UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No.:
WELDED LARGE DIAMETER	)	731-TA-919 (Second Review)
LINE PIPE FROM JAPAN	)	

OPEN SESSION

Pages: 1 through 244

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Thursday,
August 1, 2013

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

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

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

IRVING A. WILLIAMSON, CHAIRMAN
DANIEL R. PEARSON, COMMISSIONER
SHARA L. ARANOFF, COMMISSIONER
DEAN A. PINKERT, COMMISSIONER
MEREDITH M. BROADBENT, COMMISSIONER

APPEARANCES: (Cont'd.)

Staff:

BILL BISHOP, SUPERVISORY HEARINGS AND INFORMATION OFFICER
SHARON D. BELLAMY, HEARINGS AND MEETINGS ASSISTANT
MARY MESSER, INVESTIGATOR
KAREN TAYLOR, INTERNATIONAL TRADE ANALYST
JAMES FETZER, ECONOMIST
MARY KLIR, ACCOUNTANT/AUDITOR
MICHAEL HALDENSTEIN, ATTORNEY
DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR
DANIEL MEEHAN, INTERN

SESSION 1: SUPPORT DIRECT PRESENTATION (Open to Public)

In Support of the Continuation of the Antidumping Duty Order:

On behalf of American Cast Iron Pipe Company (ACIPCO); Berg Steel Pipe; Dura-Bond Pipe LLC; Stupp Corporation and Welspun Tubular USA LLC:

JON NOLAND, Division Manager of Steel Pipe, ACIPCO
MIKE O'BRIEN, Vice President of Sales, ACIPCO
RON WILLIAMSON, Vice President of Inside Sales & Logistics, Berg Steel Pipe
WAYNE NORRIS, President, Dura-Bond Pipe LLC
EDWARD SCRAM, President, Stupp Corporation
DONALD BOHACH, Vice President of Sales and Marketing, Stupp Corporation
DAVID DELIE, President, Welspun Tubular LLC USA
ROBERT SCOTT, Economist, Economic Policy Institute

ROGER B. SCHAGRIN, Esquire
JOHN W. BOHN, Esquire
Schagrin Associates
Washington, D.C.

On behalf of United States Steel Corporation:

JEFFREY D. JOHNSON, Director of Standard and Line Pipe North America, U. S. Steel Tubular Products, United States Steel Corporation

STEPHEN P. VAUGHN, Esquire
Skadden, Arps, Slate, Meagher & Flom LLP
Washington, D.C.

APPEARANCES: (Cont'd.)

SESSION 2: OPPOSITION DIRECT PRESENTATION (Open to Public)

In Opposition of the Continuation of the Antidumping Duty Order:

On behalf of JFE Steel Corporation; Nippon Steel; and Sumitomo Metal Corporation:

ATSUHITO TAKEUCHI, Linepipe Section Manager, JFE Steel Corporation
KENJI NAKAYAMA, General Manager, Line Pipe Marketing Department, Oil Country Tubular Goods & Line Pipe Marketing Division, Pipe & Tube Unit, Nippon Steel & Sumitomo Metal Corporation
DANIEL KLETT, Economist, Capital Trade, Inc.
YOKO DE GROOT, Translator, TransPerfect

DAVID HICKERSON, Esquire
ROBERT H. HUEY, Esquire
Foley & Lardner LLP
Washington, D.C.

SESSION 3: OPPOSITION IN CAMERA PRESENTATION (Closed to Public)

SESSION 4: SUPPORT IN CAMERA PRESENTATION (Closed to Public)

I N D E X

I N D E X

P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN WILLIAMSON: Good morning. On behalf of the U.S. International Trade Commission I welcome you to this hearing on Investigation No. 731-TA-919 (Second Review), involving Welded Large Diameter Pipe From Japan.

The purpose of this five-year review investigation is to determine whether revocation of the antidumping duty order on welded large diameter line pipe from Japan would be likely to lead to continuation or recurrence of material injury within a reasonably foreseeable time.

Before we begin, I would note that the Commission has granted a request from those in opposition to continuation of the order to hold a portion of this hearing in camera. We will begin with the public presentations by those in support of continuation of the order and those in opposition to continuation of the order. We will then have a 10 minute in camera session by those in opposition to continuation of the order, followed by a 10 minute in camera rebuttal presentation by those in support of continuation of the order if so desired.

Only signatories to the APO will be

permitted in the hearing room during the in camera sessions. Following the in camera presentations, we will resume with the public rebuttal and closing remarks.

Schedules setting forth the presentation of this hearing, notices of investigation and transcript order forms are available at the public distribution table. All prepared testimony should be given to the Secretary. Please do not place testimony directly on the public distribution table.

All witnesses must be sworn in by the Secretary before presenting testimony. I understand that parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary.

Speakers are reminded not to refer in their remarks or answers to questions to business proprietary information. Please speak clearly into the microphone and state your name for the record for the benefit of the court reporter. If you will be submitting documents that contain information you wish classified as business confidential, your requests should comply with Commission Rule 201.6.

I would also like to note that Commissioner Johanson regrets that he can't be with us this

morning, but he will be provided with a complete transcript of both today's public and closed hearings, and he'll be reviewing those.

Mr. Secretary, are there any preliminary matters?

MR. BISHOP: Yes, Mr. Chairman. I would note that all witnesses for today's hearing have been sworn in.

(Witnesses sworn.)

MR. BISHOP: I would also ask permission to add Robert H. Huey of Foley & Lardner, of counsel, to page 3 of the witness list. There are no other preliminary matters.

CHAIRMAN WILLIAMSON: Good. Thank you. Very well. Let us proceed with opening statements.

MR. BISHOP: Opening remarks on behalf of those in support of continuation of the order will be by Roger B. Schagrin, Schagrin Associates.

CHAIRMAN WILLIAMSON: Welcome, Mr. Schagrin. You may begin when you're ready.

MR. SCHAGRIN: Good morning, Chairman Williamson and members of the Commission. Six years ago it was a close call, but this Commission definitely made the right decision in continuing the order on LDLP from Japan. The record in the second

sunset review clearly demonstrates that revocation would almost immediately lead to a recurrence of injury as dumped imports from Japan resume large sales to both the distributor and pipeline contract segments of the market.

Let's first look at the domestic LDLP industry. Between 2007 and 2013, the U.S. industry invested heavily to increase capacity by 75 percent from 2 to 3.5 million tons. They did this because INGAA, the trade association of pipeline operators, the International Energy Administration and virtually all industry experts forecast an explosion of pipeline construction in the United States.

Instead, after demand plummeted in 2009, it has never recovered. There are a myriad of reasons for this decline in demand, and our expert witnesses will elucidate this issue during today's hearing. The result of this decline in demand has been devastating for the domestic industry, which has gone from healthy operating margins at the beginning of the period to losses at the end of the period. The majority of the industry has lost money for the past several years, and many of the domestic industry's plants are either idle or barely operating.

Now let's turn our attention to the Japanese

industry. First, the Japanese have always said since the original investigation that they would only focus on critical application offshore projects. In the U.S. market, this represents well under 10 percent of total demand. Yet despite these claims during the original POI, the Japanese focused their excess capacity on the noncritical onshore demand in the U.S. market, much of it to distributors. Little in the Japanese industry has changed since the POI.

Second, the Japanese now claim that their LSAW capacity will not compete with the new HSAW capacity. This claim is patently untrue, as U.S. LSAW and U.S. HSAW mills compete daily in the U.S. market. These are simply two alternative production methods for producing the same API line pipe to the same specifications.

Third and most importantly, the Japanese claim again to have little excess capacity with which to increase exports to the U.S. market. This is deja vu all over again. It is in fact somewhat upsetting. The Commission said in the first sunset review about these Japanese claims, and I quote, "reported capacity fluctuated in tandem with production."

But the Commission found that the record did

not corroborate this concept of capacity and production mirroring each other. Instead the Commission gave, and I quote, "more weight to other record evidence indicating that subject Japanese producers could likely produce new LDLP at the peak levels achieved from the 2003-04 period, around 1.4 million short tons annually, after revocation of the orders."

Amazingly, after having been essentially chided by this Commission in the last sunset review, the Japanese have tried to play the same game again. However, again it should not work. Let's look at the facts.

During the second POR sunset review, exports from Japan to China of LDLP have virtually disappeared, falling by a quarter of a million tons as the Japanese now face massive Chinese overcapacity in LDLP, in plate that goes into LDLP and in steel products generally.

As in the last review, an industry claiming to have little spare capacity just earlier this year took a 350,000 ton order for a pipeline in the Norwegian Sea, severely underbidding an EU producer with massive freight advantages over the Japanese. Reportedly the Japanese took this order at delivery

price, including freight from Japan to Europe, unloading the pipe to be coated in Europe and then delivering it to its destination at a price less than the AUV of the U.S. industry for noncritical application pipe.

Why would this happen? Because the Japanese have ample spare capacity to increase shipments. They are hungry to increase capacity utilization in their blast furnaces and in their plate mills to feed their LDLP production. If you sunset the order, the Japanese will undoubtedly utilize their true significant spare capacity to increase exports to both the distributor market and the pipeline project market.

If they were to take just a single 350,000 ton order in the United States, that would be the equivalent of putting more than one-third of the U.S. workforce out of jobs. For all of these reasons, we ask that you continue the order. Thank you.

CHAIRMAN WILLIAMSON: Thank you.

MR. BISHOP: Opening remarks on behalf of those in opposition to the continuation of the order will be by David Hickerson, Foley & Lardner.

CHAIRMAN WILLIAMSON: Welcome, Mr. Hickerson. You may begin when you're ready.

MR. HICKERSON: Thank you, Chairman, and thank you for allowing us to appear today to argue in opposition to continuation of the order. I'm here on behalf of Nippon Steel, Sumitomo Metal Corporation and JFE Steel.

The standard is well known to the Commission, but I do want to emphasize something. The Commission should promote the order unless there is proof that revocation of the order would lead to a continuation of material injury. That requires an element, a proof of causation between lifting the order and the injury, the expected injury to the U.S. industry.

The U.S. position really ignores the critical thing in this case. It ignores that not all line pipe is the same. It's simply not the case that a piece of pipe buried in the ground in Nebraska is the same as a piece of pipe buried 5,000 feet under the sea or in arctic conditions. The reality is that the Japanese producers and the U.S. producers serve entirely different markets, different geographic markets and different markets for the technical specification required for the pipeline projects.

Our witnesses will testify that the Japanese producers, as Mr. Schagrin said, do focus on critical

application types -- deepwater applications, arctic applications, sour service applications -- and they've invested an enormous amount of money in the process and the equipment necessary to make that type of pipe.

There are many technical specifications required in producing that pipe that go well beyond just the API grade or the wall thickness of the pipe, and we're going to talk about that. There are many other technical requirements to produce the critical application pipe, including the composition of the steel, the heat treatment and the manufacturing process and so on.

Critical application pipe is not necessary for the U.S. market. Mr. Schagrin said that it was less than 10 percent of the pipe required. We believe it's actually much lower. The reason for that is simply because in the lower 48 the pipe required is standard grade, onshore application pipe. The Japanese producers have no intention of competing with that market. The market is well served, highly competitive by the U.S. producers, as well as nonsubject imports.

Mr. Schagrin referred to the increase by Chinese producers. There are also increases by other foreign producers that are not subject to the order,

but of course this case is only about steel from Japan. So our witnesses are going to testify in the in camera session in detail about their business plans, the projects that they are bidding on, that they have obtained and that they know about and are pursuing for critical application pipe.

