
6 discernability as to who they would sell to. If you  
7 have a check, and you want pipe, you can buy pipe from  
8 China. There's really no other limitation beyond  
9 that.

10 MR. YOST: I see that Mr. Durham has a  
11 comment.

12 MR. DURHAM: I would add to that I'm aware  
13 of more than one company that was created in 2008 that  
14 had never participated in the pipe business before,  
15 but they saw an opportunity to make a lot of money  
16 particularly with Chinese material, and they bought  
17 Chinese material on speculation and brought it into  
18 the U.S.A. and tried to sell it before it hit the  
19 docks, or they put it in truckers yards, and they sold  
20 it after it hit the docks.

21 These were people that were not in the pipe  
22 business, but they saw an opportunity to make some  
23 good money, so you look at that, and you say well  
24 that's additional sales. Well, it was additional  
25 sales on the part of the mills, and particularly the

1 Chinese mills, but it was pure speculation, and that  
2 certainly happened more than one time.

3 MR. YOST: Okay. Well, while I appreciate  
4 the comment about the Chinese imports, what I'm  
5 looking at is data that was submitted by the domestic  
6 producers, so what I'm talking about is domestic sales  
7 rose fairly substantially, and part of that increase  
8 in the values was a dramatic increase in unit values,  
9 average unit value of sales, so my question again is  
10 what's happening in 2008 that's driving the sales. Is  
11 it an increase in demand?

12 MR. VAUGHN: This is Steven Vaughn just for  
13 the record. I think what Mr. Thompson was trying to  
14 say was, and what he did say was that there was some  
15 real underlying demand here and that domestic  
16 producers benefitted from that increase in underlying  
17 demand. I think part of the issue is this concept of  
18 a speculative boom.

19 I think the testimony here, and I think to a  
20 large extent the testimony in OCTG was that another  
21 thing that was happening in this market, was that you  
22 had speculators who were taking advantage of low-  
23 priced Chinese pipe and were buying a lot of that pipe  
24 in hopes of turning it around in the U.S. market, so  
25 you have kind of these two things that are both

1       happening in the market.

2               On the one hand, there is a genuine increase  
3       in demand. On the other hand, because you are dealing  
4       with effectively an unlimited supply of dumped and  
5       subsidized imports from China, that opens the door to  
6       the type of speculation that Mr. Durham was talking  
7       about. I think those are just sort of two separate  
8       concepts that I think the witnesses were trying to  
9       address.

10              MR. YOST: At what point did the financial  
11       crisis last year impact the real economy in terms of  
12       this product? Did that happen first, or did you see  
13       demand start to dry up?

14              MR. THOMPSON: I think there was a little  
15       bit of the financial crisis beginning to hit in July  
16       and August with Lehman and those things that were  
17       happening on Wall Street. I think there was a little  
18       bit of delay because of the connection to the energy  
19       sector and the thought that they were a little bit  
20       disconnected, but as somebody said, at first we  
21       thought that perhaps it was Katrina hit, which affects  
22       our industry tremendously.

23              Any kind of a hurricane or anything that  
24       affects the Gulf because the predominance of business  
25       is in Houston has a big effect just in people aren't

1     working that time period, and I think a lot of people  
2     thought when Katrina hit we were feeling the affects  
3     of Katrina, and we thought we were beyond, and when I  
4     see "we," the energy business was beyond that market,  
5     but I think the reality was it hit very shortly after  
6     as we came through as far as the effects on our  
7     business.

8             Beyond that though, as shown by the volumes  
9     that came in, what really started happening is we just  
10    had a lot more pipe in the system than was needed, and  
11    the economic crisis certainly exacerbated the  
12    situation, but regardless I think given the volumes  
13    that came in in the third and fourth quarter and then  
14    continued in 2009, we'd be in the same boat even if  
15    demand had stayed the same.

16            MR. YOST: Can you give me a flavor of how  
17    far in advance you book orders? In other words, for  
18    sales that were concluded in 2009, were the sales made  
19    in 2008, or were they made in 2009? I've seen the  
20    order book.

21            MR. LINDGREN: I can answer that for V&M  
22    Star. We do not sell well in advance. We sell by  
23    cycles, so we'll book a cycle, and then once we close  
24    out that cycle, we don't take any orders until we open  
25    the next cycle, so you're going to say well how many

1 cycles would you have a year, and our cycles are from  
2 30 to 45 days.

3 MR. THOMPSON: I would say ours are 30 to 90  
4 days, and the difference being the larger mill that  
5 takes a little bit more time to change over we tend to  
6 book out a little bit further, but right now in this  
7 market, our promised run can be a week. I mean,  
8 that's where we are because we don't have orders, and  
9 we'll run for whatever orders we get.

10 MR. YOST: Okay. Great. Go ahead.

11 MR. REITER: Chris Reiter with U.S. Steel.  
12 Your question regarding orders that were produced in  
13 2009, they were placed in the latter half of 2008 as  
14 Mr. Durham testified. Dixie Pipe had not placed any  
15 new orders since October of last year. We saw many of  
16 the orders that were produced in 2009 replaced in  
17 2008, and we had seen our order book dry up in the  
18 fourth quarter of last year, and it remained  
19 devastated through the first nine months of this year.

20 MR. YOST: One of the things that had  
21 puzzled me was a very strong increase in the average  
22 unit value of sales in the first half of 2009, and I  
23 was wondering why this happened? It's a roughly 25-  
24 to 30-percent increase in the average unit value of  
25 sales.

1                   MR. THOMPSON: We didn't see that. You can  
2 see the cumulative number. I think we saw probably  
3 the increase carried over as Chris said maybe into  
4 February, but beginning in March we saw rapid decrease  
5 on a monthly basis on price basis, and I think there's  
6 no doubt the prices now are lower than they were in  
7 March. I don't know what all goes into that AUV  
8 number, but I can tell you prices peaked in the  
9 December/January time period because of carry-over  
10 orders. Maybe some of that order book carried over a  
11 little bit into February, but from that point forward,  
12 the few orders that were out there rapidly declined  
13 from a price standpoint.

14                  MR. YOST: Yes?

15                  MR. VAUGHN: Yes. Mr. Yost, I think that  
16 what you're looking at too is you're comparing first  
17 half of '08 to first half of '09, and I think that the  
18 testimony here has generally been that prices did go  
19 up after the first half of '08 and sort of peaked kind  
20 of more in the second half of the year, and so it had  
21 since been coming back down.

22                  That's why I think another one of the  
23 reasons that you're going to see somewhat higher  
24 pricing in the first half of '09 as compared to the  
25 first half of '08 is because as these witnesses are



1     telling you, a lot of those prices are sort of  
2     trailing orders that were really made in the second  
3     half of '08 when pricing was higher.

4             MR. SCHAGRIN: I think the other thing, Mr.  
5     Yost, it's Roger Schagrin, is that in looking at just  
6     prices whether they be the quarterly prices for the  
7     pricing products or AUVs and looking what's going on  
8     in '08, you have to remember what was happening in  
9     terms of costs in the first half of '08. There's  
10    usually some relationship between cost and pricing,  
11    and I think for the Steel Industry in the first half  
12    of '08, they were seeing tremendous changes in costs.

13            I think scrap prices went from \$200 to \$700  
14    or \$800 a ton, literally tripling or quadrupling in a  
15    relatively short amount of time. Coke prices were  
16    going up. Natural gas prices were quite high in early  
17    '08, so energy costs were going up, and I think you  
18    often see in an industry like this that there's  
19    something of a lag between a big cost shock and  
20    pricing, and I think that explains a lot in this  
21    industry what you're seeing in prices.

22            After a while, market conditions, just plain  
23    supply and demand, over-supply is then what has an  
24    impact again with a lag effect on pricing, and I think  
25    that's what these gentlemen have testified to today

1     that while pricing for orders taken a month, two  
2     month, three months earlier may still look good going  
3     into '09, present orders to the extent there are any  
4     present orders are at price levels that are  
5     significantly below recent pricing experiences.

6             MR. YOST: Okay. Thank you very much for  
7     that explanation. I'm sure as you've probably said in  
8     other forum here at the Commission, you've well  
9     educated your customers into looking at the energy and  
10    raw material input costs. Actually, what I was  
11    comparing was the full year 2008 to the first half of  
12    2009. If I were to compare first half '08 with first  
13    half '09, the increase in AUVs would be much higher,  
14    but I won't belittle that point unless you want to  
15    make another comment?

16            MR. VAUGHN: No. I think it's still all  
17    part of what you're looking at. That full year '08  
18    period is going to have the first half '08 numbers,  
19    and I think that's part of what you're seeing, but I  
20    think that in terms of what's actually been happening,  
21    if you look at the Preston Pipe Series, or if you look  
22    at other pricing series that relate to this product,  
23    the data seem to pretty much show that the prices  
24    peaked sometime in the August/September time period.

25            I think Preston shows a decline in almost

1 every month since August. That's what their data  
2 show, and I think that's pretty consistent with the  
3 data that you're seeing from us.

4 MR. SCHAGRIN: Yes, and the other thing is  
5 that, Mr. Yost, if you're not operating your mill at  
6 all because you're just talking about AUVs, and I  
7 think you're going to see probably a 70- to 80-percent  
8 decline in volume, so if you're not operating your  
9 mill at all, but you get an order for what maybe  
10 something somebody needs in a hurry, or it might be  
11 more specialized, you're happy to have it.

12 You may make a sale, and you may even make  
13 the sale at a fairly decent price, but when you're  
14 sales volumes fall so much as I think you'll see in  
15 the profitability, you can't make up for a 70- or 80-  
16 percent fall in sales even with a higher AUV. I mean,  
17 these are integrated facilities that are being  
18 operated here, and these folks are just getting eaten  
19 alive by lack of volume.

20 Once again, I know from an accounting  
21 perspective you have to always connect all the dots.  
22 There's AUVs, there's prices, there's costs, and  
23 there's volumes. In the end, they all add up to that  
24 infamous bottom line, and these guys' bottom lines  
25 stink, and they're getting worse every day, and that's

1 the reality of the injury case here. It can't be  
2 boiled down. Maybe a simplistic view would say AUVs  
3 are high, there's no injury, but I just don't think  
4 that's this case.

5 MR. YOST: Well, that segues into the  
6 discussion on operating margins, which when I came in,  
7 and I apologize for being a little bit late this  
8 morning, I heard Don Cameron talking about operating  
9 margins, and you have to realize you're looking at  
10 something above 30 percent for the full years and even  
11 in the most recent interim period, you're looking at  
12 an operating margin above 20 percent.

13 That recognizes that yes, the sales volume  
14 is down about 70 percent, and the operating margin is  
15 down first half of '09 compared with full-year '09  
16 commensurately, but it's still in double digits. Do  
17 you want to comment on that?

18 MR. VAUGHN: I'm happy to comment on that.  
19 This is Steven Vaughn. One of the things is that  
20 you've got to look at what happened in this industry,  
21 and I think the testimony has been very clear on this  
22 that these people have basically been shut down for  
23 most of the year. There's no real question about  
24 that. A lot of people have been laid off. A lot of  
25 people have lost their jobs.

1           Have they been able to make some sales this  
2   year? Yes, they've been able to make a greatly  
3   reduced amount of sales from the same time period last  
4   year. Have those sales been at AUVs that are  
5   relatively high given the history of this whole  
6   industry over years and years and years? Yes, because  
7   a lot of those are based on orders that were taken  
8   during 2008 when the market conditions were very  
9   different.

10           Congress has recognized that when the  
11   Commission looks at the impact of imports on the  
12   domestic industry, they're supposed to look at all  
13   relevant economic factors. They're not supposed to  
14   look just at operating margins. They're supposed to  
15   look at employment. They're supposed to look at  
16   wages. They're supposed to look at growth. They're  
17   supposed to look at many different factors including  
18   capacity utilization, production, output.

19           When you look at this industry as a whole,  
20   you see that its condition is horrific, that it is  
21   suffering severe injury, that many people have lost  
22   their jobs and that at this point, the testimony from  
23   this panel is that there's no prospect that this is  
24   going to get better because you still have this over-  
25   supply hanging over the market. According to Mr.

1 Durham's testimony, they have 12 months' worth of  
2 inventories.

3 I think while operating margin is one aspect  
4 of the case, I think that the explanation for the  
5 operation margin given that you are dealing with a  
6 relatively small volume of sales many of which could  
7 be niche products or specialized products, and many of  
8 which are based on orders that were taken during a  
9 time when market conditions are very different, I  
10 think that is not the only thing that the Commission  
11 should look at both as a matter of law and just as a  
12 matter of the facts of this case.

13 MR. NARKIN: Mr. Yost?

14 MR. YOST: Well, I've certainly read enough  
15 Commission opinions to agree with that lecture, and I  
16 thank you for pointing out all those factors.  
17 However, I'm looking at this part of the industry, and  
18 my questions were directed to this part only, but I do  
19 appreciate you reminding me of the other factors that  
20 the Commission looks at. Thank you.

21 MR. NARKIN: Mr. Yost?

22 MR. YOST: Yes.

23 MR. NARKIN: Can I just add briefly to what  
24 Mr. Vaughn said because when you refer to operating  
25 margins, you're obviously just talking about part of

1 the financial performance, and as you saw from the  
2 slides that were put up earlier the decline in the  
3 industries' absolute level of profits was enormous,  
4 and that means their return on investment suffered an  
5 enormous hit, so if you're going to look, focus on the  
6 financial aspects, just that aspect of the case as  
7 well. Those are other things you have to take into  
8 account we thing.

9 MR. LINDGREN: Mr. Yost, may I make a  
10 comment?

11 MR. YOST: Yes, sir. Thank you.

12 MR. LINDGREN: As I stated in my testimony,  
13 the prices, the orders, whatnot for the first part of  
14 2009 were a result of the business that we booked in  
15 the last part of 2008, but more to your point about  
16 operating margins, and that is we work hard every day  
17 to make our company more competitive, now beyond that,  
18 when we saw the order book or what was going to happen  
19 let's just say starting on Q2 or the phrase we use the  
20 business fell off a cliff, we took what I would  
21 consider to be draconian measures.

22 We eliminated all of our temporary  
23 employees, and, for example, we contract out some  
24 services like the shipping of our company, so we  
25 terminated let's just say 100 temporary employees in

1 Youngstown, Ohio. We laid off 50 of our own  
2 employees. We put everybody else on 24 hours. We  
3 furloughed our salaried employees. We cut every  
4 expense that we possibly could, so yes, maybe we did  
5 have an operating margin, but if you look at the total  
6 volume of dollars, it's a disaster.