And none of those, maybe with the exception of one in the Gulf of Mexico, is even in the United States. And really importantly here, not one U.S. producers is submitting bids on any of those projects.

I want to bring to the Commission's attention and emphasize two major developments since the last sunset review. One is the U.S. industry's introduction of five new HSAW mills. We read the U.S. industry brief. They didn't even mention HSAW in the entire brief. It's the elephant in the room here.

The HSAW mills account for the vast majority of the excess capacity of the U.S. producers. Japanese producers do not make API certified HSAW. They do not ship it to the United States. They've never exported HSAW to the United States. They do not intend to do so.

I would also comment with respect to the financial performance of the U.S. industry. The U.S. producers who have built these mills are the ones who

are not doing quite as well. The real point here though is the revocation of the order will have absolutely no impact on what the U.S. HSAW mills do. That's because we don't do it. We don't make it. We don't sell it. We don't import it.

The other and the last point I want to make in my opening statement here is the shale boom and the impact that that has had on the U.S. market. That has led to a change from demand from the larger diameter pipes served by the HSAW market to a much smaller diameter pipe that is required for the gathering pipes to bring shale from the shale fields to the market.

Here the Japanese producers do not intend to compete in that market, and there's two reasons for that. And just very briefly, one is that JFE Steel has invested in a plant in California where that type of pipe is going to be made. They're not going to compete with their own pipe from Japan, and I'll explain the others.

CHAIRMAN WILLIAMSON: Thank you.

MR. BISHOP: Would the first panel, those in support of the continuation of antidumping order please come forward.

CHAIRMAN WILLIAMSON: Okay. Mr. Schagrin, you may begin when you're ready. I want to welcome

all the members of the panel to this hearing.

MR. SCHAGRIN: Thank you again, Chairman Williamson and members of the Commission. We are happy to have a number of key executives from six of the members of the U.S. industry presenting the testimony this morning. And despite their very youthful appearance, this panel actually has well over 200 years and -- I hate to say it -- close to 300 years of experience in this industry, so I think they'll be very well able to answer the Commission's questions later this morning.

I would like to invite as our first presenter Mr. Ed Scram, the president of Stupp Corporation. Ed?

MR. SCRAM: Good morning, Chairman Williamson and members of the Commission. For the record, my name is Ed Scram, and I'm president of Stupp Corporation. I have 32 years of experience in the steel industry and became the president of Stupp Corporation in 2006.

We are headquartered and our mills are located in Baton Rouge, Louisiana, and Stupp Corporation is a division of Stupp Brothers, which is a business that was founded more than 150 years ago in St. Louis, Missouri, and is now run by the fifth

generation Stupps. I'm joined today with Don Bohach, our Vice President of Strategic Initiatives. Don has more than 40 years of experience in the line pipe industry.

Stupp Corporation was founded in 1957, producing invasion pipe for our troops during the Korean conflict. That pipe mill has been replaced, upgraded through significant investments and now is capable of producing API line pipe between sizes of 10 to 24 inch outside diameter.

In 2008-2009 timeframes, Stupp invested over $90 million in its spiral weld mill capable of producing line pipe in diameters ranging from 24 inch to 60 inch. This was the single, largest investment in the company's history. Our spiral weld mill is a first class facility, and we have over 500 employees that we have cross-trained on both the ERW facility and the spiral mill.

Despite the mill capabilities to produce a wide range of sizes, grades, including X80 and above, we have actually produced more tons in this mill in the first full year of operation in 2010 than we have since that time. As you will hear time and time again from those that have invested in the industry and the experts on the industry, other than the Keystone XL

project we simply have not seen the big large diameter line pipe projects that we all reasonably expected and the Natural Gas Association forecasted back during the 2007-2008 timeframe.

The future looks no brighter than the past as numerous proposed pipeline projects are canceled and the permitting process for those still on the drawing board seem to take forever. Our company has really been saved by fairly strong demand on the 16 to 24 inch sizes. The production rates of natural gas and natural gas liquids in the shale gas fields have been phenomenal and have driven demand for these sizes. However, we are now seeing a very bad combination of both the surge in imports in these sizes primarily from Korea at prices that are ridiculous in the marketplace, as well as a big slowdown in demand as natural gas rig counts have fallen.

One thing is very clear to both management and the employees of our company. Our current difficulties in the large diameter line pipe market will be worsened considerably by the addition of large amounts of dumped pipe by Japan. For that reason, we ask you to continue this antidumping duty order against Japan. Thank you.

MR. DELIE: Good morning, Chairman Williamson and members of the Commission. For the record, my name is David Delie, and I am president of Welspun Tubular located in Little Rock, Arkansas. I have been in the steel industry for 35 years, and I have been in the large diameter line pipe industry for 15 years and became president of Welspun in 2011.

Welspun's parent company is one of the largest pipe manufacturers in India. It began exporting significant quantities of large diameter line pipe to the United States at the beginning of the last decade and in 2007 decided to make a major investment in the United States by installing a new, state-of-the-art spiral weld mill in Little Rock, Arkansas.

The company decided to serve this market from within this market. Since that time, the company has invested $300 million in land, plant and equipment in Little Rock. We expanded the capacity of the spiral weld mill in 2011 and spent nearly $100 million on a new, state-of-the-art ERW mill producing line pipe from six to 20 inches in outside diameter, which we produced our first pipe in December of last year.

We now have over 700 employees at the plant, making us one of the largest private employers in

Little Rock, Arkansas. We were able to obtain the largest share of the U.S. portion of Transcanada's Keystone XL pipeline project. Transcanada was so certain that it would obtain the necessary approvals to build this pipeline in order to carry Canadian oil from Alberta to the U.S. Gulf Coast that they had us make the pipe and store it in order to speed construction.

Based on my experience, it is not uncommon for pipe production to be scheduled in conjunction with pipeline construction. It is very common knowledge that the Keystone XL pipeline has not been approved from the Canadian border to Cushing, Oklahoma, and only a small portion of the pipeline from Oklahoma to Texas has been built.

We have literally stored several hundred thousand tons of pipe in a yard located in Little Rock. The pipe has been coated with a special protective coating to protect it -- it's an epoxy coating -- while it's being stored above ground. If the Keystone XL pipeline is not approved, it will become the largest competitor of the North American large diameter line pipe industry as this pipe would be sold into the marketplace. Of course we remain hopeful that President Obama will approve this

pipeline.

It should be noted that even though the Keystone is the only pipeline that requires Presidential approval because it passes through the Canadian-U.S. border, the pipeline industry has certainly been more reluctant to embark on more major projects because of its perception that there is a lack of enthusiasm for pipeline construction in this present environment.

Since new pipelines are the main driver for our spiral weld mill and for large diameters on our ERW mill, the lack of bullishness from our end user community is extremely troubling. Based on my experience in the industry, I can tell you that Welspun equipment is world class. However, even if you are the best and most efficient producer if there is no market for your products then it doesn't matter how good you are.

Clearly with the additional spiral weld mills built in the United States since Welspun opened its mill there is significant overcapacity in the U.S. market compared to demand. I was part of the first sunset review when our customer group complained as a party against continuation of the order that there was insufficient U.S. capacity in 2007 to serve what is

expected to be an explosion of pipeline projects in the United States.

How the world has changed in the past six years. Now there is a massive overcapacity in the United States, as well in the world markets, and an explosion never materialized. Having competed against the Japanese when they were trading unfairly before the imposition of the orders, I have no doubt that our customers will find them both a qualified and willing bidder in future pipeline projects if the order is sunset.

Adding two Japanese bidders willing to sell excess capacity at dumped prices against U.S. producers for future pipeline projects is certain to rob Welspun of both volume and the ability to price products that will allow us to make a profit and earn a return on investment. It will also cause us to lay off our very valued employees in whom we have expended significant capital to train on our very fine equipment. On behalf of those employees, I ask you to continue the Japanese dumping order. Thank you.

MR. WILLIAMSON: Good morning, Chairman Williamson and members of the Commission. For the record, my name is Ron Williamson. I am Vice President of Sales & Logistics for Berg Steel Pipe

Corporation. I have been in the line pipe industry for 36 years.

Berg installed a double submerged weld mill in Panama City, Florida, in 1980. The mill is located close to a port, which gives us access to both economical barge freight for domestically produced cut-to-length plate and ocean-borne freight directly into our plant for any imported cut-to-length plate, particularly for those wide sizes necessary for 42 inch and greater line pipe. In the last year, we've spent over $30 million on upgrades to our Panama City mill.

In 2008, Berg announced and installed a state-of-the-art spiral weld mill in Mobile, Alabama, at a cost of $100 million. This mill started operations in 2010. As a spiral weld mill, its input is plate and coil form. We are located only approximately 10 miles away from our main supplier, the greenfield mini mill plant of SSAB in Mobile, Alabama. We also have access to coiled plate from other mills located in Alabama.

Normally there has been a spread of $200 to $300 per ton between the price of coil plate and cut-to-length plate. However, the spread narrowed very significantly in the later part of 2012. The

Commission should be aware that for the most part our LSAW and HSAW mills produce the same LDLP products. In fact, for the Inter Pipeline Fund project in Canada we produced 42x602 wall and 30x457 wall simultaneously on both the Panama City and Mobile mills. We have done this on numerous occasion. There is no problem welding HSAW and LSAW products together in the field.

Berg competed with the HSAW LDLP from IPSCO, now Evraz in Canada, before we built our HSAW mill. We now compete with LSAW from around the world, and our HSAW mill competes with LSAW product in Mexico, in Canada, as well as in the U.S. The Japanese are plain wrong to characterize HSAW and LSAW LDLP as different products.

One of our major attributes of our Panama City mill has always been our ability to perform faster roll changes to shift sizes, allowing us to make small quantities for the distributor stocking inventory for pipeline repairs. While the distributor market is normally just a 10 to 20 percent share of the overall line pipe market for large ODs, it generally represented a much higher share of our shipments from the Panama City mill. However, we are now seeing major inroads by large diameter Chinese line pipe into to the distributor market at prices

which we could never hope to compete.

We all share concerns about future demand in the pipeline market. There is no doubt that the development of completely new major oil fields has had the unexpected effect of reducing our reliance on lower cost pipeline transmission for oil to refineries and replacing it with movement by train. The reason for this is that its refineries commit to an oil pipeline quantities to take guaranteed quantities through a pipeline, and they are also committing to the spot price of oil from that particular field.

However, with rail transport they can purchase oil from many different fields, and there is a great variation in spot pricing between oil coming from various locations. I would never have imagined several years ago that rail freight would emerge as such a major competitor for the transportation of oil to pipelines.

There is no doubt in my mind that the Japanese will return in force with their excess capacity and their desire to turn steel out of their blast furnaces in the large diameter line pipe for both the pipeline market and the distributor market for large diameter line pipe in the United States. More supply of unfairly traded imports from Japan will

either permit Berg from returning employees to work or cause us to lay off more employees.

For these reasons, we respectfully ask that you continue the dumping order against Japan. Thank you.

MR. NORRIS: Good morning, Chairman Williamson and members of the Commission. For the record, my name is Wayne Norris, and I am the president of Dura-Bond Pipe located in Stilton, Pennsylvania. As a reminder, we took over the DSAW mill previously operated by Bethlehem Steel Corporation out of the Bethlehem Steel bankruptcy in 2002. We have now operated the mill for a little over a decade.

Early on in the process we made a number of investments to improve quality and also productivity. Because Dura-Bond has been in the pipe coating business for over 48 years, long before our purchase of the Bethlehem plant, I myself have over 48 years of experience in the line pipe industry.

Rarely have I seen a down market last as long as this down market, which has been since 2008. Other than Keystone, for which the pipe has been produced, but not installed, there have been no mega projects. Our plant is sitting in the middle of the

Marcellus shale, probably the largest gas field ever discovered in the United States. However, other than a few small lines connecting Marcellus gas to specific new gas-fired utility plants, there have been no decent pipeline projects taking gas out of the Marcellus field to major gas consuming areas.

You can see from our questionnaire response how much our business has declined in the past several years. We have had to sporadically lay off about half of our workforce in the past five years. While Arcelor Mittal operates the old Bethlehem rail mill in Steelton, our region still suffers from very high unemployment and a lack of good paying jobs. Our manufacturing wages are certainly much higher than many of the surrounding businesses, which is a plus for our labor area.

As a businessman, I do not mind fair competition. We definitely have a lot of new competition from the new spiral weld mills installed in the United States. However, these spiral weld mills, like ourselves, must purchase steel from outside vendors who are also interested in making a profit on their steel sales. These Japanese line pipe companies, which are now the result of two mega steel mergers in Japan, do not. They see line pipe as just

an extension of their melt shops and want to fill up their blast furnace operating rates.

In the past, the Japanese have traded unfairly, and I am sure they will do so again if you sunset this order. On behalf of the remaining employees working at Dura-Bond, I humbly ask you to extend this relief so that our company has a chance to survive and keep people employed in the Steelton area. Thank you.

MR. O'BRIEN: Good morning, Chairman Williamson and members of the Commission. For the record, my name is Mike O'Brien, and I am Vice President of Sales for American Cast Iron Pipe Company, generally known as ACIPCO. I am testifying today concerning American Steel Pipe, which is one of four divisions of ACIPCO, and I am accompanied by our Division Sales Manager, Mr. Jon Noland. We are based in Birmingham, Alabama. I have been in my current position for 25 years.

ACIPCO was founded in 1904 and has a unique place in American industrial history. We were probably the first major employee-owned manufacturing company as our founder, upon his death in 1924, left all stock of the company in a trust for the benefit of our employees. We are proud that we were among the

first major companies to have women and minorities serving in management roles. We provide our employees and their families excellent benefits, including health care, at minimum cost to them.

The different primary parts of our company -- iron pipe and associated valves and fire hydrants and of course steel pipe that is the subject today -- cater to different cyclical markets which are residential construction and the energy industry. We do our best to shift employees from one division to another instead of incurring layoffs when a market is down.

On the steel pipe side, we have two mills at which we make subject and smaller nonsubject line pipe. Our maximum OD is 24 inches. The past several years have been good years for our business. The antidumping order against Japan has certainly helped in that regard.

One of the major changes that we have seen over the last several years is a shift of our larger diameter products to more gas gathering applications from the traditional use as transmission lines. In the past, four, six and eight inch were the primary sizes for gas gathering lines, taking natural gas from wells to larger pipelines. However, some of the gas

wells in the new shale fields are so prolific that 16 to 20 inch OD pipe is being used in these upstream applications.

The shale play has also changed the game in the oil transmission business. In the years prior to the shale boom, most oil pipelines were 16 inch and smaller. Today, 20 and 24 inch transmission lines are more commonplace in both oil and natural gas liquid pipelines.

Unfortunately, these good times have come to an end. In the past six to 12 months we have seen a surge in imports of 18 to 24 inch line pipe from Korea at prices that are far below prevailing market prices. This has us scratching our heads. For one thing, you ship a lot of air when you transport large diameter pipe.

Secondly, given our access to utilizing rail freight from our own rail yard, we can ship to distributors or pipeline owners throughout must of the United States for much less freight cost than ocean freight and loading expenses from Korea. Of course, from any port there are the additional freight costs to the customers as well.

Given that our pipe plant is located near many of the lowest cost, highest quality steel

manufacturers in the world, we have a hard time understanding why pipe plants located 3,000 or 4,000 miles away from the United States are competitive in our home market. Of course, this applies to the Japanese mills as well who are seeking re-entry into the U.S. market for their dumped product.

In my own opinion, these Asian mills simply cannot serve the U.S. market against cost competitive U.S. producers without dumping. While you have heard today about all of the recently added spiral weld mills making 24 inch to 60 inch OD pipe, we are now in the process of getting new domestic competition in our size range. As you heard from Mr. Delie, Welspun recently completed a new pipe mill producing line pipe from six to 20 inches located in Arkansas.

California Steel Industries is currently building a new pipe mill that will manufacture 10 to 24 inch line pipe at their location in Fontana, California. In addition to the increased import competition, we will be facing more domestic competition as well.

Unless demand increases, more supply is going to put pressure on the market and will certainly take some volume and profits away from ACIPCO. For these reasons, we ask you not to allow unfairly traded

Japanese supply to surge into the market at the same time.

We at ACIPCO strongly believe that as we have done for over 100 years we can survive and thrive against any domestic competitor, but only the U.S. Government can make sure that ACIPCO and our employee owners do not lose out to unfair foreign competition. Please continue the antidumping duty order against Japan. Thank you.

MR. JOHNSON: Good morning. I am Jeff Johnson, Director of Standard and Line Pipe North America for U.S. Steel Corporation. Last week some of our top executives were here for a staff conference involving Oil Country Tubular Goods. That case is extremely important to us, and we appreciate the diligence shown by Commission staff in that proceeding.

The Oil Country Tubular case shows that even a strong market can be overwhelmed by too many dumped and subsidized imports. In this case, on the other hand, weak demand has left domestic producers extremely vulnerable to unfair trade. Your data shows that from 2007 to 2012 U.S. consumption of the large diameter welded line pipe fell from 2.58 million tons to 1.58 million tons, a decline of one million tons

equal to 38.6 percent of the market.

Furthermore, demand continued to weaken this year, falling by 26 percent from Q1 2012 to Q1 2013. Through the first quarter of this year, demand was running below levels seen during any full year of the period of review. These poor demand conditions, along with increased competition due to imports from nonsubject countries, have left domestic producers in a weakened state.

In the first quarter of 2013, the domestic industry as a whole suffered an operating loss of almost $8.5 million. These developments have had significant and painful consequences for United States Steel. We make welded large diameter line pipe at our facility in McKeesport, Pennsylvania. For most of the last decade, that facility was managed by Camp Hill Corporation, which provided tolling services for us. Since May 2011, however, we have directly managed operations at McKeesport and have made investments to upgrade that facility.

We took these steps in hopes of growing our sales of welded tubular products, including sales of large diameter line pipe, but in late 2012 poor market conditions forced us to lay off over half of our workforce at McKeesport. While we were able to bring

those workers back after a few months, we are certainly in no condition to compete with another surge of unfairly traded imports.

McKeesport is not our only interest here. We make hot-rolled steel used to make large diameter welded line pipe at our plants in Gary, Indiana, and Granite City, Illinois. We also have an interest in United Spiral Pipe, a California mill that began production in 2010. USP has 300,000 tons of capacity to make welded pipe in outside diameters from 24 inches to 64 inches, so you can see this product line is very important to U.S. Steel.

Under these circumstances, we are very concerned about the potential for a new surge of unfairly traded Japanese imports. I understand that your staff report states the Japanese mills have the ability to respond to changes in demand with large changes in the quantity of their shipments to this market.

Let me assure you, a large quantity of Japanese shipments would be devastating to this market. We don't have enough business as it is. We certainly can't afford to lose sales to unfairly traded imports. Accordingly, we urge you to maintain relief.

MR. SCOTT: Thank you. Pardon me. Good morning, Chairman Williamson and members of the Commission. Thank you for the opportunity to testify here today. My name is Robert E. Scott, and I'm here to discuss the economic impacts of repeal of antidumping orders in this case. I'm an economist, and I have worked in prior Commission proceedings about the impact of imports of Japanese LDLP.

Since 2009 and the onset of the great recession, apparent consumption of this product has fallen by 57 percent. In addition, the domestic share of apparent consumption has fallen from a peak of 67.3 percent in 2011 to 38.0 percent in the first quarter of 2013. As a result, domestic producers closed or idled a number of plants and have substantial excess capacity. A combination of low demand and high capacity makes the domestic industry highly vulnerable to any recurrence of dumping of LDLP by Japanese producers.

As an international economist at the Economic Policy Institute, I'm also well aware of growing headwinds in the international economy. In particular, the economies of Europe, Russia, India and China are all facing threats of sharp slowdown or return to recession. These problems all undermine

projections of strong growth in demand for LDLP referred to by Respondents.

The OECD, for example, has just slashed its projections of growth to the Euro Zone and now predicts that GDP there will fall by .6 percent this year. This month, the International Monetary Fund World Economic Outlook reduced its forecast of EU growth by half a percent and slashed projections for nearly every major area of the world through 2017 with the heaviest cuts in their forecast for 2013.

The IMF reduced its forecast for growth in every major area of the world this year and for each of the Big Four markets for LDLP, including Russia, India, China and EU. In the first quarter of 2013, GDP growth in Russia slowed to 1.6 percent, the slowest since 2009. The Russian economy is plagued by an overvalued currency, underinvestment and structural problems. Furthermore, falling oil and natural gas prices threaten to drag down that economy for years to come.

India is also facing structural problems that are reflected in the large current account deficit of 6.7 percent in the fourth quarter of 2012. In addition, capital outflows exceed FDI inflows, creating the potential for balance of payment

problems. Internally the economy is plagued by high inflation. GDP growth in India slowed to 5 percent in the first quarter, the slowest in a decade, and domestic savings and investment are both falling. In other words, India is teetering on the brink of potential financial collapse.

China is perhaps the most important question mark of all for two reasons. First, growth is slowing in China as well, falling to 7.5 percent in the first quarter after two decades of sustained double digit growth. The government has claimed that it wants to rebalance the economy away from a reliance on exports and domestic investment and towards consumption. However, massive overinvestment threatens to create a property bubble that could dwarf those seen in the United States and Europe in 2008 and 2009.

The Chinese economy is poised between runaway inflation and collapse of that property bubble. The government lacks the tools needed to spur domestic consumption in China because in part it's such a small part of the economy. Any slowdown in growth could spark civil unrest and threaten the stability of the government.

Meanwhile, China has continued to overinvest in steel making capacity. It has gone from being one

of the world's largest importers of LDLP to one of the most rapidly growing exporters. This Commission is well aware of the consequences that can flow from massive overcapacity in large, capital intensive Chinese industries, including the large number of steel products now subject to antidumping and CVD orders in the United States.

Since Japan has no significant domestic market for LDLP, it must export virtually all of its domestic production. As China's exports grow, it is pushing Japan out of its best export markets in Europe, Russia, the Middle East and elsewhere in Asia. There's also a major structural difference between the Japanese producers and nearly all of the domestic Petitioners in this case.

The two major Japanese firms are large, integrated steel producers who operate massive blast furnaces and plate mills. Nearly all of the U.S. producers of LDLP are independent finishers who must purchaser steel coil or plate on the open market. As an economist, I am very familiar with the literature on industrial organization.

Large, integrated steel making firms such as JFE and Nippon Steel face large incentives to maximize conversion of raw materials into plate and LDLP in

order to keep their blast furnaces running around the clock. In order to win large contracts, it is profitable for integrated mills like this to price their products at their marginal cost of production, which in their case is simply the cost of raw materials, energy and labor needed to produce the basic steel and roll it into LDLP.

You should discount arguments from the Japanese that they are not interested in competing in commodity grade LDLP markets. They have maintained a continuous presence in the U.S. markets throughout the period of review through limited sales of subject products and sales of large quantities of LDLP products that are outside the scope of the order.