7           The further comment I would make is not  
8 using any exact numbers, but the forecast for  
9 shipments for the quarter were more like we would  
10 expect for a month, so I'm proud that at least in  
11 Quarter 2, Quarter 3 we would have an operating  
12 margin, but at a very low level of business.

13           MR. YOST: Well, I would certainly encourage  
14 the companies represented here that if they would like  
15 to they certainly would welcome third quarter results  
16 or third quarter anticipated results in the post-  
17 conference brief, and, Ms. DeFilippo, that concludes  
18 my questions. Thank you.

19           MS. DEFILIPPO: Thank you, Mr. Yost. Mr.  
20 Workman, our economist, do you have any questions  
21 today?

22           MR. WORKMAN: Yes, I do. Clark Workman,  
23 Office of Economics. I noticed looking at briefs and  
24 so on there is no reference whatsoever to, well maybe  
25 there is a reference to it, but no lost sales or lost



1 revenue allocation, which is a little bit unusual for  
2 a case. Would anyone care to comment on that?

3 MR. SCHAGRIN: I'll just make one comment  
4 because we did in the petition discuss the fact that  
5 because so much of this product is sold through  
6 distributors, the company witnesses are not in a great  
7 position in terms of identifying a specific sale or a  
8 specific item that was made or note made as a result  
9 of imports.

10 On the other hand, we think that the record  
11 shows that their market share has been hurt  
12 significantly by the rise in imports and that the rise  
13 of imports of has also caused them to lose a great  
14 deal of revenue in terms of fallen prices and  
15 inability to make further sales.

16 MR. WORKMAN: I see, but you weren't able to  
17 pinpoint specific cases or specific transactions at  
18 all then in this case, right?

19 MR. THOMPSON: As Steven said, most of our  
20 sales are direct to distributors. We have very few  
21 direct sales. I think that perhaps, I don't know if  
22 Bob or Jim could reference whether or not they're  
23 losing orders, sometimes I think the Chinese are at  
24 such a low price it's hard to even fathom. As I  
25 stated in my statement, you're faced with a situation

1       where a price is put in front of you that's so much  
2       lower than your price and your market price that first  
3       of all you can't believe that it's that low.

4               Second of all, you know that if you go to  
5       that price, they're going to just go lower, so there  
6       tends to be from a mill perspective a little bit of  
7       understanding that their volume is going to come in  
8       and they're going to take the orders that they want to  
9       take, and the problem has been when the volumes get to  
10      the level that they are they overrun the marketplace.

11             MR. NARKIN: Mr. Workman, if I could just  
12      add to that please, although this is not directly  
13      responsive to your question, but I think it's relevant  
14      to what you're looking at, and that is the enormous  
15      loss of market share that the domestic industry  
16      suffered from the Chinese over the course of the  
17      investigation, so clearly they were losing sales to  
18      the Chinese industry.

19             MR. WORKMAN: Okay. Well, I had another  
20      question about end-use markets. I'm not sure if the  
21      record is completely clear on this. If I understand  
22      correctly, almost all of this pipe goes to energy  
23      uses, is that correct, or are there other end-use  
24      markets?

25             MR. THOMPSON: A large portion of it goes to

1 energy.

2 MR. WORKMAN: Okay.

3 MR. DURHAM: I would just like to comment.  
4 I'm James Durham. When you have a soft market like we  
5 have now for a number of reasons, cheap prices become  
6 even more important, and they will take more of the  
7 market because people are looking closer, and they're  
8 looking more serious at what the prices are, and cheap  
9 prices get more attention, and they take a bigger part  
10 of the market than they would under some other  
11 conditions.

12 MR. WORKMAN: Okay.

13 MR. GILLELAND: Sir, I would say that as it  
14 relates to the lost business as we testified, I don't  
15 think Jim or I, either one have bought any material in  
16 a year. The primary reason for that is we would be  
17 buying on these normal cycles were it not for the  
18 amount of Chinese pipe that's on the ground, not  
19 necessarily what is in our inventory, but what's  
20 available for us at very low prices, so there's no  
21 reason for us to buy, so that's a direct sale that  
22 U.S. Steel would have that we would buy other places.

23 MR. WORKMAN: Okay. I had one other  
24 question for Mr. Vaughn. In looking at this chart,  
25 page 14 shows rig counts, and I noticed in 2009 the

1 weekly rig counts have dropped so low they haven't  
2 been that low since 2003. Could you explain what's  
3 caused that to happen and what implications it has on  
4 your product?

5 MR. VAUGHN: Well, I'll kick it off, and  
6 other people can comment if they want. I think that  
7 basically what this chart shows is that there has been  
8 a decline in the rig count due to a number of factors  
9 particularly falls in the price of natural gas, and  
10 that decline rig count certainly weakens demand for  
11 this product and makes the industry certainly more  
12 vulnerable to material injury going forward.

13 In other words, if 366,000 tons from China  
14 were sufficient to imbalance the market last year,  
15 even a smaller volume would have a significant impact  
16 this year. Having said that, the rig count now is at  
17 a level pretty similar to where it was in a lot of  
18 other years, and I think that the testimony that  
19 you've heard from these witnesses who have been in  
20 this market for a long time is they've never seen a  
21 market like this one.

22 They've never seen this much inventory.  
23 They've never seen as much shutdowns. They've never  
24 see this sort of widespread layoffs, and so we think  
25 what this chart shows is that on the one hand the

1 industry is weaker, is in a position of vulnerability  
2 at this point, but at the same time this rig count and  
3 the related energy demand cannot possibly explain all  
4 the problems that are facing this market.

5 MR. WORKMAN: Okay. Well, thank you. I  
6 don't have any other questions.

7 MR. CORKRAN: Thank you very much. And my  
8 thanks to all the panel members. It's been very  
9 helpful testimony and we really appreciate you being  
10 here today. Coming at the end of the lineup is an  
11 enviable position in many ways because I get to hear  
12 all the questions that have come before. So, the  
13 questions that I have remaining are kind of a  
14 hodgepodge. I'll try to keep them in some form of  
15 order.

16 I would kind of like to discuss a few  
17 employment-related questions. But before I did, I  
18 wanted to check with Mr. Lindgren about V&M Star. Are  
19 your workers represented by organized labor at V&M?

20 MR. LINDGREN: No, they are not.

21 MR. CORKRAN: Okay. Thank you. And then I  
22 wanted to clarify what appeared to me to be something  
23 of a difference in approach to overall market  
24 conditions in 2009. If I understood the testimony  
25 correctly, U.S. Steel has laid off a very large number

1 of its production-related workers and is operating  
2 intermittently, I think to characterize it. I believe  
3 the testimony for V&M is, well, there have been  
4 contract -- termination of contract workers and some  
5 reduction of V&M workers. It's largely been addressed  
6 by reduced hours for the overall group. Can you  
7 explain a little bit the differences in approach and  
8 what goes -- what you take into consideration when you  
9 choose the approach that you take?

10 MR. LINDGREN: Well, I'll do my best to  
11 respond. We wanted to, as much as we could, keep our  
12 team together and as I said in my testimony, share the  
13 pan. So, we looked at, I guess you can in a matter of  
14 speaking, how many hours we could actually consume.  
15 And we cut, as we had to, to get down to that and that  
16 ended up putting everybody -- the remaining workers on  
17 24 hours. We did that to try to keep our team  
18 together. Some people were out on layoff. We paid  
19 the COLA so that they would continue with their  
20 healthcare. Salaried workers, that wasn't affected  
21 because it was a furlough, but they continue their  
22 full deal. Before we went to the 24 hours, we forced  
23 all the vacations, of course, so everybody had -- we  
24 had about three weeks where nobody was working.  
25 Because of some pre-planned Cap X projects we had, we

1     had a couple of shutdowns when we dismissed workers  
2     for that period of time, so they weren't necessarily  
3     working the 24 hours. But if you're working 24 hours,  
4     I don't know about anybody else, but I know if you cut  
5     my pay by 50 percent, it's -- well, we've done a  
6     calculation and maybe I shouldn't get into this, but  
7     we were working 24 hours versus the people on  
8     unemployment. Sometimes people wonder why they're  
9     working. But, at any rate, did I answer your  
10    question?

11               MR. CORKRAN: Yes, you did. Thank you. To  
12    summarize, one of your primary objectives was to try  
13    to keep, to the greatest extent possible, your labor  
14    force together and available.

15               MR. LINDGREN: Yes, that's right because we  
16    want to be able to start back up sometime.

17               MR. CORKRAN: And U.S. Steel took somewhat  
18    of a different approach to this?

19               MR. THOMPSON: I think probably the same  
20    thing under different circumstances. I think we cut  
21    costs. Our salaries were cut. 401K and benefits were  
22    cut. We did layoff employees, both manager and at the  
23    plants. I think were both attacking the exact same  
24    thing, just trying to get through the best method  
25    possible. And there are a lot of different methods to

1 do that, to try and cut costs as quickly as possible.

2 With the number of mills -- we mentioned the  
3 seamless mills. We also have a mill in Texas and it's  
4 been idle since February. And we have another mill in  
5 -- we have two mills that weren't in use and it's been  
6 idle since December. And we, at this point in time,  
7 no plans to bring up the one that's in Sumner, no  
8 plans to bring them up year. So -

9 MR. LINDGREN: Excuse me. I am ashamed to  
10 admit that I have forgot to mention that we terminated  
11 a significant number of salaried employees.

12 MR. CORKRAN: Thank you. I very much  
13 appreciate that and it's an interesting comparison.

14 My next question is to Ms. Andros, because  
15 she had not gotten a question yet and I wanted to make  
16 sure she didn't feel left out on this. But, it's  
17 actually a follow-up, which is, is there -- are  
18 contracts typically structured in such a way that tend  
19 to favor layoffs, as opposed to across-the-board  
20 hourly reductions? Is that something that's typically  
21 built into the contract between labor and management,  
22 itself, or is that typically more a decision that's  
23 left up to management?

24 MS. ANDROS: Well, I don't think I am the  
25 best person to answer that because I don't do



1 collective bargaining for the union. What I would  
2 suggest is maybe others can answer it here or we'll  
3 just have to get back to you and it might be in a  
4 confidential filing, frankly. But, it goes company to  
5 company and we don't know that's going to be across-  
6 the-board either.

7 MR. CORKRAN: Thank you. Unless the other  
8 witnesses could address it now, then that will be fine  
9 for a post-hearing -- post-conference -

10 MR. THOMPSON: I think -- as much as Linda  
11 just mentioned, I'm not qualified to answer that  
12 question. But, we would be happy to address that to  
13 the best of our ability in post-hearing brief.

14 MR. CORKRAN: Okay. My next question goes  
15 first to U.S. Steel, which is, I believe testimony  
16 earlier was that V&M Star's product mix was roughly,  
17 roughly 20 percent seamless standard line and pressure  
18 pipe and 80 percent oil country tubular goods, but  
19 please correct me if I mischaracterized that. Can you  
20 give me sort of an approximation for U.S. Steel's  
21 facilities?

22 MR. THOMPSON: We are about 30 percent  
23 standard line and 70 percent. Really, you know, you  
24 can dissect many different ways. We stay pretty true  
25 to that.

1                   MR. CORKRAN: Okay. Well, my question is  
2     with ratios like this and knowing what we do about the  
3     oil country tubular good markets and not trying to  
4     downplay the impact of these closures, but weren't the  
5     closure of facilities, the layoff of workers, all but  
6     inevitable if the large majority of your product mix  
7     is in oil country tubular goods and the market for  
8     OCTG is quite depressed and has been for most of 2009?

9                   MR. THOMPSON: Well, I think you  
10    underestimate our desire to run our mills, if we can,  
11    if there's any kind of conceivable marketplace for us  
12    to participate in. And then I think you're right, oil  
13    country is part of the problem, as far as these mills  
14    not running. But, honestly, I think the difference  
15    between this market and the market that we've seen in  
16    the past, I think Stephen tried to address it with the  
17    rig count, is we were at a rig count level, because  
18    we're so associated with the energy business, that we  
19    could run our mills. It would be tough. We would  
20    have to cut costs. But, we could survive, if it  
21    weren't for the inventory and the product that's out  
22    there.

23                   The issue is there are no orders. Standard  
24    line pipe is a lower volume than OCTG. It is viewed,  
25    at least within U.S. Steel, it's viewed as base load.

1 It tends to not go as high and not come as low.  
2 That's why we work hard to maintain that balance  
3 because it's good, solid steady business. I've said  
4 it a number of times over the last nine months, I  
5 never thought I'd see the standard line business  
6 disappear and it's gone. I mean, we're not getting  
7 orders. As Bob and Jim can testify, there are orders  
8 out there, but they're being filled by inventory and  
9 there's more inventory on the ground out there that's  
10 available.

11 You're right, a large part of the mills  
12 being down, go to 70 percent ratio in our mills, is  
13 because of oil country. I guess what I'm saying is we  
14 try to strike a balance, so that we can run our mills  
15 at 40, 50 percent of capacity. Right now, if I could  
16 get to about 25, 30 percent of capacity, I would be  
17 happy and I am not. It's just not there. So, then,  
18 we make the decision, we'll just stay down until we  
19 can build capacity up to a point which we can run.  
20 Does that answer your question?

21 MR. CORKRAN: It does. I understand that  
22 we're dealing with two different though very much  
23 related issues, in terms of the shipment volume and  
24 the sales volume that you can expect from seamless  
25 versus just -- maybe I should backup and ask an

1 overall question. At what point do you make the very  
2 hard decision to not to operate your mills for a given  
3 period of time, a period of weeks or even a period of  
4 months? One of your mills several months, half a year  
5 now it sounds like. And to what extent is that  
6 decision based on your overall operating capacity, not  
7 just your capacity for seamless?

8 MR. THOMPSON: I think every situation is  
9 different and you make decisions accordingly.  
10 Ironically, I think the initial response is to slow  
11 down and let the market settle and you'll get back  
12 into the market. I think that the thing that happened  
13 to us in this market is we slowed down and let the  
14 market settle and the market disappeared and we can't  
15 get enough orders to get back up. And I think that's  
16 what is different now versus other times. There is no  
17 time period that we can look at, when we talk about 12  
18 months of inventory out there, where we say this is  
19 the time to enter back into the market and our thought  
20 would be, at that point in time, that you run your  
21 mills and you start to participate in the market. As  
22 I referred to in my statements, it's important we stay  
23 in this market and we're looking for opportunities to  
24 run, even if it's one order, even if it's cost  
25 prohibitive under normal circumstances. I think our

1 initial thought in a market like this is to back up  
2 and let the market settle and jump back in when the  
3 volumes and the dollars make sense. I think that  
4 changes. You only have about a three- to six-week  
5 period during that evaluation. Then after that,  
6 you're just trying to figure out how to survive in the  
7 market. And that's really where we are now and we're  
8 really in conditions of because we've never seen, I  
9 don't think we have a formula. I don't think we can  
10 tell you. I think we discussed that possibly, you  
11 know, do you just run and get into the market. Given  
12 the inventory situation, we don't think that's the  
13 right thing to do. We only make pipe for orders and  
14 we rely upon gentlemen, such as Bob and Jim, to tell  
15 us when the orders are there. And as you've heard in  
16 their testimony, they're not there right now. And so,  
17 it's a hard question to answer, to tell you the truth.