Likewise, Respondents' claims of high levels of capacity utilization are completely specious. The Commission has noted the irregularities in the Japanese definitions of LDLP production capacity and past reviews, and it should continue that view of the case.

Respondents have also claimed the Japanese firms sell primarily to distributors, while domestic firms sell direct to end users. But in the past, distributor sales were only 20 percent or less of U.S. apparent consumption of this product. However,

distributors accounted for nearly half -- 48.6 percent -- of domestic sales in the first quarter of 2013. Hence, distributor sales will be critical for survival of domestic producers in the future and they cannot afford to be undersold by unfairly traded Japanese imports in this now key market segment.

The domestic industry is already in a greatly weakened financial position due to the collapse of demand and rising shares of nonsubject imports in 2009. Half or more of domestic producers have operating losses in three of the four years since 2009. In the first quarter of 2013, the entire industry reported operating losses equal to 2.9 percent of sales. Domestic producers are now extremely vulnerable to any increase in subject imports and/or underselling Japanese producers of LDLP.

The domestic industry has massive excess capacity, high inventories and low prices and therefore subject to a price/cost squeeze. Any increase in imports or fall in import prices will increase losses in the domestic industry and result in lost sales and/or price suppression. Thus, if the order is lifted in this case it will likely result in a recurrence of dumping by Japanese producers of LDLP

and result in the permanent closure of one or more U.S. pipe mills with attendant layoffs and job losses. I'd be happy to answer any questions, and thank you.

MR. SCHAGRIN: Chairman Williamson, that completes the domestic industry's direct testimony. We would be happy to answer the Commission's questions.

CHAIRMAN WILLIAMSON: Thank you. I want to express the Commission's appreciation to all the panelists who have come today and especially for you taking time from your businesses to come to present testimony here.

This morning I will begin the questioning. The first question is should the CWLDLP produced by the different methods -- ERW, HSAW and LSAW -- given the different thicknesses, diameters and grades, should those be defined as a single product because of some of the Commission's like product factors?

MR. SCHAGRIN: Commissioner Williamson, Roger Schagrin. I'll start with the legal side of like product and then let the producers add the technical side. First, yes, we believe the Commission should continue to find this entire product range to be one like product.

There are certainly complete overlap between

the HSAW and LSAW methods of manufacture in terms of product specification, ODs, wall thickness. While there's less overlap with the ERW production basically at the 24 inch size range, as the Commission has previously found in the investigation and in the first sunset review these products still represent a continuum of product made to the same API specifications, used by the same users for the same purposes and sold through the same distribution channels.

I would further point out that Respondents did not raise any like product issues during the time of institution of this sunset review, and even though they kind of withheld their right to raise like product issues later the only one they really seemed to have raised, which I have to admit I think everyone on this panel would find to be quite specious, is the idea that somehow, and it was right in their opening remarks that somehow LSAW and HSAW are different products.

As Mr. Williamson testified, Berg has both mills. They make the same identical products on both mills at the same time to ship to the same customer for whom they have won a contract. I don't think there could ever be any better evidence of products

that are substitutable and interchangeable, even though made by two different production methods, than the experience of Berg. And for the other producers who use separate production methods and don't have mills going in both production methods, they're competing with each other every day.

So whether Mr. Williamson or anyone else on the panel, if you have anything to add?

MR. WILLIAMSON: Well, as I mentioned in my statement, we do consider it the same product. We received an order from Inter Pipeline Fund, who has some of the most stringent specifications in the industry, and they had no problem whatsoever with us utilizing both mills for their pipeline in order to meet their delivery requirements.

CHAIRMAN WILLIAMSON: Okay. Thank you. I was wondering. Is any of the HSAW you produce used in the arctic, deepwater or sour service applications?

MR. WILLIAMSON: Is? I'm sorry.

CHAIRMAN WILLIAMSON: Is any of the HSAW used in the critical applications like in the arctic, deepwater?

MR. WILLIAMSON: No, not that I'm familiar with. No.

CHAIRMAN WILLIAMSON: Okay. Mr. Delie?

MR. DELIE: Yes. I'd like to answer both. Almost all this pipe is critical because it's running through our neighborhoods, golf courses and everything, so there's critical inspections.

If you're looking at the deepwater and some of the other applications, earlier we have excluded the size ranges and some of the grades that would be used for these applications, so they're outside the order already. So if they're going to go into using a piece of pipe that's 20 inches by two inch wall thickness for a deepwater application, that's not covered under the order.

So that product and the Japanese have already been continuing to do deepwater applications and a lot of these applications already, and they're allowed to without this order. What we're asking for is what most of the mills here can make is the material one inch and under and the grades up to X80, which we do.

If you're starting to look at the grades of 120 and they're talking about things like that they're excluded, and we've excluded them in previous requests. So it doesn't make any sense saying that we have to exclude this order to get to the market that they're already allowed to get to.

And like I said, the product that we make, even though it might be a 500 wall or a three-quarter inch wall pipe, when it's running past schools and through our neighborhoods, PHMSA is very closely looking at it, everything. There's third party inspectors. It's all critical applications because it is carrying gas and oil through our communities.

CHAIRMAN WILLIAMSON: Okay. Is it PHMSA?

MR. DELIE: PHMSA, yes. PHMSA. It's Department of Transportation. It's Pipeline, Health, Safety --

CHAIRMAN WILLIAMSON: Okay. Good.

MR. DELIE: Hazardous. Okay.

CHAIRMAN WILLIAMSON: Thanks. Good. I forgot to ask you, Mr. Williamson. Now, does this mean that you can have say one section that's HSAW connected to a section that's LSAW?

MR. WILLIAMSON: That's exactly what they do. It's the same pipeline going from Point A to B. Parts of it has LSAW, parts HSAW, so on and so forth.

CHAIRMAN WILLIAMSON: Okay. Thank you. Okay. I was just wondering. Is there any seasonality in the demand for the subject pipe? In particular, I'm wondering how much weight is put on the January through March interim period in this review?

MR. DELIE: No, it's not seasonal. It's just major projects that once they start construction a lot of the project construction lasts for a year, two years, so it's not a seasonal product.

CHAIRMAN WILLIAMSON: Okay. Thank you. I was wondering. How does the subject pipe fit into the overall mix of line pipe being sold in the U.S. market, and does the 16 to 64 inch pipe represent a large portion of the U.S. market?

MR. SCHAGRIN: Roger Schagrin. During this period of review, the amount of line pipe greater than 16 up to 64 inches has declined considerably as a share of the total line pipe market, and that's because while there were expectations that the boom in drilling or the expansion of drilling and expansion of rig count and finding gas and oil in all of these new fields around the United States -- you know, we've had more than a 50 percent increase in both natural gas and oil production in this country over the past five, six years -- would result in growth for all line pipe.

The smaller diameter demand, which is primarily used for gathering in the fields to go from the wellheads to transportation, now that transportation being either into pipelines or into rail cars. They still have to move it. It doesn't go

from the well into a rail car. It goes through a small pipeline into a rail car. It's generally smaller diameters, even though there's been some expansion with the prolific amount of gas and natural gas liquids coming out of certain areas with more demand for 16 to 24.

That part of the market has just absolutely collapsed recently because of not only the steep decline in gas prices and in gas drilling, but also a huge decline in the prices of natural gas liquids. So in the oil fields most of what is being utilized for gathering today is less than 16 inch sizes, so the relative demand between the smaller sizes and the larger sizes has shifted much more towards the smaller sizes and away from the larger sizes because of lack of pipeline construction.

CHAIRMAN WILLIAMSON: Okay. Thank you. You discussed during the original investigation the market for large diameter pipe and in fact the demand for new projects and for replacement applications. You talked a lot about the fact that there's no new projects around, but I was wondering. What is the demand for replacement in the U.S. market? Are there any trends there?

MR. DELIE: It's been very weak. It's been

very weak. With the lower prices of natural gas there's not been a lot of investment in gas pipelines and the larger lines, so it's been very, very slow. There's not been a lot of replacement.

CHAIRMAN WILLIAMSON: Okay.

MR. DELIE: And a lot of people expected -- five years ago or 10 years ago we expected a lot of pipelines to be replaced and that's just not happening economically. It's just not in the cards. So there has not been any replacement pipelines.

CHAIRMAN WILLIAMSON: Okay. So it's not that these things wear out. It's that people were expected to be upgrading them?

MR. DELIE: Yes. We expected them to be upgrading them, and because of a lot of the shale plays now where you're getting gas in local areas, some of the longer pipelines to move gas, what they'll do is instead of replacing the pipeline they'll reduce the pressure on the line so that they can continue to operate the line at safer pressures instead of because of the wall thickness they may be afraid that it may have thinned for rusting or whatever. They'll reduce the operating pressures of the pipelines and keep operating at safe levels, but at a reduced volume.

CHAIRMAN WILLIAMSON: Okay. Thank you.

Thank you for those answers. Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman. I also extend my welcome to you. I see some familiar faces here, which is always a pleasure, and I know I've had the opportunity to visit at least one of your plants, but it's some years ago I guess, a good trip down to Birmingham. And so I appreciate how much you've helped me to learn about the tubular business over time.

Mr. Delie, you had made reference to the Keystone XL pipeline project. Did your firm win the entire bid for that pipeline, or was that so large that it was split among multiple firms?

MR. DELIE: It was large enough it was split among multiple firms. We had the bulk share. I think the pipeline was a little over 1,600 miles, and our company, Welspun, produced approximately 800 of it.

And as I said in my testimony, we still have over 400 miles of pipe sitting on the ground in Little Rock, Arkansas, waiting to go on sitting over 80 acres. It's a sight to see.

COMMISSIONER PEARSON: How many tons of line pipe does that represent, the 1,600 or more miles? I mean, I'm just trying to get a sense of how significant is this project in the context of the

apparent consumption that we have in the United States?

MR. DELIE: Oh, I can't remember exactly how many tons it is, but it's hundreds of thousands of tons. It is significant.

Our plant to produce that, if you want to look at it in miles is a good way. We could produce about a mile a day out of our plant. So if you look at that, we produced 800 miles. It's over two and a half years of production. So it's a significant -- and that was only for half of the pipeline, so it also kept other pipe mills busy also. So it was a significant project.

And typically we see other projects coming around, and there's been very few. This industry is a little bit different than a lot of industry. We don't get a lot of little orders. You might only run one order or two orders or three orders for the entire year. So we're waiting on these projects and we'll bid on them competitively.

Like Mr. Williamson said, LSAW and HSAW, we all compete together. It doesn't matter on 99.9 percent of these projects which product they use. The customer doesn't care as long as it meets their specs and API, and they both do.

MR. SCHAGRIN: Yes. I'll work with Mr. Delie and we'll come up with a tonnage that -- for both the 1,600 miles, and I will be able to tell you just how much of U.S. consumption that production -- which is counted as a shipment even though it's being stored. It's, TransCanada is the owner of that product, not Welspun, so it's been technically shipped and would show up in the domestic shipment.

But you'll see for those years just what a huge portion of entire U.S. production in shipments the Keystone represented. We'll give that to you in our postconference.

COMMISSIONER PEARSON: Okay. Because I'm curious about this.

MR. SCHAGRIN: Big. It's big.

COMMISSIONER PEARSON: Okay. Mr. Scram?

MR. SCRAM: Yeah, Ed Scram. So it's in the 800,000 ton range. It's significant, and we'll get you the exact number.

COMMISSIONER PEARSON: Yes. Okay. That's a large number.

Is that pipe all of one size, one grade, uniform end to end?

MR. SCRAM: No. It's a lot of different wall sizes, or not a lot, but maybe a half a dozen

different wall sizes. Depending on where it's going, railroad crossings, bends, and other things would be different wall thicknesses. It's all 36 inch pipe, X70 grade, but there is some varying wall thicknesses.

COMMISSIONER PEARSON: Okay. That makes sense. I don't know a lot about the pipeline business. I've learned about tubulars, but not about putting them in the ground.

So I'm correct to understand that all of that pipe for Keystone XL has been manufactured, and so we would be picking it up in our data as product that was manufactured during that period of review.

MR. SCHAGRIN: That is correct, Commissioner Pearson. So if you were to hear even between now and the time of the vote that President Obama approved the Keystone XL pipeline, that would represent no new demand. What it would mean is that -- and I have been at a conference in which an executive at TransCanada has said this publicly. They have said if in the end that pipeline were not to be approved, then they're going to sell on the market the inventory they're currently holding.

They can't use those, that amount of pipe in those sizes and walls in any other pipelines they're contemplating, so they would, in fact, become a seller

of hundreds of thousands of tons of inventory that they own into the U.S. market. That product already shows up in all the Commission's data. If the TransCanada has the ability to put it in the ground, it won't represent no new demand for the U.S. industry.

COMMISSIONER PEARSON: Okay. Was the pipe manufactured primarily in 2010 and 2011 or was it more '11, '12?

MR. DELIE: I believe it started in '10 and we ran it all through '11.

COMMISSIONER PEARSON: Okay.

MR. DELIE: I think, believe TransCanada was looking for approval in December of 2010, so we started construction, we started pipeline production in '10 and we were, it's typical that we would be producing pipe and shipping it to locations as they were putting the pipe in the ground, so we made it through 2011.

COMMISSIONER PEARSON: Okay. This is somewhat of a side issue for those of you who manufacture pipe but I was interested to hear just recently that the President was saying that he doesn't think there will be that many jobs related to the pipeline. This is a July 27 quote. The most

realistic estimates are that, are this might create maybe 2,000 jobs during the construction of the pipeline, which might take a year or two.

Does that estimate seem right to you? Now, clearly, your jobs are mostly accomplished, but I'm thinking about the, you know, logistics, transportation, all what I would consider jobs that support the direct construction. Is 2,000 right or is that a little low?

MR. DELIE: I believe that's way low. Just in Little Rock during the construction, just for me to ship out the pipe it would take me probably nine months to a year to ship the pipe out that I have. I'll probably add 50 employees, and then you'll have the railroad employees, the guys that provide trucking services to us. So in Little Rock, you know, there's probably just 100 people.

Then you have all the other sites that the pipe is sitting. The people who have to move that pipe, truck it to their site. I think the 2,000 might be direct welders on the line, but there's a lot of support activities going. I believe that will probably take between 5,000 to 10,000 jobs. Just an estimate from the work that has to be done other than just welding it.

COMMISSIONER PEARSON: Has the White House reached out to your industry to ask that sort of question?

MR. DELIE: No. Sorry. No, they have not.

COMMISSIONER PEARSON: Okay. Dr. Scott, my understanding is that the total expenditure expected for the Keystone XL pipeline is about $5.3 billion. What type of multiplier might one expect from that expenditure in terms of the number of jobs that might be generated?

MR. SCOTT: I've done a lot of work with looking at job studies related to trade flows, for example, and I know that, roughly speaking, you get between 5,000 and 10,000 jobs per billion dollars spent directly, and indirectly, just for components. So you're saying $5 billion. It's probably 25,000 to 50,000 jobs over job years, spread over two years.

In terms, in an economy like ours with perhaps 8 million, 9 million people excess unemployed, you'd have an economic multiplier of 1.4, 1.5, so you might generate an additional 12,000 to 25,000 jobs, as many as that, just from the respending of those very high wages in those construction industries. So it could be a very large impact, I think, in terms of respending as well.

COMMISSIONER PEARSON: Okay. Well, realizing that this is not the central issue that we're here to decide, but I just found this really very interesting, tied together between what's happening in current affairs and what we're trying to do here, with this case.

If, for purposes of the posthearing, Dr. Scott, if you could elaborate just a little bit on that to help us understand how the investment in the pipeline might spread through the economy, I would be interested in reading that.

MR. SCOTT: I would be happy to do that. Thank you.

COMMISSIONER PEARSON: Okay. Thank you very much for those answers.

Mr. Chairman, I'll turn it back to you.

CHAIRMAN WILLIAMSON: Okay. Thank you.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

Welcome to this morning's panelists. One of the things that we're faced with in this review is the difficulty of predicting future demand. I think the briefs on both sides were pretty clear that what everybody thought demand was going to be, both in 2007

and then maybe last year, too, it's not necessarily turning out the way it was predicted.

So in light of the fact that forecasts don't seem to be especially reliable in this case and that we are trying to assess what demand is likely to be in the reasonably foreseeable future, I'm trying to figure out what exactly we can foresee.

My question is would it be fair for the Commission to assume when we're thinking about likely future demand that any pipeline project that has not put out an RFQ by now is not going to be purchasing any of the subject pipe in the reasonably foreseeable future?

MR. SCHAGRIN: This is Roger Schagrin. The answer to that, Commissioner Aranoff, is yes, and I'll let people in the industry who are familiar with the timelines explicate why the answer is yes.

Anybody want to describe the timeline process between the RFQ and production of the pipe and the pipeline actually getting laid, you know, versus RFQ being after, presumably, permit has taken place.

MR. WILLIAMSON: Well, from our side it could take a considerable amount of time. Right now we're trying to forecast for our next year production. What projects do we think are coming out? What's a

reasonable expectation that we might get those? We're just not seeing that much.

Normally, it would be rare that a mega project would just show up without us knowing about it way in advance. Typically, there's more pipelines out there that are forecasted that never come to fruition. So a lot of those things you have to discount. There could be projects that are competing with each other.

As far as a timeline goes, normally we would see the inquiry, we would have probably 20 or 30 days to figure out our technical response and our pricing, the customer would typically want 90 days to make a decision before he would release an order, another 12 weeks to procure our steel supply, and then actually start production on the order. So we just, we're not seeing that here recently for the projects.

COMMISSIONER ARANOFF: Okay.

MR. DELIE: Ron started it after the VAX year going out for the bid on the project, but we actually hear about the pipelines way in the conceptual stage and usually they'll come out to us for budgetary quotes. They'll do -- because this is a major capital expenditure. If you have a $2 billion project, that has to be approved by their board of directors. So they're doing the due diligence about

whether the pipeline is needed, what kind of supply would be going through that pipeline, what kind of customers they would have on it.

Then they would start looking at putting the permitting process together, and moving forward the environmental studies, and start acquiring the land before they would even start looking at coming to us. So we usually know about pipelines or you'll hear about pipelines, it will be a year or two years out. Maybe even three years out.

We're hearing pipelines that are looking to go in operation in 2017, for example. Again, these are like what if scenarios and we're not sure if they'll actually be followed through.

COMMISSIONER ARANOFF: Right. Right. Yes. I'm trying to define sort of the point in time at which it's more likely than not that you're actually going to, someone's actually going to sell pipe to a project. That's why I was guessing the RFQ stage was a pretty good point to start. But if you guys have another suggestion.

(No response.)

COMMISSIONER ARANOFF: Okay. Let me turn to a different, entirely different question. The Respondents have suggested that the Commission pay,

give very little weight to the presence during the period of review to the presence of either Japanese subject and nonsubject products that have remained in the U.S. market because they are, that those basically reflect specifications and products that are not available from U.S. producers and that trends in those products wouldn't tell us anything about what the Japanese producers might do with respect to products that would compete with U.S. producers if the order were revoked. Is there sound logic to that?

MR. SCHAGRIN: Commissioner Aranoff, this is Roger Schagrin. We don't agree with the Japanese logic. Let me break it into two parts, the nonsubject and the subject.

As a nonsubject, those products, as Mr. Delie pointed out earlier, have been excluded from the order because the domestic industry can't produce them. So I think both the Japanese and the U.S. industry agree it is a extremely small portion of overall U.S. demand.

The only thing about them selling the nonsubject, some of the purchasers of nonsubject, be they either distributors who are sending, you know, utilizing those products for replacement purposes or the end users, are also purchasers of subject product.

So there's not two totally different sets of customers just because there's off shore use and on shore use.

Secondly, turning to subject products, we think it's particularly telling that for the limited numbers of quantities of sales of subject products, which the Commission staff was able to gather information on underselling, that the Japanese almost always significantly undersold the U.S. industry. So when they did sell products that were subject to the antidumping duties, they did so at prices that were significantly below U.S. prices. We think that's very telling as to their future behavior.

It only makes sense that in industry, massive excess capacity operating at approximately one-third capacity utilization, that no U.S. purchaser, be they a pipeline company or a distributor, would bother to purchase Japanese product unless it was sold at a price below the domestic price. These domestic producers have nothing but availability on their mills to supply any purchaser in the United States.

The only reason during the POR, or if you were to sunset the order, that either pipeline companies or distributors will purchase Japanese

product is because the product is sold at below the U.S. price as to subject products.

They are free to sell as much nonsubject product as there's demand. We excluded those products for a reason. We spent a lot of time working with the very few companies that account for most of the drilling off shore, the Chevrons, Exxons, BPs, Shell.

I would point out, and these gentlemen are more expert than I, I don't think any of the companies that are drilling that are the major drillers off shore aren't also companies who are major drillers on shore in the United States. These are not just companies who specialize in drilling for off shore gas and oil. They're the major oil companies and gas companies. They do a lot of drilling and purchase a lot of product for on shore as well.

COMMISSIONER ARANOFF: Mr. Vaughn?

MR. VAUGHN: Yeah. Commissioner Aranoff, I mean I just want to agree with what Mr. Schagrin said. I mean, to me, their argument really makes very little sense. I mean their point seems to be, well, we're only shipping, we're mostly shipping excluded product so that shows that that's what we would do if the orders were revoked. That doesn't make sense.

The whole point is that even with the orders

in place, you're still shipping excluded products, you still have customers here, you still have contacts here. The Commission has in the past seen foreign producers who come in and say we've left the U.S. entirely, we've got all these other markets, we're not focused on the U.S. anymore at all. That's not the case here. So I think the excluded product shipments are very relevant to your analysis.

COMMISSIONER ARANOFF: Okay. Well, so while we're on that, Mr. Schagrin raised the issue of the underselling data and the Japanese producers did argue that the Commission should discount that data for underselling during the period of review because of differences in channels of distribution. I think it was that most of the subject imports were going into the distributor channel and most of the domestic product wasn't. Is there a flaw in that argument?

MR. SCHAGRIN: Yes. If you think about it, distributors will normally pay higher prices than end users. If you're buying 400,000 tons of product instead of 400 tons as a distributor, do you expect, as a pipeline company, to pay a higher price for the same product than the very small distributor purchase or a lower price? So I just, from economic theory grounds, the Japanese argument just doesn't hold

water.

COMMISSIONER ARANOFF: Okay. Thank you very much.

Thank you, Mr. Chairman.

CHAIRMAN WILLIAMSON: Commissioner Pinkert?

COMMISSIONER PINKERT: Thank you, Mr. Chairman.

I thank all of you for being here today to help us to understand these issues. I recall in the opening statement of the Japanese producers that the attorney said that they don't make HSAW and they don't sell it. Can you help me to understand why that might be the case? What's going on there? You've talked about the product and what they can do and how similar or overlapping they are, but why would it be that they don't make the HSAW product?