18 MR. SCHAGRIN: Mr. Corkran, if I might add,  
19 you know, one of the things that I think is a common  
20 thread to all the industry and distributor witness  
21 testimony and their answers to questions is, yes, for  
22 both OCTG and seamless standard line and pressure  
23 pipe, demand is certainly down in 2009 compared to  
24 2008, probably on an order of 40 or 50 percent. But  
25 with normal inventory situations, you would see a few

1 down months and then you'd see things starting to  
2 return to normal. For both of these industries,  
3 what's amazing is how significant the over inventory  
4 situation has been. And in looking back over a span  
5 of 25 years of working with these industries, how  
6 we've seen lots of ups and downs. These are cyclical  
7 industries. Everybody around this room with all of  
8 their experience, 20, 25, 30, 35, 40 years of  
9 experience, all say what's different about this down  
10 cycle from any other cycle. And, clearly, the answer  
11 has to be the 800 pound gorilla in the room, is  
12 imports from China.

13           You know, we've had problems with imports  
14 before, bring cases on these products and others  
15 against lots of countries for decades. We've never  
16 seen this kind of a massive surge in imports without  
17 paying any attention in market conditions building up  
18 this much inventory. There were questions before  
19 about, well, was this just a lot of speculative  
20 buyers. You know, every time there's any boom cycle,  
21 it attracts speculators. The difference was in the  
22 past, people couldn't come in and speculate that much  
23 because there's almost only so much available supply  
24 from domestic or from other what we now call non-  
25 subject imports. Here, "speculators" get in the

1 market and they would find Chinese mills, who are  
2 essentially speculators, themselves, because you have  
3 a new mill being built over there every three months.  
4 We haven't built a new mill in this country in some 20  
5 years. They had a mill -- so, somebody builds a brand  
6 new mill in China, they're dying to find anybody to  
7 sell to. And if that person was never in the seamless  
8 standard line pressure pipe business in the United  
9 States before, but says, wow, I want 10 or 20 or 30  
10 thousand tons from you, bingo, they have a marriage.  
11 And here, somebody doesn't know anything about this  
12 business, but says, it's a hot market, I want to have  
13 product that's all of a sudden in there.

14               So, the result is, which is going to be very  
15 clear from the overall record that you establish in  
16 this investigation is that domestic shipments have  
17 fallen much more dramatically than a decline in  
18 demand. And imports from China, even though they're  
19 down, have gained market share, to the extent that it  
20 is very probable that Chinese market share is greater  
21 than domestic market share. I mean, in this segment  
22 of the industry, and you've looked at it a lot, we  
23 never saw that situation in the mid-1990s, in those  
24 cases, or the cases that were brought in 1999 and  
25 2000. This is just awe inspiring in a horrible way.

1       So, I would just have to say, it's just so different  
2       from anything the people in this industry has seen  
3       before and I think different from what the Commission  
4       has seen before. So, I hope that clarifies that  
5       relation between the drop in demand, which we won't  
6       deny has had an impact, and why all these mills have  
7       been shut down or operating for such relatively  
8       pathetic capacity utilization rates during what is now  
9       the first three quarters of this year.

10               MR. CORKRAN: Thank you. No, that is very  
11       helpful. I would like to follow-up with V&M on this  
12       question, too, though, because we've got a situation  
13       which the hours per worker have been cut in half.  
14       But, if 80 percent of your product mix is oil country  
15       tubular goods, I would press you on the same question,  
16       wasn't that essentially inevitable for reasons that  
17       are totally apart from this particular product?

18               MR. LINDGREN: I would have to agree that a  
19       reduction in hours would have been inevitable and our  
20       reduction in production for sure would have been  
21       inevitable. But, I would also say that when I'm out  
22       talking about Dick and Jane on the production floor,  
23       they're saying, well, can I have any more hours. So,  
24       just to put a human face on this issue, so they're  
25       working 24 hours or maybe they're not coming in during



1 the two weeks when we're doing some Cap X project or  
2 whatnot, can I have more hours; could I just have four  
3 more hours. So, yes, the point you're making I think  
4 we have to agree.

5 Another point I wanted to make and I forgot  
6 is that as I said to you, we do contract -- under  
7 normal circumstances, we contract out some of our  
8 functions. And let's just take shipping as an  
9 example. We have in that contract that in event we  
10 come to these types of draconian measures, we put our  
11 people -- we displace our -- we fire the contractor  
12 and we put our people in these positions. So that  
13 means that somebody that was making steel yesterday is  
14 in the shipping department today. So, there's a lot  
15 of training with that for safety reasons mainly and  
16 we'll have the same situation when and if we return to  
17 normal operation.

18 MR. CORKRAN: Thank you. If I could  
19 paraphrase just a little bit. That means that -- that  
20 estimate of hours per worker actually includes some  
21 non-pipe making, non-steel making hours now because  
22 some of the production workers have moved over into  
23 other functions. Okay.

24 MR. LINDGREN: Yes.

25 MR. CORKRAN: Thank you. That's very

1 helpful.

2 MR. HECHT: Mr. Corkran, Jim Hecht, if I  
3 could just add, I mean, the point you're making  
4 obviously on a mill where you're making OCTG as well,  
5 you're going to feel effects from the OCTG. But, I  
6 think you have to look at the marginal effects, the  
7 cumulative effect of what's going on. And, clearly,  
8 this is not an insignificant product on those mills.  
9 Clearly, it can justify runs and times and is a  
10 significant part of the business. And, obviously, we  
11 have a case going on right now with respect to OCTG.  
12 We believe that is a very strong case and hope that  
13 that is going to help the market for OCTG, so that we  
14 will be in a position to recover on that product. And  
15 to the extent that you have unlimited Chinese supply  
16 of this product coming in and preventing us from  
17 running what would otherwise be a chance to recover on  
18 this product, you're only going to delay those  
19 economic decisions about when runs become viable, when  
20 operating facilities become viable. So, I think it's  
21 a bit of a false choice to say was it inevitable.  
22 Obviously, you're looking at cumulative and marginal  
23 impacts from two different massive ways of unfair  
24 trading.

25 MR. CORKRAN: Thank you. I appreciate that.

1 And I'll just close it out by saying that I did not --  
2 obviously, I don't mean to downplay the impact of what  
3 has been going on over the last -- over 2009. But, I  
4 also want to try to tease out the various strands of  
5 causation here.

6 My next question goes to Mr. Durham and Mr.  
7 Gilleland and that is can you give us a little bit of  
8 a sense of what the market was like, say, September of  
9 last year, maybe late August, maybe as long as early  
10 October, when did it strike you that the market was  
11 tipping, the market was changing for this particular  
12 product?

13 MR. DURHAM: I think that the first change  
14 we saw was when hurricane Ike, it was September 13<sup>th</sup>,  
15 and we thought the downturn was really because of the  
16 hurricane. And in reality, that was when it really  
17 began to start going down and it was -- part of it was  
18 because of the financial meltdown that the financial  
19 markets experienced and other reasons. So, we were  
20 kind of -- I think we were thrown off base a little  
21 bit because we thought it was weather related and  
22 really the last two weeks of September, there wasn't  
23 much that was going on in the Coast because of the  
24 weather conditions. But looking back, I think that  
25 probably even sometime maybe right before September

1 13<sup>th</sup>, you know, things really started going down and we  
2 didn't recognize that. But by the first of October  
3 for sure, I think we were aware of the fact that  
4 things had changed.

5 MR. GILLELAND: Yes. I'd say our business  
6 probably -- we started noticing it more in October and  
7 pretty much the same kind of scenario on it. I think  
8 we were -- as a management group, we were starting to  
9 think about how the financial crisis would affect our  
10 customer base and projects that were out there that we  
11 thought might be canceled. We were starting to see  
12 some push back on some projects and that sort of  
13 thing. So, I think it was sort of the combination of  
14 that type of activity that we started seeing the  
15 downturn.

16 MR. CORKRAN: Okay. Thank you. That's very  
17 helpful. And can I ask, in terms of your sourcing, do  
18 you source 100 percent domestic or do you source a  
19 mixture of domestic and imported? You don't need to  
20 get into specifics, but just in general, sourcing for  
21 seamless.

22 MR. DURHAM: We source both and a  
23 substantial amount is imported.

24 MR. GILLELAND: We source both. We try to  
25 buy as much as we can domestically, but there are a

1 lot -- there may be some products that we have to buy  
2 from foreign companies.

3 MR. CORKRAN: Okay. Thank you. That helps.  
4 And I want to push back just a little bit on one of  
5 the characterizations. It's a similar question, is  
6 what I ask in oil country tubular goods. The import  
7 trends, the import volumes into the United States,  
8 they've been characterized as entering some say  
9 without paying attention to market conditions. And I  
10 look at the monthly import data and I hear testimony  
11 that the situation is murky, it was murky all the way  
12 into September, possibly through September. At what  
13 point -- when you made the decision, yourselves, that  
14 the market was turning, for your import sources, how  
15 long was your exposure to continued imports? I mean,  
16 how long were you going to continue receiving  
17 shipments? Three months? Four months, roughly?

18 MR. DURHAM: Well, I would say first of all,  
19 I think another thing that maybe kind of puzzled  
20 people, probably puzzled us, the first seven or eight  
21 months or nine months or so of 2008 were so strong,  
22 that when it started going down a little bit in the  
23 middle part of September, early September, whenever  
24 that really started, I don't think people really  
25 believed, I know we didn't, because it was so strong

1       seven or eight months before that. So, that kind of  
2       threw everybody off base a little bit. And we  
3       immediately, probably starting in late September,  
4       early October, we started contacting the mills that we  
5       had placed orders with and we tried to see what we  
6       could cancel or what we could move back. And, of  
7       course, it's more difficult to do that with imports  
8       than it is with domestic because the lead times extend  
9       out more with imports. And we were not successful  
10      really in canceling much at all. There were some  
11      cancellations and, of course, those cancellations,  
12      that material just came into the market unsold. And,  
13      again, that had an impact on people placing new orders  
14      with mills, as Mr. Gilleland said earlier, I mean,  
15      because now you didn't really have to go to a mill and  
16      buy something because there was plenty of inventory on  
17      the ground, either in distributor's inventories or  
18      where traders had taken a position -- a trader or  
19      speculator had taken a position and that was inventory  
20      in a trucker's yard in the Gulf Coast somewhere.

21               MR. GILLELAND: Let me say that that point  
22      that you're describing right there, our exposure to  
23      import product was not an untenable situation. And  
24      the word "speculation" gets thrown out here some and  
25      our business, that's a four-letter word. We try to

1 buy based on forecast demand and the like. But, we  
2 curtailed all of our purchasing when we saw things  
3 were going south. We still had commitments to valued  
4 suppliers and that sort of thing and we kept our  
5 commitments and renegotiated and did the best we could  
6 with it.

7 But, the situation with this product is  
8 different from a lot of other products that we're  
9 involved in. We talk about speculation and I said  
10 something about it in the testimony. The problem is a  
11 lot of people have gotten into this business because  
12 of price that never really historically were in this  
13 business. And they saw opportunities to get into the  
14 business and do things strictly because of the price  
15 involved. And so, traders became more speculative  
16 buyers of the product, rather than just buying for  
17 orders and working on small margins, as they had in  
18 the past. So, we see an entirely different business  
19 model, if you will, taking place with it, at this  
20 point. Does that make sense?

21 MR. VAUGHN: And, Mr. Corkran, this is  
22 Stephen Vaughn. I just wanted to clarify one thing  
23 about what we're arguing, too, which is that our point  
24 isn't that this stuff came in and then, you know,  
25 because demand went down, it was harmful. What our

1 witnesses have testified to is that in the last  
2 quarter of 2008, for example, there was 150,000 tons  
3 that came into the market. That's 600,000 tons a year  
4 and there's just sort of no level of demand that  
5 anyone can conceive of or imagine where that would be  
6 kind of not market disruptive. And so, that's sort of  
7 when we talk about sort of disregard to market forces,  
8 it's not so much that they were disregarding signals  
9 about downturns in the market. It's that even based  
10 on the signals that they had, the volumes that they  
11 shipped in were going to overwhelm the market. So, I  
12 just wanted to clarify that one point.

13 MR. CORKRAN: Thank you. That's very  
14 helpful. And I will finish up very briefly with just  
15 a few general questions on the product, itself.  
16 First, is seamless line pipe and standard and pressure  
17 pipe a product that requires heat treatment?

18 MR. THOMPSON: There is some product, as you  
19 get into the higher project-oriented product that  
20 requires heat treat. The predominance, the quad  
21 stencil, the stuff we're talking about here does not  
22 require a heat treat product.

23 MR. CORKRAN: Thank you. That's very  
24 helpful. I was wondering if there were some of the  
25 same sort of heat treatment constrictions taken place



1 with this product, as may have been taken place with  
2 oil country tubular goods. But, it sounds like that's  
3 not a major factor. Okay, thank you.

4 In going through the import data, a couple  
5 of the smaller HTS statistical reporting numbers deal  
6 with a galvanized product. Can you give me an idea of  
7 what you might use to galvanize seamless product for?

8 MR. THOMPSON: We don't sell any and/or  
9 product it, whether some of our product gets  
10 galvanized or not. To the best of my knowledge, it  
11 doesn't, although somebody else might speak a little  
12 better.

13 MR. DURHAM: We take seamless that we buy  
14 from the mill that's not galvanized, it's refer to as  
15 black layer, and we have it galvanized. And as we see  
16 the market for that, a lot of refineries and chemical  
17 plants because of the corrosiveness of their product,  
18 they require items to be galvanized. And we carry  
19 fairly decent inventory of galvanized product.

20 MR. CORKRAN: Thank you. That's very  
21 helpful. Another interesting item in the official  
22 import statistics has to deal with large diameter pipe  
23 and by that I mean over four-and-a-half inches through  
24 16 inches. Germany appears to be a relatively large  
25 source of the product, but it seems to be coming in

1 under HTS numbers that deal with heavy walled or  
2 thicker product. Can you give me some insight into  
3 that?