MR. DELIE: Because the HSAW and LSAW are interchangeable products and their mills have enough capacity now in LSAW that you would not need to build a new facility to add additional capacity that you're already having problems selling.

COMMISSIONER PINKERT: Well, is it just happenstance that they have the LSAW rather than the HSAW? Is that just a historical peculiarity or is there some logic to it?

MR. DELIE: Historically, pipe was produced in the LSAW fashion, majority for oil and gas. Due to technology improvements in the steel quality of the steelmakers making coils, the welding technology, the inspection processes, nowadays the weld is, instead of being one of the weaker points on the pipeline, it could be one of the stronger, strongest points on the pipe. There's been a lot of advancements. So now the use of LSAW pipe in oil and gas is more widely accepted.

These mills have already been built before the acceptance of HSAW pipe was accepted around the world. So if you already have a million tons of capacity and you're already having trouble still in that mill, you would not add a second facility just to produce the same product with a different production method. It just doesn't make sense.

Yeah. So, yeah, they're correct. I believe that they're not planning on building HSAW mills because they're already having, they're already struggling to fill the capacity of their existing mills. That's what we're concerned about is that they would, because they have that capacity on the mill, they would come into this market because the U.S. market is one of the strongest markets. The fact that

they're losing the Asian market with the Chinese and the Indian producers producing more pipe also. So that region is getting a tougher sell so they would like to come into the United States.

COMMISSIONER PINKERT: I note that some of the other folks on the panel were shaking their heads in the affirmative as you were testifying there. Does anybody wish to add anything?

MR. SCHAGRIN: Commissioner Pinkert, this is Roger Schagrin. I would just reiterate what Mr. Delie said from a historical anomaly perspective, and that is in the United States the first HSAW mill wasn't installed until 2009, so this is pretty recent in the U.S.

The reason that, for better or for worse, five different companies decided to install HSAW mills in the United States is because at the time they were making these plans there was this projection for booming demand in the United States. The most recent technology, which was not available at the time the Japanese LSAW mills were built, is the new HSAW technology.

Now, you have to remember that even with diminished demand in the United States, the U.S. is still far and away the largest market for large

diameter line pipe in the world. Even with the reduced amount we're well over, as one country, more than one-third of world demand. There's no demand for these products in Japan.

They have to compete with these mills across the world for the pipelines that I guess they'll talk about during the in camera session this afternoon. But they, in fact, would probably advertise, as they put in their prehearing brief, that through these mergers of four companies into two, they've been reducing some of their older, redundant capacity.

Even the Japanese, I don't think, are contemplating adding any new capacity because we have a world that is awash in overcapacity to produce these products.

So it was installed here because it was the newest technology and people wanted to supply this supposedly exploding U.S. market with new mills with the newest technology and there hasn't been a need for the Japanese to add the newest technology.

COMMISSIONER PINKERT: Thank you. Now, JFE's affiliate, California Steel Industries, plans to build a plant to produce ERW pipe of up to 24 inches in diameter. Does that make it unlikely that such pipe would be imported from Japan in competition with

California Steel Industries' plant?

MR. SCHAGRIN: This is Roger Schagrin. One of the things about the new CSI plant is that it's being built in Fontana, California. There's a significant West Coast market for line pipe in those size ranges given the significant amount of drilling that takes place in California, in the Dakotas, which are closer to California than they are to the, let's say to the Gulf Coast.

Freight costs from California to the other major consumption areas in the United States, which is primarily the Gulf Coast, which is where most of the U.S. mills are located, is extremely high. I would guess that freight costs by train or truck from California to Houston are much higher than the cost of ocean freight from Japan to Houston.

So I would credit the JFE testimony as to reducing their exports from Japan to the West Coast would not have any effect on JFE's shipments to probably the major part of U.S. consumption, which would be the Gulf Coast area.

Further, of course, unless they were to include in any way -- and I would never accuse them of that. Obviously that new CSI mill should have no impact on Nippon's desire to ship those products to

the U.S. market. I think you'll see that Nippon has major ERW mills producing that size range.

COMMISSIONER PINKERT: Vaughn? I'm sorry. Mr. Johnson?

MR. JOHNSON: One other thing you could possibly see when it comes to bringing in import pipe, sometimes timing is not everything. Sometimes that pipe may be needed sooner rather than later. With production and ocean freight to get it over, what we could see, and potentially see, is a partnership where they get them kick started, so to speak. They get them started with the CSI mill because they can make the pipe and quickly ship it, while the overseas pipe, the import pipe, is being made to fill the bulk of the order.

MR. DELIE: I'd like to add something. Being part of the Welspun Group, we have plants in India and everything else, and one of the things a lot of these projects, just like the Keystone XL, a 1,600 mile long project, Welspun alone could not produce, or Welspun Group, we could not produce all that pipe in that period of time. So there's many projects that might need all the pipe produced in a six month period of time that's too much for one pipe mill so that they'd go to several pipe mills.

What they can do is say, hey, we can supply all the pipe, we'll supply the pipe, you know, half the pipe from CSI, half the pipe from Japan. So, you know, that is a typical thing. A lot of customers like that, dealing with one customer, you know, with one supplier, and saying, hey, we can do, just give us the whole order, we'll take care of everything, you won't have any problems to deal with multiple suppliers.

That's what we do in some of our cases where it's customers would like to say what else, you know, where else can you supply from? We'll supply from both the, both mills here and in India. So I see no reason why they wouldn't do that. In fact, that would give them an in in the United States to bring additional pipe in.

COMMISSIONER PINKERT: Thank you. Now, given the decline in demand after 2008 is it, should it be surprising to us that there was a substantial expansion of the domestic industry's capacity during that period?

MR. SCRAM: Yes. This is Ed Scram. So, yes. I mean from our perspective the timeline when the Stupp facility was, the decision was made in like the middle part of 2007, equipment was bought at the

end of 2007, installation and commissioning was completed in 2009.

So, you know, I think, like Stupp and other companies, about that same period of time were seeing a significant amount of demand in the forecast from the, you know, industry experts and kind of understanding what's going on in the industry. The primary reason for that was the need to move, you know, product from one end of the country to the other. What wasn't expected was really the shales.

That's when shales came on and you had shales located in various areas of the country. All of a sudden there's less of a need to move product from the Rockies to the East Coast or from California to the Gulf Coast, you know, because those resources are already in the localized areas.

So I think there was, you know, nobody anticipated kind of that significant drop off in the demand for large LD pipe.

COMMISSIONER PINKERT: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN WILLIAMSON: Thank you.

Commissioner Broadbent?

COMMISSIONER BROADBENT: Thank you.

Mr. Schagrin, could you explain kind of the,

how I can get my head around the exclusions going on in this market? I mean what kind of pipe was excluded over the years as you worked on this order?

I'm reading this definition which is a page long and it's overwhelming.

MR. SCHAGRIN: It's a good thing that we get a lot of expertise in the trade bar. At the time that we drafted the order, excuse me, the petition, we were very well aware, because of the experience that we've already seen on this panel, of the fact that the domestic industry was not producing a product that was being used in deep off shore or in the Arctic sour service applications.

So because the users of that product, as I stated earlier, were customers of the domestic industry, we, using the industry's expertise, their customers' expertise, my own limited expertise, and attorneys for those major users, which, as I stated earlier, were probably four major international oil companies, we did, as we believe the right thing to do, you know, organized conference calls and went over what grade OD wall combinations were greater than the U.S. industry's capabilities were being used in these applications because, as I've long held, it makes little sense for U.S. industry to obtain trade relief

for products that can't be manufactured. It would only harm U.S. customers. So those were organized.

Since that time there was only one other exception that went in and that was for a odd size riser pipe, I believe it was 17 inches, used by a company that was building off shore platforms. The industry could have made those but it would involve a lot of tooling. The odd thing about line pipe, once you get greater than 16 inches it always seems to be even numbers. There's 16, 18, 20, 22, 24, all the way up through 64, and people don't buy the odd sizes. There's no demand.

So when someone said, wow, we've designed this rig and we need 17 inch and we went to a few of the domestic producers and they said for a couple of thousand tons a year it doesn't make sense for us to buy the new tooling, we said we'll exclude that.

Now, one of the interesting things that's happened even since the last review, there has been talk for more than a decade about a major pipeline connecting the north slope of Alaska to the lower 48. A lot of that pipeline would start in Alaska and, you know, need this, maybe some more specialized product.

At this point, I don't think anyone truly believes that there will ever be another pipeline

built from Alaska to the lower 48 because there's so much gas and oil in the lower 48 that it doesn't matter how much oil and gas there is in Alaska. They'll probably find a way to ship it to Asian markets. I know that would require some changes in the law.

When you talk about $30, $40, $50 billion, not the $5 billion that Commissioner Pearson talked about, but they're talking about $30 to $50 billion to move all that gas, it just doesn't make any economic sense. So that's the history of the exclusions.

There's probably more exclusions in this order than any other order I have worked on in my entire career, and that's just because of the nature of the product being used in the under sea applications and the desire of the U.S. industry, I think rightfully so, to not penalize any of those major oil companies by making them have to pay dumping duties on a product that couldn't be used in the U.S.

I would add that it's not just the Japanese who supply that market. There are European pipeline producers, some maybe Indian pipeline producers, and some other producers in other parts of the world, but the U.S. industry, having already spent way too much money building capacity to make on shore product for

which there is not demand, has never decided to invest a massive amount of capital to make the products for which there's so little demand in the off shore area of the United States.

COMMISSIONER BROADBENT: Wait. It's the low demand in the off shore? Say that once again.

MR. SCHAGRIN: Yes. In other words, the U.S. industry, which has been aware of the constant demand, but very small amount of demand, I think the Japanese counsel and industry agree with the U.S. industry that the large diameter line pipe usage of excluded products, basically the off shore Gulf of Mexico -- and these gentlemen's products or their companies' products are used a lot in shallow off shore. One of the companies built a pipeline that's, you know, in 100, 200 feet of water, you know, off the coast of Louisiana.

The excluded products are used in depths of like 5,000, 6,000, 8,000 feet, and yet the demand for that is so small and the capital required to make those extra heavy walls so large that it hasn't made economic sense for members of the U.S. industry to invest in expanding their size range to furnish such a small market.

COMMISSIONER BROADBENT: Okay. So most of

that exclusion was drafted what year?

MR. SCHAGRIN: The time the case was filed, which I believe was 1999.

COMMISSIONER BROADBENT: Okay. And then you got to the odd size riser price decision when?

MR. SCHAGRIN: I take it back. It was in 2000 because I very clearly remember that. Our final in that original investigation was in this room on September 11, 2001. So it was done in 2000. I apologize.

COMMISSIONER BROADBENT: Okay.

MR. SCHAGRIN: The riser was done I believe just after the order was extended, which would have been in 2007 and 2008.

COMMISSIONER BROADBENT: Okay. This is for Mr. Williamson. Okay. I appreciate the explanation of that customers are willing to accept LSAW and HSAW interchangeably, but we need to get some evidence of interchangeability to sort of make this finding of 100 percent overlap.

In really critical applications, are customers always considering LSAW and HSAW to be completely interchangeable? Can you give me a sense of that interchangeability or some better measure?

MR. WILLIAMSON: Well, I can only speak for

myself. I think we're the only, Berg is the only company here that has both, LSAW and HSAW both. It's common. I mean we've had several projects that we've produced. El Paso, Ruby pipeline, was a last major project in the United States. A lot of that pipe was produced HSAW, a lot of it was LSAW. It was combined production of both our mills to complete that project.

MR. SCHAGRIN: Commissioner, let me just add because in terms of terminology, the Japanese use the term throughout their brief of critical applications as, I think, a synonym with off shore, or Arctic, or sour service. No one in the domestic industry produces those products.

So in terms of interchangeability for what are the excluded products, there may or may not be interchangeability, but the U.S. industry doesn't produce any of those products. For the 95 percent of U.S. demand for a noncritical -- and keeping in mind Mr. Delie's earlier testimony that if the pipeline goes under your house, we consider it critical, but not a definition. I mean, in other words --

COMMISSIONER BROADBENT: Yes, I guess I'm having trouble with what is the definition of critical?

MR. SCHAGRIN: I think the Japanese have

defined it and we do not in any way disagree for purposes of this hearing or this case with their definition that these super critical applications, these very heavy wall products, or products that are used in the Arctic area, are products which are excluded from the scope, so maybe we should just interchange the term critical with excluded products from the scope.

But for the products that are subject to the scope, the method of manufacture has no importance. Customers put out requests and they say we need these sizes, these ODs, these grades, these wall thicknesses, and it's my understanding that the industry can then go to them and say this is the way we manufacture them and this is the way we'll supply you, and the products are considered interchangeable.

MR. DELIE: I believe on the Keystone XL pipeline some of the pipe supplied there was also LSAW by one of the other suppliers. So it is typical on a lot of major pipelines that they will just go out for bid, and it doesn't, you just described it, the LSAW, HSAW, and the customers will take either one. They're looking for you meet their specs and the lowest price.

COMMISSIONER BROADBENT: Okay. And you're the one that had used the, the witness that used the

critical applications as nonexcluded pipe, subject pipe.

MR. DELIE: Again, the definition of critical is, like I said, we consider all the pipe that we make critical for oil and gas because, you know, the inspection, the customer, the oversight that we have on our pipelines, you know, any mishap on a pipeline becomes a major disaster.

COMMISSIONER BROADBENT: So you would agree that the critical is excluded?

MR. DELIE: I would agree with Mr. Schagrin that, you know, what is subject to the order is domestic industry can make. What we could not make at the time, because I was involved in the original order, we spent a lot of time excluding because we did not want to penalize our customers for material that we could not produce. So that part of the off shore, some of the other applications that they might use the pipe for that we could not produce have been excluded.

The material that we could produce, you know, which you could describe it as, you know, because of the heavier walls, or critical, whatever that definition you want to have, but all the pipe used for oil and gas, there's a real big difference between people, the people in this room producing oil

and gas, and there's spiralweld mills here that produce sheet piling and water pipe.

That is a different application, and that is, you know, considering from that product to this product because this is a much more critical product because it is carrying oil and natural gas.

COMMISSIONER BROADBENT: Okay. Thank you.

CHAIRMAN WILLIAMSON: Thank you. There seemed to be agreement that demand has shifted, to some degree, from large-scale on shore pipeline projects to the more localized projects, or shale deposits. Now, the domestic producers have characterized this shift as a decrease in demand for all subject pipe, while the Japanese producers characterized this shift as a growth in demand for smaller diameter ERW pipe that now dominates U.S. producers' shipments.

Can you reconcile these views and explain how this shift should affect demand for both U.S.-produced pipe and subject imports. In other words, are we talking about a glass half full or half empty or is it something more than that?

MR. SCHAGRIN: I'll invite both Stupp and ACIPCO to talk about how the demand for the 16 to 24 inch is also just completely collapsing now. So we're

actually, Chairman Williamson, going from a situation which almost, you know, stuns me of the glass going from half empty to almost completely empty. I think there's just, unfortunately, you know, business reasons for that.

It's that those 16 to 24 inch ERW sizes were being utilized because the gas wells that were being drilled in these shale areas were so prolific. There was so much coming out that where they used to use eight inch, they needed 20 inch because there was so much gas coming out.

Now that we have such a reward of massive amounts of gas, more than we can possibly utilize, and the prices have plummeted so much, it's not being drilled for and so there's not a need for that product. The same is applied to NGL.

So either Ed, or maybe Mike or John, if you can talk about the effect of, on demand for 16 to 24 inch ERW, what's happening in the markets, that would be appreciated, I'm sure, by Chairman Williamson.

MR. SCRAM: Yes. This is Ed Scram. So, yeah. I mean, basically agreeing with Roger, we, you know, Stupp in particular, I mean the, you know, prior to this year there's an 18 months period of time where the smaller OD market was phenomenal. It was, again,

related to the shales and the development of the shales and the infrastructure required to move it from the drilling rigs, to processing, to transmission.

The other thing that was going on at the same time, and a lot in 2012, is a lot of the natural gas liquids coming off those shale plays as well. So we had a significant amount of work in that 16 to 24 inch. That has significantly dropped, you know, from last year to this year.

When you start looking, again, particularly to Stupp, you know, the first half of the year we had, some of our book was booked back in third quarter, fourth quarter of 2012. We have booked very little projects since then. So we've basically the first half of '12 kind of been living off what we booked, were fortunate enough to book in the latter half of 12. Our back log has dropped over 40 percent in just the last three months. So we're in the process of currently laying some folks off.

You know, when you look at what's going on in the fourth quarter and first quarter of 2014, unfortunately, I think there's probably some additional lay offs that are going to occur after this first one in the next week or so.

So we, you know, again, so a lot -- what's

done that, I mean the natural gas liquid prices have dropped in half, rig counts has dropped in half. There's just not, you know, as much activity and need to move product like there was previous 18 months. We don't see that changing significantly in the next foreseeable future. Next one to two years.

MR. NOLAN: Yes. Mr. Scram -- this is John Nolan with ACIPCO. As Mr. Scram said, a lot of our business in 2011 was driven by the natural gas shale play. You've seen published reports of the shift of drilling rigs from natural gas to oil because of the collapse last year of the price of natural gas when it went well below $3 per 1,000 cubic feet.

So now most of that activity in the shale play is oil-driven. A thing that, something that we did not expect is the massive shift of transportation of petroleum from pipeline to rail car. That's gained a lot of media attention lately with the tragic accident in Canada.

The 75 percent of the oil now drilled in the Bakken shale is moved out by rail car instead of by pipeline, so this has contributed to this decrease in demand for our products, along with the drop in prices from, of natural gas liquids, primarily ethane, which drove our business in 2012.

So, like Stupp, we, our bookings this year are a third of what they were last year. So we continue to see a rapid decrease in demand for our products as well.

CHAIRMAN WILLIAMSON: Okay. Mr. Vaughn?

MR. VAUGHN: Yes. Commissioner, Chairman Williamson, I would just add that all the testimony you're getting here is backed up by the staff report which shows that if you look at the data that's come in so far for 2013 and you were to annualize that over a full year, it would be below any of the prior years in the period of investigation.

So on just an absolute basis, demand is now -- it hasn't been a shift. Demand is now just lower than it had been in any other year during the period of review.

MR. SCHAGRIN: And that was the best quarter of the year, Chairman Williamson, the first quarter of '13. As you've heard from these witnesses, the rest is going to be a lot worse than the first quarter.

CHAIRMAN WILLIAMSON: Okay. I guess you're -- at this point it looks like this trend is going to continue.

MR. SCHAGRIN: Yes. There just doesn't seem to be anything in the reasonably foreseeable -- I mean

I'm like everyone else -- and you read in the papers -- I'm a huge optimist about the expansion of energy production in the United States, but in the near term -- and that's why hopefully, you know, we will come back here in six years and say, well, just like we said, it was really bad in '13 and '14, but look, by '17, '18 it finally did get better. I mean that's the hope. Otherwise there's going to be a lot of mill closures, and some of them will be permanent.

In the reasonably foreseeable timeframe there just doesn't seem to be anything that's going to change the catalyst. Certainly natural gas and natural gas liquids drilling will not expand any time over the near term.

There are some significant discussion of putting in some pipelines for oil because the amount of rail transport is even curtailing drilling, although I would say all the rail car makers now have like three to four year backlogs in building rail cars. It's unbelievable.

But unless there's some, you know, major changes and some changes in attitudes, maybe even federal policies, there just doesn't seem to be a lot of overall economic support for resuscitation of building lots of major pipelines in the United States.

CHAIRMAN WILLIAMSON: Okay. Mr. Vaughn?

MR. VAUGHN: Yes. Just to supplement what Mr. Schagrin said and I think sort of summarize some of the points these guys have been making here today, traditionally, as the Commission knows, most of the drilling here was gas drilling and relatively less for oil.

What you've seen over the period of review is a shift so that gas drilling has dropped way off, oil drilling has become larger and larger share of the market. As the testimony from the witnesses has shown, oil is much less likely to go through big pipelines than gas. So that's just a big part of what's driving all this.

I mean this guys can testify to it, but certainly based on what you've heard from these folks today and what we've been seeing in the trade press, there's not much evidence that that shift from a predominantly gas market to a predominantly oil market is likely to reverse any time in the near future.

CHAIRMAN WILLIAMSON: Okay. Is there some economic factor when you say, well, gee, people say maybe we ought to start shipping this oil by pipeline rather than gas, other than regulatory changes?

MR. SCRAM: Yes. This is Ed Scram. Yes. I

think what you're seeing, you know, initially what you were seeing is shipping it by rail. Again, initially it was really because you didn't have the infrastructure in place to move it any other way. So you wanted to get your product out of the ground, you wanted to move it to market, you utilize rail to do that.

I think more recently there's some sense that our customers that have to move the product actually see some benefit in moving it by rail from a flexibility standpoint. I think Dave alluded to it earlier in his testimony, you know, about the costs associated with, the long term costs and flexibility, you know, to move from spot market to spot market and generate more revenue for the product that you're moving.

So, you know, I think early on I think it was a necessity, and now it might be a business decision that might make, that makes sense. We'd like to think it quite makes more sense, but anyway.

CHAIRMAN WILLIAMSON: Okay. Good. Okay. Thank you.

Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman.

Just following up on that issue, it's quite clear that the pendulum has been swinging in favor of moving oil by rail car and away from pipelines, but with this terrible tragedy at Lac-Megantic in Quebec, my thinking is starting to shift the other way in terms of what might be the most desirable approach to take longer term.

I mean are you starting to see that in the industry? That other people are having doubts about transporting enormous quantities of oil by rail? I understand you have to do some, but shouldn't we focus on getting it back into pipelines?

MR. DELIE: This group sure does hope so. That's for sure. But like I had mentioned earlier, with the Keystone pipeline project, that, you know, the delays that it has achieved and that the environmental groups have achieved in delaying it have moved to a lot of pipelines all over -- any time there's a pipeline involved, everybody comes up and fights it so the companies now have to deal with all the regulatory.

I think a lot of the rail transportation also occurred because they just, oil was fine, we need to get it out of the ground now, we could start making money now. It's going to take the regulatory process,

the construction of the pipeline's two years down the road, so they go to the rail cars. The rail had availability because they're moving less coal than they used to before so they just switched from coal to oil. So that was readily available.

Now the question is are we going to make the long term strategic decision to move it through a much safer means of transportation, which is pipelines. It's a major cost, and then you would have all these regulatory.

You know, the cost with the TransCanada is occurring by having, they have not only all the pipe bought, all the pressure stations, their interest is like over a million dollars a day. I heard numbers. You know, it's really expensive so people are -- that has to play on a board of directors before they approve any pipeline project. What kind of, you know, stumbling blocks are they going to run into also? Are they going to have all this money invested and then get these delays? So that's where I think that it's slowing people down. The decisions to build pipelines aren't made as quickly as they used to, you know, they were made say five, 10 years ago. I think that's affecting us, our industry also.