4 MR. POGNONEC: Yes. Basically, all the line  
5 pipe coming from Germany is what we call project line  
6 pipe. That would be a product according to specs,  
7 like X-65, X-AT or higher. Those are the contracts  
8 that I was mentioning area, where typical of a direct  
9 end user purchase that does not go through  
10 distribution. It's an order for a specific project  
11 with a specific set of specification. And it's  
12 shipped one time and being laid off in the Gulf of  
13 Mexico. And you may have read in the press that there  
14 is a ship right now near Brownsville, was loading  
15 eight-inch pipe to be laid out in the Gulf of Mexico  
16 and that's one of those two coming from Germany.

17 MR. CORKRAN: Okay. Thank you, very much.  
18 About the last question that I had, both of you  
19 individually mentioned this, but I wanted to  
20 summarize. In terms of V&M's production capability  
21 and U.S. Steel's production capabilities, 10-3/4 and  
22 above, U.S. Steel is the only domestic supplier of  
23 large diameter line pipe?

24 MR. LINDGREN: No. V&M Star makes 10-3/4  
25 also. They make up through -

1 MR. CORKRAN: Do you go higher than 10-3/4?

2 MR. LINDGREN: Our size range is five inch  
3 through 10-3/4.

4 MR. CORKRAN: So, it's over 10-3/4 is the  
5 point at which U.S. Steel is the sole domestic  
6 supplier?

7 MR. LINDGREN: Correct.

8 MR. CORKRAN: Well, again, thank you all  
9 very much for your testimony here today. It's been  
10 very helpful and I have no further questions.

11 MS. DEFILIPPO: Thank you, Mr. Corkran.  
12 Most of my questions that I've scribbled in the  
13 margins of my notes have been asked, but I do think I  
14 have a couple quick little things just to clarify for  
15 myself. Following up on Mr. Corkran's questions to  
16 Mr. Gilleland and Mr. Durham, in terms of purchases  
17 and inventories, and some of this you may want to  
18 provide in a post-conference brief, and that would be  
19 fine, you indicated I think that you source both  
20 domestic and import. If you could, and this is  
21 probably better addressed in a post-conference, in the  
22 post-conference submission, if you could provide  
23 information on the percentage of your purchases from  
24 domestic subject and non-subject, and there have been  
25 any changes over the period, if you could indicate

1       what has caused the sort of relative share of  
2       purchases from different sources to be different?

3               And as a clarification, I think it was Mr.  
4       Gilleland earlier that said you had not bought pipe  
5       for inventory in over a year. And then in your  
6       discussions with Mr. Corkran, I wasn't sure, have you  
7       not purchased anything or you're purchasing for some  
8       customers that may have a specific produced to order  
9       order?

10              MR. GILLELAND: Well, we buy for an  
11       inventory position based on forecast needs. But, we  
12       also have what we call -- internally, we call it  
13       project business, which would be for a specific  
14       project. So, we would buy product for that, which  
15       would be either sold -- shipped direct or we would do  
16       some value add to it in the meantime. So, we do buy.  
17       We buy everyday. But, it's something outside of our  
18       normal inventory items.

19              MS. DEFILIPPO: Okay. And, again, this may  
20       be something you would rather address in a brief, to  
21       the extent you could discuss the relative size in  
22       terms of your purchases that are sort of for this  
23       inventory base versus the project base, that would be  
24       interesting to see in your brief.

25              Does this market have any Buy American

1 provisions?

2 MR. THOMPSON: I think Jim might be able to  
3 answer that. But, there are small portions of Buy  
4 American. But, if you're referring to the most recent  
5 activity, I think we've not seen much activity  
6 whatsoever driven by the new Buy American initiatives.  
7 I think there are some government jobs and others that  
8 tend to be Buy American. But, Jim can speak to that.

9 MR. DURHAM: I would say that the most  
10 glaring example, that there is a job in Texas that is  
11 an ongoing job and it is a government job. And it's  
12 Homeland Security or -- what's the department that's  
13 similar to Homeland Security, but not Homeland  
14 Security? Maybe it's the -- but at any rate, they had  
15 huge requirements for 24-inch seamless pipe, large  
16 requirements. And the first part of the job, we were  
17 awarded the first part of the job with domestic 24-  
18 inch seamless pipe, a large amount. The second part  
19 of the job was 100 percent Chinese and which we were  
20 somewhat disappointed in. And, frankly, a little bit  
21 surprised that there was that much Chinese in the  
22 marketplace in that particular size, but we discovered  
23 that there was. But, in general, there's no Buy  
24 American that we're aware of.

25 MS. DEFILIPPO: Okay, thank you. In terms

1 of sizes, I think it was mentioned or asked, it might  
2 have been by Ms. Lo, whether there were -- the U.S.  
3 sold all the same sizes as the Chinese. So, I guess  
4 just to make sure, on the flip side, are the products  
5 in the market for Chinese and U.S. along the spectrum  
6 together or are there -- and I think the answer is,  
7 yes, the U.S. is selling everything that the Chinese  
8 are. Are there any gaps in what's being offered?

9 MR. THOMPSON: No, there are not. In fact,  
10 because of the age and the producers of the mills, the  
11 mills that the Chinese have are honestly, as Roger  
12 referred to earlier, the envy of our mills, quite  
13 frankly, because they're newer and they're built by  
14 the same people that built our mills, only much, much  
15 longer ago.

16 MS. DEFILIPPO: Is there similar -- is there  
17 any concentration issues involved with where one  
18 country may be more concentrated in the lower and the  
19 other in the higher, or are they fairly spread out  
20 evenly over different sizes?

21 MR. THOMPSON: It's pretty well spread out  
22 across all sizes.

23 MS. DEFILIPPO: In terms of inventory, if I  
24 go back for a minute -- sorry, I don't mean to jump  
25 around -- again here or in your brief, if you could

1 discuss sort of what a typical inventory level would  
2 be and how that has changed, what you normally would  
3 like to keep and where you have gotten to be with this  
4 much inventory level that you all have described. I  
5 don't know if you have comments now or if you would  
6 prefer to put numbers in a brief.

7 MR. DURHAM: We normally would carry an  
8 inventory that would be three months supply, maybe  
9 four, but four would be tops. And, of course, now,  
10 we've got probably 12 to 14 months supply. It was  
11 even more than that, if you went back nine or 10  
12 months ago.

13 MS. DEFILIPPO: Thank you. Mr. Vaughn, just  
14 a quick question on your packet of slides here and  
15 there are a couple of different ones that had prices  
16 that I think you had referred to. One on page six was  
17 the Preston pipe pricing that Mr. Treat had asked  
18 about earlier. And not to get too specific, but the  
19 trend here is sort of a general downward trend and I  
20 realize this includes both domestic and imported  
21 pricing. The data on page 13 show unit values for  
22 imported pipe, which for China go along in a fairly  
23 steady pattern and then they spike up in sort of March  
24 to May, where you're still seeing this decline on the  
25 U.S. Is there any information you can provide on why

1       they sort of have those different trends at that  
2       period?

3               MR. VAUGHN: Yeah. I mean, I think that  
4       first of all, what you see is the Chinese price, as  
5       Mr. Durham testified earlier, this is a blended mix  
6       that Preston is using. It should be picked up in  
7       here. And so, I think that they are sort of picked up  
8       as part of this kind of general downward trend that  
9       you see.

10              Second of all, while you do, as you were  
11       saying in the other slide, you know, you do see a few  
12       spikes here and there. I mean for the most part, if  
13       you sort of look toward the end of last year, that has  
14       been also been kind of a downward trend, as well. So,  
15       we will look at it some more. If we have anything  
16       more to add, we will. But, I think that basically,  
17       you're seeing that they are part of what's drifting  
18       down along with everything else.

19              MR. SCHAGRIN: Ms. DeFilippo, I would just  
20       like to add, I mean the one thing that is clear from  
21       all the data, and I'm quite confident that it's going  
22       to be clear in the staff record, is that the Chinese  
23       are consistently underselling all of their imports in  
24       the domestic industry. And I don't need to give you a  
25       preview of our rebuttal comments now, but I've always



1     been shocked, you know, counsel for the Chinese said  
2     this morning, it was all demand pull. We hear this  
3     every case. I remember back in 1998, we heard it.  
4     And the one thing -- I know you come from an economics  
5     background to being director -- I've never understood,  
6     when I studied economics as an undergraduate in  
7     college, when there's more demand than there is  
8     supply, price curve gets pushed up and it's those  
9     additional units that are supposed to come in at the  
10    highest prices.

11                 Something about this state dominate -- and I  
12    forgot to wish the Chinese Government and everybody  
13    that works with them a happy 60<sup>th</sup> anniversary, not  
14    exactly my favorite political system in the world,  
15    that's pretty clear. I'm not going to change my  
16    stripes any time soon. You know, with their kind of  
17    state planned economy and these kind of mills  
18    dominated by the government and so focused, and this  
19    gets back to a question Mr. Corkran asked about, you  
20    know, is this really -- how do you see disrespect for  
21    the market? Aren't they just following the demand?  
22    I've never understood when you do have periods of  
23    strong demand, the Chinese say, we're just in here  
24    satisfying demand. Why are their prices always so  
25    much lower than everybody's?

1           Mr. Thompson said, they have mills that are  
2     probably the envy of most of the producers in the  
3     United States. They have brand new -- they have the  
4     best equipment the Government of China, through  
5     Chinese state-owned banks, could buy. And so they've  
6     got the best equipment. They've got good people  
7     working in those countries, very industrious people.  
8     They make products that in this category, you couldn't  
9     find a more commodity or fungible product than a  
10    product all the imports from China and all the  
11    domestic product are stenciled to the same four  
12    specifications. Why are their prices so low? And  
13    it's those really low prices that result in some  
14    speculator saying, hey, I know some of these Chinese  
15    mills and I've got a way that I can get 30,000 tons on  
16    the ground and I'm going to make a fortune in this hot  
17    market. And it all just ties together in a way that  
18    the U.S. industry operating under market conditions  
19    just gets nailed. And, yeah, we do get nailed worse  
20    when things turn down than when things are going  
21    along. But, we've seen plenty of injury even during  
22    strong market conditions.

23           And so, I really think that all the pricing  
24    information you're going to find not only tells the  
25    story of underselling, but really speaks to the fact

1       that Chinese product was not demand pulled into the  
2       market, but these guys are just the kings of worldwide  
3       and even on the Chinese market, oversupply. And  
4       nothing made up by the Respondents can ever get away  
5       from a basic fundamental oversupply situation and  
6       that's what I think you see in those charts.

7               MS. DEFILIPPO: Thank you. Mr. Vaughn, one  
8       other quick question. On page 20 of your packet, in  
9       talking, I think, about the issue of threat of  
10      material injury, you note, "Chinese mills face  
11      numerous obstacles elsewhere." I think someone  
12      mentioned the antidumping duty order or case on China  
13      in Europe. I was wondering what other obstacles were  
14      you referring to, in terms of the Chinese having  
15      difficulty?

16             MR. VAUGHN: Yes. They face -- there's been  
17      a recent order put in place by the EU. They had a  
18      case in recent years involving seamless casing in  
19      Canada. There's also a new OCTG case that was  
20      recently filed in Canada. And there's been steps in  
21      India that were recently taken to limit Chinese mills.  
22      And I think there may be some others, including  
23      possibly Mexico. And we will discuss that in more  
24      detail in part of our post-conference brief.

25             MS. DEFILIPPO: That would be great. Thank

1     you, very much. I don't have any other questions. I  
2     did just want to follow-up on Mr. Yost's request for  
3     financial data. And I just want to note that I  
4     realize that we're barely out of the third quarter and  
5     accurate estimates for any kind of data that we ask in  
6     a questionnaire might be difficult. So, in light that  
7     the briefs are due next week, if estimates of actual  
8     data are not available, a general discussion would be  
9     acceptable. But, as long as you address it, I  
10    understand there may be difficulty with some actual  
11    hard number estimates.

12                 MR. HECHT: We will do the best we can with  
13    that.

14                 MS. DEFILIPPO: Does staff have any other  
15    questions?

16                 (No response.)

17                 MS. DEFILIPPO: With that, I thank you all  
18    very much, particularly the company officials who have  
19    come and spent their day here instead of at your  
20    facility. I thank you very much for your time. We'll  
21    take a 10-minute break, stretch our legs, and I'm just  
22    going to say for ease 12:25, so I guess it will be a  
23    12-minute break. Thank you.

24                 (Whereupon, a brief recess was taken.)

25                 MS. DEFILIPPO: We are now with those in

1 support of the imposition of antidumping duties.

2 Welcome to the panel. Oh, gosh, in support.

3 MR. CAMERON: Actually I know that there are  
4 some who are in support of them, but it's not us.

5 MS. DEFILIPPO: In opposition, in opposition  
6 to the anti -- pardon me, I had page 2, not page 3.  
7 Mr. Cameron, please proceed.

8 MR. CAMERON: Wow, what an auspicious  
9 beginning.

10 MS. DEFILIPPO: For both of us.

11 MR. CAMERON: For both of us. Yes, you're  
12 doing fine. Look, first, for the record, my name is  
13 Don Cameron, Troutman Sanders, appearing on behalf of  
14 Hengyang Valin. I'm accompanied by Julie Mendoza and  
15 Brady Mills of our law firm.

16 You know, I'm really stunned to listen to  
17 the testimony this morning and hear about how the U.S.  
18 industry was injured in 2008 by imports and that the  
19 imports weren't demand-driven.

20 Now, before I get into my testimony, I'd  
21 just like to see some evidence that any U.S. producer  
22 lowered one product, one sale, by one dollar to  
23 compete with one ton of imports from China. This  
24 record doesn't support that, and those profitability  
25 levels certainly don't even suggest that.

1           What they suggest is this industry was  
2     operating at full capacity in 2008, and that's exactly  
3     why there were imports that came in. So I mean, I  
4     wish that my 401(k) looked as good as their profits  
5     did in 2008 or '09. All right, so much for that.

6           Look, they're pointing to the fact that  
7     imports increased significantly in 2008. Obviously,  
8     imports did increase significantly in 2008.

9           The question -- and it's also clear that the  
10    industry and the market is currently slow. The only  
11    thing that we would ask you to do, and obviously from  
12    the questions this morning this commission and staff  
13    is already doing that, just look at the data.

14          The question is really whether imports from  
15    China caused this condition, and whether imports from  
16    China are the threat. And I would suggest to you that  
17    the data suggests that it is not.

18          This case is not about OCTG. We have heard  
19    a lot of testimony about OCTG. You know, according to  
20    your prehearing, your staff report in OCTG, there were  
21    630,000 tons of importers ending inventory in OCTG as  
22    of March.

23          Let's compare the numbers that we're talking  
24    about in terms of this product. They are not  
25    comparable. This product is the tail end of what's

1 going on here. We're not talking about OCTG inventory  
2 levels; we're talking about seamless levels. And the  
3 importer inventory data so far suggests that things  
4 are basically stable.

5 So the issue really is, did imports from  
6 China cause the current condition. And I would  
7 suggest to you that the answer is no, based upon the  
8 data.

9 Again, while it's true that imports  
10 increased 2006 to 2008, it's equally true that U.S.  
11 producers were running virtually at full capacity.  
12 Now, I would caution the staff. You guys have done  
13 pipe and tube just like a lot of us have. Those  
14 capacity numbers are very difficult to get a handle  
15 on. And whatever they were producing in 2008, that's  
16 virtual full capacity, because there's no indication  
17 that they could have pumped out any more, or gotten  
18 one additional sale other than what they got when you  
19 combine the capacity for OCTG and the capacity for  
20 seamless line pipe.

21 We base this statement on the recent OCTG  
22 decision in which the Commission noted that U.S.  
23 producers had customers on allocation at that time.  
24 Well, simply stated, if they were allocating tons for  
25 their most profitable product, which is OCTG, you know

1       they're doing the same thing for this product. I  
2       mean, there's just no, no way that that isn't the  
3       case.

4               Second, we also note from the OCTG case that  
5       despite surging imports of OCTG, domestic producers  
6       made record profits in 2008. As we heard this morning  
7       from Mr. Yost, their profitability in this industry  
8       was north of 30 percent in 2008. That's pretty nice.

9               While imports of seamless pipe were nowhere  
10      near the levels of imports of OCTG, however, many of  
11      the same U.S. mills were producing seamless line pipe  
12      on the same seamless OCTG mills. So it is reasonable  
13      to conclude that the seamless line and standard  
14      industry was similarly profitable, and I think the  
15      record is going to bear that out, as we heard  
16      discussed this morning.

17              But what do these profitability levels say  
18      when imports of China were at their absolute peak? I  
19      mean, let's think about this. When you're talking  
20      about causation, when you're talking about the causal  
21      relationship between imports from China and the  
22      domestic production. And the U.S. producers were  
23      making phenomenal profits. And they certainly were in  
24      OCTG.

25              It says imports from China in fact weren't



1       injuring the U.S. industry. To the contrary, the  
2       growth in imports appears to be caused largely by the  
3       inability of U.S. producers to supply the demand in  
4       the market.

5               As noted, we know that U.S. producers were  
6       allocating OCTG. Again, we suspect the same thing  
7       here.

8               Second, not all U.S. producers produce all  
9       grades and sizes of pipe. We heard this morning that  
10      the industry itself produces everything. But as you  
11      know, some producers produce less than four and a  
12      half; some producers, we heard V&M say they produce  
13      five and a half through 10 and three quarters, I  
14      believe. So in other words, they're not a full-stop  
15      shop.

16              So not everybody is supplying everything.  
17      So you have distributors that are also importing.  
18      Well, why are they importing if they can get  
19      everything?

20              We had testimony from one of the  
21      distributors this morning who said well, we import  
22      some of what we cannot purchase domestically. Well,  
23      what is that? I'm not really sure, but it's clear  
24      that there are gaps in the, in the food chain, and  
25      it's also true that U.S. Steel has a limited number of

1 distributors that it supplies to, and it really  
2 appears to be the only full-service seamless producer  
3 in the market.

4 So as a result, there was additional demand  
5 created by product mixes, as well. But also, as we've  
6 also heard, the market was extraordinarily hot.

7 The market in 2008 in fact was so hot that  
8 U.S. Steel could announce an \$800-per-ton price  
9 increase for OCTG in June.

10 Now, before we hear about how those price  
11 increases were all driven by increases in raw material  
12 costs, again, look at the profitability levels in OCTG  
13 for 2008. I think it was 32.3 percent or something  
14 like that. I mean, that's a pretty nice number, and  
15 that's in OCTG.

16 Now, we're not saying that line pipe is  
17 OCTG. But what we are saying is that the  
18 profitability was strong, and these price increases  
19 indicate that. If you're going to announce \$800 a  
20 ton, if you're going to announce a price increase of  
21 that magnitude, what does that say? What that says is  
22 you're basically full-up. And that is, in fact, what  
23 the market was. And there's quite a bit of profit on  
24 top of those raw material increases, as the  
25 profitability numbers say.

1           But the point is that U.S. producers simply  
2       didn't have the ability to supply the market. Hence,  
3       price increases; hence, strong profits. I mean, look,  
4       and I'm not saying they should be condemned for that.  
5       I think that's terrific. I mean, God love them.

6           But it also means that imports from China  
7       were not injuring U.S. producers at that time. And,  
8       you know, obviously nobody announced an \$800-per-ton  
9       increase for this product, but we do believe that  
10      prices were sufficiently strong to enable the U.S.  
11      producers to achieve a healthy profit.

12           So at the end of the day, the injury case  
13      there turns on one thing: import levels from China  
14      alone. And again that gets to the issue, you know.  
15      When you look at the data, does it seriously tell you  
16      that imports from China injured U.S. producers in  
17      2008. And I would suggest to you that the record does  
18      not support that statement in any way.

19           Turning to 2009, there is a significant  
20      difference between what happened in the case of OCTG  
21      and what happened in the case of seamless line pipe.  
22      And those differences actually carry through to the  
23      data.

24           In OCTG imports remained strong through the  
25      first quarter of 2009, even though demand had turned

1 down significantly. This is not what occurred in the  
2 case of seamless line pipe, but think about it.  
3 Because those import levels continued at pretty  
4 significant levels, you had importer inventory levels  
5 by March that were 630,000 tons. That's only for  
6 importers in OCTG.

7 Well, what happened here with seamless line  
8 pipe, and this is a good example. Okay, in seamless,  
9 imports from China during the fourth quarter of 2008  
10 averaged 49,000 tons, roughly. Those import levels,  
11 as previously discussed, were a function of strong  
12 domestic demand.

13 But in January of '09, that's only January  
14 of '09, imports of seamless from China dropped to the  
15 10,000-ton level. That's a decline of -- I'm sorry,  
16 they dropped by 21,000 tons, which is a decline of 43  
17 percent from fourth-quarter levels.

18 By February imports of seamless from China  
19 dropped to the 10,000-ton level, which is a decline of  
20 78 percent. But look at the import statistics that  
21 we've got for January, in January they had dropped to  
22 28,000 tons. At least that's according to, we're  
23 using the HTS import data that we compiled, and it  
24 does correspond to the compilation that the U.S.  
25 industry had. And if there are disparities, then

1 obviously we will talk to the staff about it. But  
2 those are the numbers that we've got.

3           Nevertheless, the data is going to show a  
4 significant decline in imports. So by February we're  
5 down to the 10,000-ton level. And to put this into  
6 some perspective, imports through the first six months  
7 of 2009 averaged only 11,000 tons. And that level is  
8 inflated by the January import levels. In June,  
9 imports were only 1,399 tons.

10           So we heard this morning that no, imports  
11 from China didn't react to the market; I mean, they  
12 just continued to surge in. Well, the data doesn't  
13 say that.

14           What the data shows is, in fact, imports  
15 from China did turn down. They turned down  
16 significantly.

17           Accordingly to the import data in the  
18 petition, imports from China had increased from 35  
19 percent to 51 percent of total seamless imports in  
20 2008. Okay. And in 2009, imports from China fell by  
21 43 percent in the first six months, compared to a drop  
22 of only 32 percent for all other imports.

23           That's interesting. I thought that it was  
24 the Chinese who were the only ones who were defining  
25 the market. And yet China, imports from China fell

1 more rapidly than imports from everyplace else.

2 In other words, imports from China exited  
3 significantly faster, to the point that imports from  
4 China were at their lowest point, as a percentage of  
5 total seamless imports, since 1976. I mean 2006, I  
6 apologize. Not the bicentennial. You know, I've been  
7 dating myself lately. You know, it's usually Roger  
8 and I dating ourselves. Even I was before him, and  
9 1976 is an awful long time ago.

10 In 2006, imports from China were 30 percent  
11 of the market. And in January through June 2009 -- I  
12 mean, percentage of imports. And in January through  
13 June 2009 at 39 percent. So they're at their lowest  
14 point. Again, showing that in fact, imports of  
15 seamless from China have been quite responsive to the  
16 market.

17 Again, this is not at all similar to what we  
18 saw in the case of OCTG, where OCTG imports from China  
19 had increased by over 100 percent between the first  
20 quarter of 2008 and the first quarter of 2009.

21 The data in this case shows the opposite  
22 trend: imports of subject merchandise from China  
23 dropping, in line with the collapse in demand.

24 So the way we look at it, we believe that  
25 the data supports the proposition that, in fact,

1 imports from China have responded responsibly to the  
2 market, and have been responsive to the market.

3 This pattern of imports from China also  
4 indicates that they pose no threat of injury in the  
5 near future. In other words, you don't have a case,  
6 like you did at OCTG at the time of the case, where  
7 imports continued at a high level. In this case,  
8 you've already had imports fall.

9 Now, it's clear that demand has not been as  
10 strong during the first half of 2009. But given  
11 economic conditions, there is no indication that  
12 imports from China caused injury or threaten to cause  
13 injury in the imminent future.

14 With respect to the question of injury, this  
15 industry has been highly profitable during the peak  
16 period of imports. That doesn't seem to correlate to  
17 the concept of injury by reason of imports from China.

18 Now, why is that? Because imports had no  
19 impact either on the quantity produced, or the prices  
20 charged.

21 What happened in 2008 was a phenomenon of  
22 the market, which is exactly why those imports came  
23 in, and exactly why they didn't have an impact on U.S.  
24 production.

25 U.S. shipments have slowed in 2009, but not

1     because of imports from China, which also slowed down  
2     markedly. Rather, U.S. shipments declined with a  
3     drop-off in demand. We've already seen the rig count.  
4     I mean, it's nice if we stretch it back to 1990 and  
5     say that the rig count is about average. Why don't  
6     you look at it for the last five years and tell me  
7     that that's average?

8             As noted, it's dropped to a level at or  
9     below what it was in around 2003. I mean, things are  
10    very low compared to what they had been. And imports  
11    from China dropped as a result of that same market  
12    condition.

13            U.S. seamless producers, however, have  
14    remained profitable in the first half of 2009, despite  
15    market conditions. And that is truly remarkable. And  
16    that again goes to the issue of causation, and whether  
17    or not imports from China indeed have injured this  
18    industry.

19            What other industry that's been before you  
20    recently has had anywhere near the profitability of  
21    this industry? And yet they're saying they're injured  
22    as a result of imports. But we're supposed to ignore  
23    what's happening with respect to the market conditions  
24    that we know exist, and that don't affect just them.  
25    Those market conditions affect everybody.



1           So given overall market conditions and  
2     economic conditions, it's remarkable that they  
3     continue to remain profitable. And you know, that's  
4     an indication that imports from China are not a threat  
5     of injury to this industry.

6           Now, they claim they're vulnerable, but it's  
7     very difficult to see the economic case, based upon  
8     the trade law here, where the industry is profitable,  
9     where the AUVs, as already discussed this morning,  
10    continue to remain strong, and where the ratio of raw  
11    materials cost to sales value remains low, and in fact  
12    has declined.

13           When the market picks up, so will sales  
14    volumes, because U.S. producer inventories are low.  
15    Inventories for imports from China are also stable,  
16    and they're not increasing.

17           I mean, we have heard this morning time and  
18    again how inventory levels are, based on imports from  
19    China, are crushing the market. Look at the OCTG  
20    numbers, and look at the numbers that you have on your  
21    record. At least the importer inventory numbers  
22    appear to be stable. They are not increasing. And in  
23    fact, you know, we'll see what happens. But they  
24    appear to be getting worked off.

25           All of the stuff is a condition of demand.

1 When the market picks up, those inventories disappear  
2 pretty quickly.

3 U.S. producers then allege that Chinese  
4 producers are going to continue to exert pressure on  
5 the market. But again, there is no evidence of this,  
6 given the import levels that we have seen. And the  
7 import levels are critical, because in 2009 monthly  
8 import levels from China have not surged. In fact,  
9 they did come down, and they came down rapidly.

10 So it's not a case where import levels  
11 remain high despite the downturn in the market. And  
12 that's an important consideration for you in looking  
13 at threat.

14 Now, the Chinese producers have also been  
15 serving their domestic market. And I'm going to turn  
16 this over to Julie because, number one, I know that  
17 you guys get tired of hearing me; and second of all,  
18 she actually can tell you something that will be  
19 informative.

20 Thank you.

21 MS. MENDOZA: Good morning. My name is  
22 Julie Mendoza. A couple of comments, as Don said,  
23 with respect to the threat of injury case the  
24 Petitioners have put forward.

25 Petitioners' case clearly hinges on the

1 assumption that China has no alternative markets for  
2 its production. And it certainly ignores the fact  
3 that there is a huge Chinese market for these  
4 products. And I think one of the things that's really  
5 significant in this case, unlike some past cases, is  
6 that what you're seeing is a much more rapid recovery  
7 in the Chinese economy than you're seeing in other  
8 economies around the world. So that is a very  
9 significant factor I think in this investigation that  
10 has not been really as true in past cases.

11           Following the recession earlier this year,  
12 the deep recession earlier this year in the entire  
13 world, the Chinese Government put a significant amount  
14 of money into stimulus. And they got it right into  
15 the economy. And by most accounts, the Chinese market  
16 has generally, as a general matter, has improved  
17 dramatically, while the U.S. market has basically just  
18 stabilized at this point. So you're seeing much  
19 quicker recovery in the Chinese market.

20           And I think that one of the things that  
21 commentators generally have observed is that, as a  
22 consequence of the improvement in the Chinese economy,  
23 is that energy demand has also gone up; and that a lot  
24 of the projects, the energy projects, have been really  
25 revamped. And a lot of focus has been placed on

1     trying to get those projects up and running,  
2     particularly the Central Asia pipeline projects, which  
3     there are many of them. They're diverse. We'll  
4     discuss them at greater length in our post-conference  
5     brief.

6             But among the major projects are the China  
7     Myanmar oil line, which is right now in development;  
8     the Senopek gas project line or pipeline to eastern  
9     China, which is being significantly expanded.

10            And finally, there are a number of other  
11     large pipeline projects in the works, including one  
12     you've been probably reading about lately, which is  
13     the China-U.S. crude oil pipeline project.

14            The other significant factor that's occurred  
15     in China is the discovery of the deepsea oil reserves  
16     in the South China Sea, which again people are  
17     expecting are going to generate significant line-pipe  
18     demand in China.

19            And so that's the gasline projects. The  
20     other major event that's going on that's going to have  
21     a big impact on demand in China is the nuclear power  
22     plants. In fact, four nuclear power plants are  
23     currently underway in China, and there are as many as  
24     six additional projects which are being planned for  
25     the near future.

1                   So in sum, the quick recovery in the Chinese  
2                   economy has created a very different situation for  
3                   seamless demand in China going forward, relative to  
4                   the demand balance in 2008, when the U.S. economy was  
5                   growing at a very fast pace, and, as Don Explained,  
6                   pulling in imports from China to fill that rapidly  
7                   growing demand during times of allocations and  
8                   diminished U.S. supply.

9                   Thank you. And I think we'll turn it over  
10                  to Brady Mills from our office now to talk about like  
11                  product.

12                 MR. MILLS: Hi. This is Brady Mills from  
13                 Troutman Sanders on behalf of Hengyang.

14                 Petitioners have argued today that the  
15                 Commission's prior treatment of small- and large-  
16                 diameter pipe as separate like products is nothing  
17                 more than historical anomaly that was based on a  
18                 strategic decision that was made by the U.S. industry  
19                 in 1994. We strongly disagree.

20                 Although we plan to more fully address this  
21                 argument in our post-conference brief, we will  
22                 briefly, we would like to briefly discuss why the  
23                 Commission's analysis of this issue in the 2000  
24                 investigation of seamless pipe from Japan and South  
25                 Africa remains applicable here, and should be

1 followed.

2 In that case, both the petitioner and  
3 respondents agreed that small-diameter pipe and large-  
4 diameter pipe were separate like products. The  
5 Commission agreed, and found two separate like  
6 products. In support of its decision, the Commission  
7 went through its traditional like product factors.

8 The Commission first noted that the  
9 distinguishing physical characteristics between small-  
10 and large-diameter pipe was the obvious difference in  
11 size. And while acknowledging that, that the  
12 Commission doesn't normally draw distinctions based  
13 just on size, the Commission went on to discuss  
14 several other important differences that supported its  
15 treatment of small- and large-diameter as separate  
16 like products.

17 Regarding end uses, the Commission found  
18 that while there was some overlap between the small-  
19 and large-diameter pipe, there was important end-use  
20 differences.

21 Small-diameter seamless pipe is primarily  
22 used in industrial applications, such as refineries  
23 and chemical plants, to carry small amounts of liquids  
24 or gases under pressure.

25 In contrast, large-diameter seamless pipe is

1 primarily used in pipeline applications to convey  
2 large volumes of oil or gas over longer distances.

3 Although Petitioners claim today that these  
4 end-use distinctions no longer exist, we believe that  
5 they do, and the record will demonstrate this fact.

6 The Commission next looked at  
7 interchangeability, and found that there was only a  
8 very limited interchangeability between small- and  
9 large-diameter pipe, because of differences in  
10 engineering design and specifications.

11 Here, as in that case, the record will show  
12 that there was little interchangeability between  
13 small- and large-diameter pipe.

14 Third, the Commission found that small-  
15 diameter and large-diameter pipe are generally  
16 manufactured on different mills and equipment. This  
17 conclusion was supported by the fact that in that  
18 case, only two U.S. producers produced both small- and  
19 large-diameter pipe using the same facilities, while  
20 the remaining producers did not. They either produced  
21 one or the other.

22 And we heard this morning that the V&M does  
23 not produce the small-diameter pipe. Here, just as in  
24 that case, the record will show the exact same thing,  
25 that we will address more fully in our post-conference

1       brief.

2               The Commission next looked at the producer  
3       and customer perceptions of small- and large-diameter  
4       pipe, and found that customers perceived them  
5       differently, particularly because of their different  
6       end uses. As previously discussed, these end-use  
7       differences remain today, and we believe the record in  
8       this case will show that the small- and large-diameter  
9       pipe are viewed differently because of these end-use  
10      differences.

11             Finally, the Commission found that there was  
12      price differences between small- and large-diameter  
13      pipe in the 2000 investigation. We believe that the  
14      responses in the importer questionnaires will show  
15      that these price differences still exist today.

16             In sum, the record in this case is very  
17      similar, in some respects more supportive, of a  
18      finding of two separate like products. It shows that  
19      small- and large-diameter pipe have different end  
20      uses, is very limited interchangeability, and that  
21      they're generally manufactured at different mills  
22      using different equipment.

23             We submit that the Commission should follow  
24      its 2000 decision and treat small- and large-diameter  
25      pipe as two separate like products.



1           MR. CAMERON: Just a couple of concluding  
2 thoughts. Number one, it was very interesting this  
3 morning to hear counsel for V&M Star in his defense of  
4 treating all of the both large- and small-diameter as  
5 one like product, he noted that well, V&M Star only  
6 makes one size range, right, which is the five-inch to  
7 10 and three quarters.

8           But they bring the entire product range in.  
9 And therefore, you should look at this as a single  
10 like product.

11           Now, I mean, first of all, I don't remember  
12 whatever the domestic industry brings in to supplement  
13 their U.S. production, because in fact they don't  
14 produce the product, is a criteria to include in  
15 defining the like product. But I do find it  
16 interesting that V&M Star is going out of its way to  
17 ensure that there is one like product, even with  
18 products that it doesn't produce here.

19           And I would suggest to you that possibly  
20 that has to do with the flip side, which is the, the  
21 entire product range that they then supplement from  
22 imports.

23           And I mean, you know, there are other  
24 imports that are involved here, aside from China. As  
25 we had discussed earlier, it's true that by 2008,

1 imports from China were 50 percent of the imports.  
2 But it's also true that in 2009, they're down to 30  
3 percent, or 39 percent.

4 So there is quite a lot of capacity,  
5 seamless capacity out there that is capable of filling  
6 in Chinese imports. And there are a lot of big  
7 players out there who would have a lot of interest in  
8 preserving their import position for, with respect to  
9 China.

10 The second thing is that we would, we wish  
11 that we had witnesses here today. It is a difficult  
12 time in China, as has already been alluded to by  
13 counsel, because of the 60th anniversary. There has  
14 been problems in getting a lot of communication,  
15 because basically the country has been shut down. So  
16 anyway, we're doing the best that we can with respect  
17 to that, and we appreciate the patience of this  
18 Commission staff. And we appreciate the fact that you  
19 have taken the time to listen to what we have to say.

20 We appreciate it. And with that, we'll take  
21 questions. Thanks.

22 COMMISSIONER DeFILIPPO: Thank you for all  
23 of your testimony. And we will start the questions  
24 with our investigator, Joanna Lo.

25 COMMISSIONER LO: Thank you for coming.

1 Sorry your client couldn't be here, either.

2 I had a question on, well, I guess Ms.  
3 Mendoza mentioned the home market projections,  
4 especially in the Asian area, not just nearby markets,  
5 is expected to grow? I'm hoping the data will support  
6 that, so that I guess we can't ask you to get other  
7 Chinese industry sponsor commission questionnaires.

8 MS. MENDOZA: No, we really are trying to  
9 get them to respond, obviously, to the questionnaire.  
10 So we're hopeful we'll have a base. But we're also  
11 going to be providing more information on those demand  
12 trends in our brief.

13 MR. CAMERON: Yeah. I mean, with respect to  
14 the other questionnaires, as Julie says, we are  
15 trying.

16 The real problem has been the shutdown. And  
17 the timing of this investigation I realize is  
18 coincidental and everything, so that we're not casting  
19 aspersions here.

20 But the reality is that it has been a  
21 perfect storm with respect to the ability to  
22 effectively communicate with China.

23 So with that said, we are, we are working on  
24 it, and we'll try and do what we can.

25 COMMISSIONER LO: If they can get that back

1 to us by Friday, that would be great.

2 MR. CAMERON: Yeah, thanks. You know, I  
3 knew there was a punchline to that joke.

4 COMMISSIONER LO: Also, I'd just have a  
5 question. There was a lot of talking about China's  
6 pricing of this product in the U.S. markets, about its  
7 ability to sell at such low average values.

8 Help me understand a little bit about how  
9 China is able to sustain such low prices, given that a  
10 lot of the raw material inputs for this product, from  
11 what I understand, is globally traded.

12 MR. CAMERON: Well, I think two things.  
13 First, you're correct that much of the raw material  
14 inputs are globally traded.

15 But I must also tell you that, I mean, just  
16 take for instance, if I'm looking at OCTG  
17 profitability in the U.S. of 32 percent, I will tell  
18 you that the Chinese producers were not actually  
19 pursuing 32-percent profit. I think that's probably  
20 fair to say.

21 The other thing is, though, when you look at  
22 the data, I mean, think about it, okay? Because --  
23 and I haven't looked at the price levels yet, so I  
24 don't really know. And the price chart that we got  
25 this morning in the tables is somewhat, I mean, it's

1 interesting, but somewhat worthless. I mean, it is a  
2 hodgepodge of domestic transaction prices, other  
3 imports, and imports. That means we've got imports  
4 from China, and we've got imports of the high-quality  
5 stuff that's sitting off the Gulf of Mexico that's  
6 going into this high-priced project.

7 I mean, you've got a database, or at least  
8 you will have a database that we'll actually be able  
9 to work off of.

10 But getting back to the issue of the  
11 pricing, let's think about it. This is why I was  
12 saying about 2008. Is there any indication in the  
13 data that you've seen with respect to 2008 that  
14 indicates that yes, Chinese prices were much lower.  
15 And they were always much lower.

16 I mean, it isn't like that was a new  
17 phenomenon. It's not like they dropped the price to  
18 get a bunch of these sales.

19 Is there any indication that there was  
20 active competition between U.S. producers and the  
21 Chinese? And I would submit to you that the answer is  
22 that the price levels from China had very little to do  
23 with price levels of the United States, U.S.  
24 producers. And that is because the market was what it  
25 was. So, yeah.

1 MS. MENDOZA: I mean, could I just add to  
2 that in terms of what Don said is absolutely right. I  
3 mean, you don't see any price depression at all in  
4 this record. You see prices rising. And that's  
5 including 2009. And I'm talking about AUV data  
6 obviously, I'm not talking about the pricing data yet.

7 And then in terms of the issue of price  
8 suppression, you don't see that, either. Because if  
9 you look at the ratio of cost of goods of raw material  
10 costs to sales values, what you see over the period  
11 also is an improvement over the period. So you really  
12 don't see any evidence in the record, regardless of  
13 what Chinese prices were, of any price depression or  
14 any price suppression.

15 MR. CAMERON: And yes, a lot of these  
16 commodities are globally traded, but some of these  
17 producers are integrated producers with a lower cost  
18 structure. I mean, so I think that costs have a lot  
19 to do with it and, you know, in the market.

20 COMMISSIONER LO: I have another quick  
21 question for your client; Hengyang Valin maybe can  
22 address it.

23 Do they produce the entire spectrum of the  
24 scope from up to 16 in the same mill?

25 MR. CAMERON: I believe they do, and we will

1 check on that and confirm it. But I believe yes.

2 COMMISSIONER LO: Thank you. That's all my  
3 questions.

4 COMMISSIONER DeFILIPPO: Thank you, Joanna.  
5 We'll turn to our attorney, Patrick Gallagher.

6 COMMISSIONER GALLAGHER: Patrick Gallagher  
7 from the General Counsel's Office.

8 Maybe I missed it in Mr. Mills's  
9 presentation on domestic like product. Channels of  
10 distribution; do you agree that small and large both  
11 use the same channels of distribution?

12 MR. MILLS: Yeah. Generally, we don't  
13 dispute that they're generally in similar channels.

14 COMMISSIONER GALLAGHER: Okay, we've got  
15 agreement.

16 MR. MILLS: I didn't address it for that  
17 reason, so --

18 COMMISSIONER GALLAGHER: No, I kind of  
19 figured that. I wanted to make sure I wasn't missing  
20 something.

21 MR. MILLS: No. I mean, there's no question  
22 about that, and we're not disputing that. But we  
23 would challenge anybody to try and produce a 12-inch  
24 pipe on a two-inch mill.

25 COMMISSIONER GALLAGHER: So your position is

1       that, based on two domestic like products, you have  
2       two industries. And it will break out based on the  
3       size whatever they produce.

4               MR. MILLS: Yeah, that's our position.

5               COMMISSIONER GALLAGHER: Do you have, V&M  
6       only makes apparently the large. So are they the only  
7       one you would have in the larger industry?

8               MR. MILLS: No.

9               COMMISSIONER GALLAGHER: No? Okay.

10              MR. MILLS: I mean, I'm not sure how much we  
11       can get into --

12              COMMISSIONER GALLAGHER: Right, I  
13       understand.

14              MR. MILLS: -- because it's APO. Actually,  
15       you're going to have more than one in all of the  
16       industries. In both --

17              COMMISSIONER GALLAGHER: In both the  
18       industries, okay.

19              MR. MILLS: Well, except for the other  
20       industry.

21              COMMISSIONER GALLAGHER: Yes, I understand.  
22       And if you have anything you want to say about non-  
23       subject, sector, market, replacement, I'd be  
24       interested to hear about that. You could do it in the  
25       brief.



1                   MR. MILLS: We're going to do it in the  
2 post-hearing brief.

3                   COMMISSIONER GALLAGHER: Okay.

4                   MR. MILLS: But suffice it to say that non-  
5 subject imports of seamless pipe, this isn't -- again,  
6 let's think about this.

7                   The U.S. producers have been adept at  
8 actually basically portraying this as another OCTG  
9 case. And the only thing we're suggesting to you is,  
10 look at the data. This isn't, the market isn't that  
11 big. There are plenty of suppliers out there, in  
12 terms of this product.

13                   And so that, the question was stated this  
14 morning that nobody else could replace imports from  
15 China. Well, actually, given the levels of the market  
16 here, that's simply not accurate.

17                   You've got Sineras out there. Where are  
18 they? Oh, that's right, they don't produce seamless  
19 in the United States. They only produce it in Italy,  
20 Mexico, Argentina.

21                   I mean, why aren't they here? Well, I don't  
22 know. I do believe that they produce competing welded  
23 pipe at Maverick, right? So is this ultimately going  
24 to be in their interest? Sure it's in their interest.  
25 Do they have the ability to supply seamless to this

1 market? Absolutely they have the ability to supply  
2 seamless to this market, you know.

3 There are a lot of producers out there, and  
4 there's a lot of non-subject imports. So I don't, I  
5 don't really think that that's much of a question, in  
6 terms of global capacity.

7 COMMISSIONER GALLAGHER: That's all I have.

8 COMMISSIONER DeFILIPPO: Mr. Treat, any  
9 questions from you?

10 COMMISSIONER TREAT: Hi. Alan Treat, Office  
11 of Industries.

12 Mr. Mills, just one question about the  
13 manufacturing process. We heard this morning, I  
14 believe from Mr. Thompson, who described that there  
15 aren't any perhaps technical limitations of producing  
16 small-diameter pipe from large-diameter pipe.

17 And it appears that T&K Ipsco produces  
18 small-diameter pipe from roughly 1.9 inches up to 5.5  
19 inches, which is a little bit above that 4.5-inch  
20 threshold which you want to argue for.

21 So I would just be curious to kind of hear  
22 your response to that. If you want to argue that  
23 there aren't any mills that can produce small-diameter  
24 pipe over 4.5 inches, I just want to hear what you  
25 have to say.

1           MR. CAMERON: Well, Brady can chime in, but  
2 we're not saying that there aren't mills that can. I  
3 mean, we've already heard direct testimony from U.S.  
4 Steel.

5           COMMISSIONER TREAT: Let me be more precise.  
6 On the same equipment.

7           MR. CAMERON: Okay. Well, it depends on  
8 what you're talking about the equipment. You have to  
9 get the size range of the pipe, the pipe producing the  
10 mill, the line they're producing. Because they do go  
11 in size ranges. It's not a coincidence that you have  
12 some producers that are concentrated in some sizes.

13           But go to your point, U.S. Steel this  
14 morning testified that in fact, mills that they are  
15 operating overlap the 4.5-inch. In other words,  
16 they're saying that it's not, that that's not a magic  
17 threshold.

18           Now, I did hear one of the witnesses say  
19 that well, I've never seen a 4.5-inch threshold.  
20 These are the same people they're quoting extensively  
21 from Preston Pipe and Tube where, guess what we've got  
22 as a break point? Four and a half inches.

23           So I mean, you know, and what is the magic  
24 break point between 16 and 24? I don't know. But I  
25 can tell you that every case that's come before this

1 commission has used the magic break point of 16 and  
2 24.

3 The point here is that, as opposed to some  
4 of the industries that you have gotten, whether it be  
5 standard pipe or even OCTG, where a lot of the  
6 producers are welded, right? I mean, let's think  
7 about it. Their welded and seamless are the same.  
8 Why is that not the same with line pipe? Well, it's a  
9 little bit different. You've decided to look at, at  
10 seamless line pipe is one.

11 But in those industries, there are enough  
12 producers that you have a broad variation along, among  
13 sizes. You don't have a very precise breakdown.

14 In this industry, you have a much more  
15 precise breakdown in terms of what, of who is  
16 producing what. And we would, it's better for us I  
17 think to discuss that in the post-conference brief,  
18 because I don't have their data in front of me, and  
19 I'm not sure how much I can talk about it.

20 I can talk about the V&M because they were  
21 talking about it this morning. And U.S. Steel is  
22 public, and they've already discussed that.

23 And we concede U.S. Steel produces it along  
24 the same size range. But the point to what you're  
25 talking about is no, I mean, you do use different

1 lines to produce the pipe, the two-inch pipe, all  
2 right?

3 What were they talking about this morning?  
4 They were talking about cold-drawing it. Why is that?  
5 Because they had to have a special procedure because  
6 it's so small that some producers are using cold-  
7 drawing for it.

8 They're also talking about using stretch-  
9 reducing mills. In other words, you're taking a pipe  
10 and you're stretching it out, right? And this is, you  
11 know, these are various ways to do it. But they have  
12 different pieces of equipment to manufacture different  
13 sizes of pipe. That's why it's not an accident that  
14 these mills concentrated in certain size ranges.  
15 That's all.

16 COMMISSIONER TREAT: Okay, thank you.

17 COMMISSIONER DeFILIPPO: Thank you, Alan.  
18 Mr. Yost, questions?

19 COMMISSIONER YOST: First of all, thank you  
20 very much for coming to our conference.

21 I came away with the impression when you,  
22 Mr. Cameron, were talking about levels of imports that  
23 were subsequent to the fourth quarter of 2008. And it  
24 seemed that you were comparing the three-month total  
25 for the fourth quarter with the one-month total for

1 January, and then February, and drawing the --

2 MR. CAMERON: That's correct.

3 COMMISSIONER YOST: -- difference based on a  
4 three-month versus a one-month total.

5 What would happen if you then compared the  
6 full fourth quarter with the full first quarter and  
7 the full second quarter?

8 MR. CAMERON: It will show similar, but  
9 different. I mean, the numbers will be different, but  
10 it's going to be similar because the drop-off was very  
11 significant.

12 I used, I did averages because we just got  
13 the figures, and we generated it. But we can do  
14 another analysis for you in the post-hearing brief.  
15 It's not a problem for us.

16 COMMISSIONER YOST: Okay, thank you. Thank  
17 you very much.

18 MR. CAMERON: There was no magic to, there  
19 was no magic to that.

20 COMMISSIONER YOST: No, I just came away  
21 with the impression that you were comparing the total  
22 for three months with the total for one month.

23 MR. CAMERON: No. What I said --

24 COMMISSIONER YOST: Rather than a monthly  
25 average and a monthly average.

1           MR. CAMERON: What I did -- and actually, it  
2     may be economically invalid, I don't know. It seemed  
3     to me to be a reasonable way to do it.

4           I took the three months for the fourth  
5     quarter, which were reasonably similar in terms of the  
6     quantities, and I averaged them together. Because  
7     that would give us a base line for the fourth quarter  
8     import levels. And comparing them to what happened.

9           And the reason I did that was, was really to  
10    dramatize and to show the difference between well,  
11    what happened, what is the difference between this  
12    case, for instance, and OCTG, which we've been hearing  
13    so much about.

14          And I think that the difference is, or one  
15    significant difference is, that actually in the first  
16    quarter of 2009, imports remained quite strong from  
17    China. And that is not the case in this product. And  
18    the drop-off was actually fairly substantial.

19          So we'll be glad to compare quarter to  
20    quarter, but I was using that as a base line just to  
21    give an idea.

22          COMMISSIONER YOST: Okay. Thank you very  
23    much. That concludes my questions.

24          COMMISSIONER DeFILIPPO: Thank you. Mr.  
25    Workman, any questions?

1 COMMISSIONER WORKMAN: I don't have any  
2 questions, thanks.

3 COMMISSIONER DeFILIPPO: Thank you. We'll  
4 turn now to Mr. Corkran, our supervisory investigator.

5 COMMISSIONER CORKRAN: Thank you, and thank  
6 you very much to the panel. I do have a few  
7 questions.

8 One would be the, I no doubt intended to do  
9 this anyway, the logical implications from two  
10 separate like products is of course, you look at two  
11 different collections of import data. And your  
12 discussion of non-subject imports was interesting.  
13 But when you look at small-diameter versus large-  
14 diameter, you really have two different pictures. You  
15 have one in which, in large-diameter, where China is  
16 in the same order of magnitude as a number of other  
17 non-subject suppliers.

18 When you look at small-diameter, though, you  
19 see China is of a very different order of magnitude  
20 from all other suppliers.

21 Do you want to talk a little bit more about  
22 the role of non-subject imports now? Or if not now,  
23 in your post-conference brief?

24 MR. CAMERON: We can, we'll probably discuss  
25 it in the post-conference brief. But I think that



1 part of the issue is that I think they are more  
2 competitive in the small-diameter, the Chinese  
3 producers are. But we can discuss that.

4 But there is a lot of non-subject production  
5 and capability out there. And I think that we would  
6 stand by that analysis.

7 COMMISSIONER CORKRAN: Okay. The next  
8 question goes to Ms. Mendoza.

9 And Ms. Mendoza, you gave a very compelling  
10 picture of demand and demand projections in the  
11 market.

12 When you look at supply for this product,  
13 though, what is the scenario in China for supply for  
14 both seamless pipe mills that are coming onstream, and  
15 pipe mills that produce not only standard line and  
16 pressure pipe, but also other forms of tubular  
17 products, such as OCTG?

18 MS. MENDOZA: As Don said, I think that, you  
19 know, due to the holiday, we haven't had as much time  
20 as we'd like to be able to put that information  
21 together. But we are working on it very hard. And we  
22 understand the purpose of your question, and we intend  
23 to get all the information we can on that point.

24 COMMISSIONER CORKRAN: Thank you, I  
25 appreciate that. I know we're all, many of us are all

1 looking at the same publications, so we're all  
2 tracking as new products come onstream what the  
3 implications are. Thank you.

4 I think with that, that would take care of  
5 the questions that I have. Although in your post-  
6 conference brief, if you could also expand a little  
7 bit about the nuclear power plant applications for  
8 this particular product, that would be very helpful.

9 And with that, I have no further questions.

10 MS. MENDOZA: Yes, we'd be happy to.  
11 Specifically you are asking about the products that  
12 would be used in that, okay.

13 COMMISSIONER DeFILIPPO: Thank you, Doug.  
14 Actually, that was one of my questions to, if you  
15 could in your brief, as you're detailing the projects  
16 that you talked about in terms of demand in China for  
17 this product. If you could indicate, to the extent  
18 you have information, which type, large versus small,  
19 since you're making the two like product, which type  
20 would be used in those projects. That would be  
21 helpful.

22 MS. MENDOZA: Absolutely, we'd be happy to.

23 COMMISSIONER DeFILIPPO: Thank you. Just a  
24 couple quick things. Bear with me.

25 For Mr. Mills. Mr. Mills, you talked about

1 the two like, in your like product discussion. And I  
2 think I heard earlier this morning that, I believe Mr.  
3 Narkin had said you weren't going to see a big  
4 difference in prices, or that -- pardon me, I think he  
5 was talking about end uses.

6 But someone this morning talked about if the  
7 Chinese sold different outside-diameter pipe for  
8 similar prices. And that seemed to be not consistent  
9 with what you're stating here.

10 So any information you have that you'd want  
11 to present here, whether you disagree with that, or in  
12 your brief, would be helpful.

13 MR. MILLS: I don't have anything to add to  
14 that at the moment, but we'll look into that and try  
15 to address it in our post-conference.

16 COMMISSIONER DeFILIPPO: Okay, thank you.

17 Ms. Lo was asking about price differences,  
18 and sort of how the Chinese could sell at a lower  
19 price. And earlier this morning a statement was made  
20 where it said the Chinese product is increasingly  
21 being accepted by customers.

22 So I didn't know if you had information  
23 whether or not there had been quality or other  
24 problems or issues with the Chinese product that have  
25 improved? Or if there were differences between the

1 products that might lend itself towards price  
2 differences.

3 MR. CAMERON: We'll look into that. I think  
4 that I don't believe they have had the quality issues  
5 that some of the OCTG from China had had, which would  
6 be related to the fact that OCTG gets into the heat-  
7 treating and upset threading coupling. And I think  
8 there have been issues with that.

9 And so as far as acceptance in the market, I  
10 think that the Chinese material, we have no apologies  
11 to make for the quality of production that our clients  
12 make and sell in this market. We think it's of the  
13 highest quality. But we'll look at that and see what  
14 else we can bring to bear.

15 But I think that the allusion was maybe to  
16 OCTG.

17 COMMISSIONER DeFILIPPO: Okay. I believe  
18 actually that my questions have all been answered.

19 I thank you all very much for appearing, and  
20 I appreciate any information that, I known it is  
21 difficult getting information from the Chinese right  
22 now, but I'd appreciate anything you can provide in  
23 your brief.

24 MR. CAMERON: Thank you very much, and we'll  
25 do the best we can by Friday.

1 COMMISSIONER DeFILIPPO: Thank you.

2 We would next move into rebuttal or closing  
3 remarks. I guess I'll ask, do either side need time  
4 to confer with their clients? Or shall we move  
5 directly into that phase?

6 (Pause.)

7 COMMISSIONER DeFILIPPO: Thank you. We will  
8 actually proceed directly into the rebuttal and  
9 closing remarks. And we will start first with  
10 Petitioners.

11 Welcome, Mr. Schagrin and Mr. Vaughn. And I  
12 will let you proceed with your comments. Thank you.

13 MR. SCHAGRIN: Thank you, Ms. DeFilippo.  
14 Roger Schagrin for the record.

15 Well, we heard from counsel the Chinese that  
16 we couldn't have any Chinese at the conference today  
17 because of their 60th anniversary party. Again I wish  
18 them a happy anniversary.

19 But the fact is this is the sixth pipe and  
20 tube case in the last three years. For the other five  
21 cases there were no special anniversary parties, to my  
22 knowledge.

23 So we're looking for, now that the Chinese  
24 Government is changing their perspective to I think  
25 having, you know, maybe a dozen or 15 Chinese industry

1       representatives at the OCTG hearing on December 1, I'm  
2       sure there will be lots of representatives of Hengyang  
3       Valin at the final hearing here. Because the fact is,  
4       over time the Chinese simply have not participated  
5       fully in these processes.

6               The domestic industry is suffering terribly  
7       today. Their executives should come out to appear  
8       before this Commission and answer their questions.

9               Mr. Cameron also commented, he said look,  
10      you can't compare on some of the threat issues. The  
11      inventory data here and other comparisons to the OCTG  
12      as to import information.

13              The fact is, we just don't have the coverage  
14      on imports. I mean, it's just not -- in the end, we  
15      don't really care. They're going to be treated  
16      fairly, that's our system. We don't care whether  
17      they're here or not.

18              What this Commission cares a lot about, as  
19      do I, is are they providing questionnaire data.

20              The fact is, for most of these pipe and tube  
21      cases they provided paltry amounts of data. In this  
22      seamless case, they haven't even included anything  
23      close to what was included in OCTG. So it's really  
24      tough to compare anything on the data side, other than  
25      actual import data, between the two cases.

1                   But now here's something that Mr. Cameron  
2                   and I agree completely about. This case is different  
3                   from OCTG.

4                   In that prelim, it was clearly a threat  
5                   case. The industry had a very good first quarter.  
6                   They came to this Commission in April and said now all  
7                   the wheels are falling off.

8                   In this record, for the first half of 2009  
9                   the wheels have been off for eight or nine months.  
10                  The first half data shows it. We're already into the  
11                  beginning of October. All the employment problems are  
12                  manifest here; they weren't manifest on the OCTG  
13                  record. We only had slight decrease in employment  
14                  there.

15                  Here, this industry has been suffering for  
16                  at least three quarters. And that is clear. And look  
17                  at the injury data you're going to have on your  
18                  record. There has been a devastating decline in  
19                  shipments, a devastating decline in production.  
20                  Employment is down by more than half.

21                  Most of the U.S. mills have been closed,  
22                  either periodically or operating at abysmal rates.  
23                  Profits have fallen by probably two thirds to three  
24                  quarters and 80 percent, and profit margins have  
25                  declined.

1           There is evidence that you'll see in the  
2     pricing products of price depression. And unlike raw  
3     materials, COGS, as a share of revenues, has increased  
4     dramatically. So there's no question there is injury.

5           What this Commission is going to have to  
6     decide in the preliminary phase is, is there causation  
7     by imports from China. And I would say clearly, there  
8     is. The fact that imports are down from China in the  
9     first half doesn't remove causation, for two reasons.

10           First, the 150,000 tons of imports from  
11    China in the fourth quarter went mostly into bloating  
12    inventories, which now there's more than a year of  
13    inventory. China can be blamed for that. That was  
14    the testimony of some of the major contributors. The  
15    Chinese take the blame. They said to speculators, you  
16    know, what they're advertising, which Mr. Cameron just  
17    said, is we give you the highest quality at the lowest  
18    prices. That's a great business model.

19           Unfortunately, U.S. producers actually want  
20    to make money. That's our system. You can blame us  
21    for it. We like to make money. We're not able to  
22    because of unfairly traded imports from China. But  
23    import market share from China is up this year, and  
24    that's an important factor.

25           Now, the other claim made by counsel of the



1 Chinese was that you know, in this interim period,  
2 imports from China declined faster than other non-  
3 subject imports. That alone should entirely shield  
4 the Chinese in this case from a causation finding.

5 Well, it's not correct. The data are  
6 correct, and here, I know you have to use the data.  
7 But you can take this into account in terms of  
8 condition of competition. There's only one reason for  
9 that data point, and Mr. Corkran pointed to it. There  
10 was a lot of, I recall the larger-diameter size here,  
11 from Germany in the first half.

12 As we'll show you in our post-hearing brief,  
13 100 percent of those imports from Germany were for two  
14 offshore projects in the Gulf of Mexico; very  
15 specialized products. They're actually in the same  
16 size range as V&M Star, but V&M couldn't make that  
17 product on their mill.

18 And so these products are very specialized.  
19 The Chinese aren't even producing these products at  
20 present. It's mostly from Germany and Japan.

21 When you take those specialized products  
22 from Germany out of the import, imports from China did  
23 not decline more than other non-subject import.

24 But the other fact is all the imports from  
25 China in 2009 went into bloat inventories. So the

1 causation case here is extremely strong, and this is  
2 an injury causation case.

3 Let me make just a couple of comments on  
4 threat. First, we have a huge problem with product  
5 shifting.

6 Product shifting wasn't from the domestic  
7 mills shifting away from seamless pipe to OCTG. In  
8 fact, even though Mr. Cameron said it, there is no  
9 proof of that. The testimony by both USS and V&M Star  
10 today was that they both allocate a certain amount of  
11 mill time. There isn't the same information on  
12 customer allocations, or in fact, USS's testimony,  
13 they weren't even fully operating.

14 But for the Chinese mills, like Hengyang  
15 Valin, who is a huge OCTG producer, they shipped 2.2  
16 million tons of OCTG here last year. They can't ship  
17 that any more. It's subject to ADNCVD duties. What's  
18 going to happen to that? They can shift it in here.  
19 They've been hit by orders in the EU, which is their  
20 second-largest market, new case in India, cases in  
21 Mexico.

22 Some of the demand items talked about,  
23 demand for welded large-diameter line pipe for  
24 pipeline projects has nothing to do with this product.  
25 We think very little of the subject product goes into

1 nuclear. It's, a lot of it is stainless, a lot of it  
2 is extremely high alloy P grades, which is not what  
3 the Chinese are doing here.

4 And even if demand in China for these goods  
5 is strong, the fact is that the leading disease in  
6 China is over-capacity. It's a disease for them.  
7 They already have massive over-capacity in this  
8 product.

9 They are now, even though demand is  
10 expanding, they keep adding more capacity in every  
11 product, faster than demand expands. So they have  
12 sufficient excess capacity.

13 If the market comes back here -- and I know  
14 it well, it's a cyclical product. The Chinese will be  
15 the first one back. They will dominate the market;  
16 they will destroy the U.S. industry.

17 Thank you.

18 MR. VAUGHN: For the record, I am Stephen  
19 Vaughn for U.S. Steel.

20 As the conference comes to a close, I would  
21 like to concentrate your attention on a few key  
22 points.

23 First, the record leaves no doubt that  
24 domestic producers are suffering material injury.  
25 Production has plummeted. Operating income has

1 plunged. Most of the Petitioners' work force has been  
2 laid off.

3 Taken together, these facts show that this  
4 industry is not waiting to suffer the impact of  
5 import; it has been suffering the impact for some  
6 time.

7 Second. The record completely belies the  
8 notion that Chinese imports surged into the U.S. on a  
9 temporary basis, or that Chinese mills are prepared to  
10 be responsible actors going forward.

11 While Chinese imports are no longer running  
12 at the same high levels as before, this is not because  
13 they have left the market in any meaningful sense.  
14 Indeed, you have heard repeated testimony from the  
15 distributors and witnesses that we had this morning  
16 that Chinese imports are still very active; that even  
17 now, with the domestic industry flat on its back and  
18 many major distributors refusing to purchase new pipe,  
19 low-priced Chinese pipe is still being aggressively  
20 peddled throughout the United States.

21 These facts show that the decline in Chinese  
22 imports in 2009 is entirely due to the fact that the  
23 market has been devastated, and that the Chinese  
24 themselves are as determined to ship here as ever.

25 Third. The record refutes the notion that

1 the domestic industry's problems were caused by  
2 declines in demand. As you have heard this morning,  
3 there is no conceivable level of demand that would  
4 justify the level of Chinese imports that entered this  
5 market in the second half of 2008. No matter what  
6 happens with demand, Chinese imports will surge into  
7 the market until it is over-supplied.

8           Until the problem of excess supply from  
9 China is resolved, no amount of demand can save  
10 domestic producers.

11           Finally, the evidence of threat is simply  
12 astonishing. Chinese sources admit that their country  
13 is over-supplied with pipe; and yet, China continues  
14 to add millions of tons of new capacity. Producers in  
15 the rest of the world are slashing production, but  
16 Chinese mills are making more seamless tubular goods  
17 than ever.

18           China is facing trade relief in markets  
19 around the world. And yet, the Chinese Government  
20 continues to promote exports.

21           Under these circumstances, there can be no  
22 hope that Chinese producers will act responsibly, or  
23 that their behavior will be restrained by market  
24 forces. Chinese mills are determined to ship as much  
25 pipe into the United States as possible, regardless of

1 the law of supply and demand.

2 Trade relief represents the only hope to  
3 stop such rapacious and irresponsible behavior. We  
4 urge the Commission to grant such relief.

5 COMMISSIONER DeFILIPPO: Thank you, Mr.  
6 Vaughn and Mr. Schagrin.

7 Next we will have rebuttal and closing  
8 remarks on behalf of Respondents by Mr. Cameron. Mr.  
9 Cameron, please proceed when you're ready. Thank you.

10 MR. CAMERON: Thank you. This morning we  
11 heard that -- I guess the mic is on. It's not usually  
12 a problem for my anyway, I guess.

13 This morning we heard that the 800-pound  
14 gorilla in this room is imports from China. And  
15 again, I would point to the record, and I would  
16 suggest to you that this is not OCTG.

17 There is an 800-pound gorilla in this room,  
18 I would agree with you. But it's actually an industry  
19 that made substantial profits both in 2008, and  
20 remains profitable in 2009. I mean, think about the  
21 economy that we're in, think about the manufacturing  
22 sector, and think about the profitability of this  
23 industry, and ask yourself if this industry is being  
24 injured by imports from China, if imports from China  
25 really are the cause of the condition of this

1 industry. If that were the case, those profitability  
2 levels would be impossible.

3 Meanwhile, imports from China have declined  
4 significantly. And again, it may be that it's imports  
5 from Germany, but this is all we're saying. There is  
6 substantial capacity for seamless out there, and  
7 imports from China did come down more rapidly than  
8 other imports.

9 Now, I'm sure that U.S. Steel and other U.S.  
10 mills couldn't have produced the material that V&M  
11 Star apparently has imported from Germany. But it is  
12 kind of interesting that despite the current  
13 conditions, I mean, I think it's great. They're a  
14 terrific company, and they're doing well. But the  
15 data does support the fact that imports from China  
16 have come down.

17 We also heard this morning with respect to  
18 employment and the relationship between OCTG and this  
19 product. And again, let's think about this.

20 What is the majority of what they're  
21 producing on these mills? And to what extent is  
22 conditions in the OCTG market, which are directly a  
23 result of market conditions with respect to the rig  
24 count, to what extent is that responsible for much of  
25 what we're seeing in employment?

1           From the discussion this morning it's very  
2   difficult to segregate exactly what is, what is a  
3   result of the conditions in this product, and what are  
4   the result of conditions with respect to OCTG.  
5   Because there's clearly a bleed-over effect because  
6   they're producing the same product on the same mills.

7           We just heard this morning, or we just heard  
8   a couple of minutes ago that one of the big  
9   differences between this case and OCTG is that OCTG  
10  was clearly a threat case, whereas this is a material  
11  injury case.

12           I beg to differ. Actually, this case is  
13  neither threat nor material injury. But the one thing  
14  I think I can say with, pretty confidently, is that  
15  this is not a material injury case. The fact of the  
16  matter is that imports from China did turn down. And  
17  the fact of the matter is the financial performance of  
18  this industry continues to be impressive, despite  
19  current conditions. That's not an indication of  
20  material injury.

21           And it also is not an indication that  
22  imports from China in fact are the cause of what's  
23  happened in the market.

24           I mean, we've all done a lot of these cases,  
25  so there's nothing all that surprising here. But the



1 imports in this case actually don't come anywhere near  
2 to being responsible for what has happened with  
3 respect to this market.

4 Now, I agree with you that they had very  
5 strong, a very strong market in 2008. And clearly,  
6 that market dried up beginning in late 2008 and early  
7 2009. But the one thing I can tell you is that  
8 imports from China actually were responsive to the  
9 market, and that's pretty clear from the data.

10 So what we hear now is that, you know, it's  
11 inconceivable that imports from China will behave  
12 responsibly. Well, okay, why? Well, it's just  
13 inconceivable. I mean, you know, we are talking about  
14 pipe and tube from China, so therefore it must be not  
15 responsive to market conditions.

16 Well, I mean, I hear the words, but I'm  
17 looking at the import data. And the import data  
18 suggests that in fact imports from China have been  
19 responsive to market conditions. And that's one  
20 reason, that's one thing you have to take into account  
21 when you're looking at threat of injury.

22 Because indeed, imports have gone down to  
23 the point where there is no imminent threat of a  
24 significant increase in imports of this product. I  
25 mean, that's not really what we're looking at here.

1           We're looking at a trend line that is down  
2   in 2009, down substantially. And the only thing they  
3   can say is well, you know, they brought in too much in  
4   2008. Well, again, look at the data for 2008 with  
5   respect to the U.S. industry, and tell me that there  
6   was one sale that they didn't get in 2008 because of  
7   imports. I don't think that you're going to find  
8   evidence of that.

9           And the proof of that is going to be in the  
10  performance of the industry, and in the prices of the  
11  industry, and in the profitability of the industry.  
12  Indeed, one of their defenses as to why it is they  
13  remained profitable in 2009, and why it is, in  
14  response to questions from staff about well, I know  
15  AUVs are high in 2009, I just can't, I don't  
16  understand why, but they are. Well, they also admit a  
17  lot of those contracts were concluded in 2008.

18           Well, that's very interesting. So they got  
19  terrific prices, which is a good thing. Again, I'm  
20  not complaining about that. I think, I'm for the U.S.  
21  industry, as far as that goes. I mean, I'm glad that  
22  they're making profits on that.

23           But it also indicates that imports from  
24  China didn't have any impact on those price levels.  
25  And they continued to be able to make those sales, and

1       they did pretty well.

2               So with that, I think I'm going to leave it  
3       at that. We're going to do the best we can to gather  
4       all of the information that we have. And again, we  
5       appreciate your patience.

6               And with respect to witnesses in past pipe  
7       and tube cases, I understand counsel's point. But I  
8       would point out to him that we haven't represented any  
9       of those Chinese industries in the other pipe and tube  
10      cases. And in fact, had it not been for the holiday,  
11      we would have had a witness from the company here.

12              But we will do the best we can to get  
13      somebody at the final. And we're doing the best we  
14      can to get the information that is requested.

15              Thank you very much. Appreciate your time.

16              COMMISSIONER DeFILIPPO: Thank you, Mr.  
17      Cameron.

18              On behalf of the Commission and the staff, I  
19      want to thank the witnesses who came here today, as  
20      well as counsel, for helping us gain a better  
21      understanding of this product and the conditions of  
22      competition in this industry.

23              Before concluding, let me mention a few  
24      dates to keep in mind. The deadline for submissions  
25      of corrections to the transcript and for submission

1 for brief in these investigations is Tuesday,  
2 October 13. If briefs contain business proprietary  
3 information, a public version is due on October 14.

4 The Commission has tentatively scheduled its  
5 vote on these investigations for October 30, and will  
6 report its determination to the Secretary of Commerce  
7 on November 2. Commissioners' opinions will be  
8 transmitted to Commerce on November 9.

9 Thank you for coming. And before I  
10 officially conclude the conference, I would like to  
11 take this opportunity to thank you all for your very  
12 kind words with regard to my designation as Director  
13 of Investigations. I look forward to working with you  
14 all in the future. And with that, this conference is  
15 adjourned. Thank you.

16 (Whereupon, at 1:38 p.m., the preliminary  
17 conference in the above-entitled matter was  
18 adjourned.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Certain Seamless Carbon and Alloy Steel  
Standard Line and Pressure Pipe from China

**INVESTIGATION NO.:** 701-TA-469, 731-TA-1168

**HEARING DATE:** October 7, 2009

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

**NATURE OF HEARING:** Preliminary Conference

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

DATE: October 7, 2009

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: Rebecca McCrary  
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).

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