COMMISSIONER PEARSON: Would it be more

feasible from a regulatory standpoint to put in a rail terminal on the Canadian side of the border, another one on the U.S. side of the border, run the cars back and forth on an ongoing basis and use pipeline except for the mile at the border?

MR. DELIE: Well, the problem is, you know, on the Keystone pipeline, for example, one of the things why Canada is pushing for this pipeline so drastically even though they're moving a lot of the oil through rail, that pipeline will move 10, 100 times more oil through, which will allow the field to really grow, and which would also create a lot -- you know, you're talking about jobs. It will create a lot of jobs.

I met a congressman one time and he was pushing for the pipeline because in his state they make cars for the big vehicles that they use up there and he said that would add two shifts to the plant operation there.

It's kind of like one of these, you know, because of the pipeline getting built, it's not really directly related to the pipeline, but it's related to the growth in the oil field up in Alberta, that it will grow, so we have to supply services to that field. They can only do that if they can get the oil

out of the area.

So there's like a lot of indirect, you know, gains by having these pipelines and moving the oil faster to the refineries.

COMMISSIONER PEARSON: I think you've got me convinced that the demand outlook for the reasonably foreseeable future is not all that bright, but in that case, how would the Japanese imports surge into the U.S. market? How are they a threat if there's not much happening here? Because you've made it clear that you can more than adequately serve the U.S. market.

MR. DELIE: Because of price. You know, we're competing against other foreign suppliers today. The problem that we -- because there is, there is some pipe out there. It's not, you know, the market that we expected. The market is shrunk, but it's still one of the largest markets in the world. Pipeline projects all over the world have decreased.

If we reallow the Japanese to come in and they go back to what we see as there, has been their history and push dumped products on there that we can't compete with, it will destroy what's left of this industry.

COMMISSIONER PEARSON: Yes, but they

wouldn't be trying to push product into a market that's not growing when there are things happening elsewhere in the world that might be of more interest. I mean you know what I'm saying. If there was a lot of growth here I would think it more likely that we could see surges --

MR. DELIE: But there's not a lot of growth, there's no growth in the rest of the world either. There's very little growth elsewhere so you're going to, you know, when you have this capacity -- you know, one of the keys to be profitable in this business is increasing your capacity utilization.

The difference of running our mill, because of the fixed costs, one shift, to two shifts, to three shifts, is very, very important to make profit. It's almost impossible to make a profit operating on a one shift operation. You're just keeping the doors open.

The little bit of business we do have, I mean -- and the United States' market is still one of the, as Roger mentioned, I think a third of the world market on pipelines, which is a lot less than we, even that million tons is a lot less than we would hope that it was going to be in the U.S., but that million tons is going to be a draw for foreign competition, for imports in the United States, and if the Japanese

are going to take, you know, looking to fill their capacity up, we'll look to come here on the subject imports.

COMMISSIONER PEARSON: Mr. Vaughn?

MR. VAUGHN: Yes. Commissioner Pearson, I think this is also where it's helpful to look at the earlier periods of review. I mean, for example, the original case took place during a time of relatively weak demand and the finding by the Commission was is that even though demand was relatively weak, in fact, that was one of the reasons the volume of Japanese imports was regarded as significant was because that even in the context of relatively weak demand, they were able to have a major impact on the market.

So I think, you know, given that history and given the fact that, you know, as these guys have indicated, each of these projects, any one or two projects could make a huge difference to their year one way or the other. The loss of a project here or a project there can have devastating consequences, especially on a small, on a weaker market.

COMMISSIONER PEARSON: Okay, but let's look at more recent history instead of going back to the original investigation. Looking at the current period of review regarding imports from Mexico, okay -- and

this is relevant because five years ago some of you were here telling us that really bad things would happen to the industry if we revoked the order with respect to Mexico.

We did revoke it, and so we can look and see what those imports have done. Table IV-2 on page 4-4, which is public, shows that in this low demand period, the Mexican imports were not quite negligible. They got up to 3,700 tons in 2012, okay? So really inconsequential from a commercial standpoint.

On the same table you see all of the imports from other countries that are coming in in which you're dealing every day. So I'm wondering, if we go ahead and revoke with respect to Japan, wouldn't it be a modest player somewhere in this list of countries that are currently providing their product to the United States? I mean I'm having a hard time seeing the risk the way you're seeing it.

MR. SCHAGRIN: Commissioner Pearson, two points. First, greatly contrasting Mexico and Japan, the reason that we haven't seen imports from Mexico is that their largest producer, which is the principal reason that this Commission sunset the order as to Mexico, had shut down and that mill was moved to I believe Saudi Arabia and so Mexico had a drastic --

not a small, but a drastic -- reduction in available Mexican capacity, the result of which has been that the Mexican industry, the small amount of remaining capacity, is so full that Mexico is now a major export market for the United States.

In other words, we are shipping significant exports of LDLP to Mexico because the Mexican industry cannot supply their own demand. Contrast that with Japan.

Japan cannot be similarly situated to Mexico. It has no oil and gas industry, it has no home market demand. While it has some minor reductions in capacity, it still has a massive amount of available excess capacity targeted towards exports. Now, the only difference of opinion -- we're glad we've convinced you on vulnerability. It's pretty clear here how --

COMMISSIONER PEARSON: On demand. I haven't yet reached vulnerability, but --

MR. SCHAGRIN: Well, okay. You'll get there. Trust me. So the only issue is how likely are increased exports from Japan? They will tell you during both their public, and presumably in camera, session that they are interested in every market in the world except the United States. If you believe

that, you'll make a negative determination.

We believe the record will demonstrate that the Japanese have a significant interest in the largest market in the world, just as they always have until this order went into effect. That, to me, is the decision this Commission will make is who do you believe as to the likelihood of renewed exports from Japan if the order is sunset to the U.S. market for the 95 percent of the market that is not made up of products excluded from the order.

COMMISSIONER PEARSON: Okay. So setting aside for the moment the similarities between the arguments I recall regarding revocation from Mexico and the arguments that I'm now hearing regarding Japan, you're saying this time it really is different. There is a big concern here with Japan.

MR. SCHAGRIN: It was different the last time as well, which is why we didn't appeal your decision as to Mexico. I have great confidence in this Commission, both its members and the Commission in general. If you make a mistake, we'll appeal it. If not, I say good job, let's move on to the next case or sunset review.

COMMISSIONER PEARSON: Okay. Thanks so much. I think I have no more questions, Mr. Chairman,

for this panel. I would express appreciation for all the testimony.

CHAIRMAN WILLIAMSON: Thank you.

Commissioner Aranoff?

COMMISSIONER ARANOFF: Just a little follow-up on the conversation you were having with Commissioner Pearson. I understand the argument that you're making that even when demand looks bad in the U.S., this is still a relatively large market and there's always a repair market.

What we saw during the recession earlier in the period was that as U.S. demand dried up, imports dried up. No one was buying them. So what would be different about the low demand situation now compared to what happened in 2009?

MR. SCHAGRIN: Roger Schagrin. I think as you move forward -- because in fact, after the recession, demand never recovered again. And so I think you do see that while the industry's share of the market was highest during that period in which demand plummeted in 2009, that we move forward in the '10 through the first quarter of '13. You're now seeing the U.S. industry's market share at almost period lows. I mean, this industry is now down to less than 40 percent.

So during a period of weak demand, the U.S. market is being found to be attractive by foreign producers around the world, and that is the Koreans in ERW -- you know, the sizes 16 to 24 -- foreign producers from around the globe, the collapse in the European markets. We have product coming in from Italy, from Greece, from Turkey into the U.S. market. There may or may not even be some other trade litigation some day in this product.

But, I mean, we are seeing this market found to be attractive. Certainly from both a volume and given the low demand, the U.S. industry, in spite of their excess capacity is not enjoying a very large share of this reduced market.

DR. SCOTT: This is Robert Scott, the economist. 2009 was a very unusual year in world trade history. The financial markets froze, and it was impossible to get financing for exports and imports, and so trade of all kinds dried up in 2009.

But if you look at the staff report in Exhibit C, you see that although import share did fall dramatically in 2009, it began to rise shortly after that, and as Roger said, the import share is now up to over 60 percent of the domestic market.

COMMISSIONER ARANOFF: That's more in line

with the answer that I was expecting to get, that it had something to do with financing, the reason why 2009 was different from now.

DR. SCOTT: Exactly.

COMMISSIONER ARANOFF: Okay. All right. I think I have one more question. One of the arguments that you've made in your brief and elsewhere was that Chinese production and large production volumes in third countries have been putting pressure on Japanese producers and will continue to put pressure on Japanese producers to find alternative export markets.

Respondents point out, though, that the Japanese producers' export volume has been growing in recent years, despite increases in global capacity, and they argue that this demonstrates that the increased global capacity is not really affecting the markets to which they export. How should I think about that argument?

MR. SCHAGRIN: I think you have to keep analyzing, Commissioner Aranoff, in the global sense. There is no doubt that up until five, six years ago China was one of the largest export markets for Japanese LDLP. That market is essentially gone for Japan because of the massive expansion of Chinese capacity.

As we have alluded to -- and obviously the information on Japanese overall export levels is confidential. But the Japanese LDLP mills are having to fight in the world market for orders. They are not getting orders because people say we have to have Japanese product. They are getting orders by underbidding their competitors around the world. I guess they can talk this afternoon about how many projects they bid for where they're the only bidder. To our knowledge, that would be a pretty rare occurrence. We think the Japanese are often bidding against other world suppliers, and they need to buy that. And obviously, unlike the domestic industry, where you get a breakout for our financial condition, the Japanese don't have to tell you how much money they may be losing in winning projects around the world.

I would point out that for their most recent financial statements, their companies in general were experiencing operating profits of 1.3 and 1.4 percent respectively. That's horrible. So we think that because of the connection of the LDLP mills in these two gigantic steel companies to their plate mills and to their blast furnaces, which are also really being impacted by all of the over-capacity for steel

production in China that the Japanese steel companies are essentially forced to bid aggressively on any projects they can access in the world in order to maintain steel capacity.

So even if they're increasing some of their overall export sales, it's a question of how much excess capacity they still have and what kind of prices are they willing to offer in order to put steel into their blast furnaces.

COMMISSIONER ARANOFF: Okay. I appreciate those answers, and I want to thank this morning's panel for all of your responses. I don't have any more questions, Mr. Chairman.

CHAIRMAN WILLIAMSON: Commissioner Pinkert?

COMMISSIONER PINKERT: Thank you, Mr. Chairman. I know that we're going to get into this in confidential session, but I want to ask you about this matter in public session, if you can comment on it. What weight should we give to Japanese producers' business plans? Another way of framing that is, would we have to discredit those plans in order to find in favor of the domestic industry in this case?

MR. DELIE: You know, a business plan -- and we all put business plans together, and it's our most likely scenario. When this business plan -- you have

to think about it. When their business plans were put together, did they expect to have this order sunset where they can come in the U.S. market, or did they not?

If they did not have this expectation under the sunset, they would not include that in their business plan. And to present a business plan saying, hey, this was -- look, our business plan shows we're not looking to come in the U.S. But business plans as the year goes on, as conditions change, so does the business plan.

So I would consider that -- I would not be surprised that their business plan did not include the U.S. market. But if this order is sunset, I believe that that business would change very rapidly to include this. I mean, everyone in this room deals with business plans, and our business plans again change as the environment around us changes, and we adapt to try to, you know, do the best thing we can for our company. We just don't stick to the business plan come high or high water -- you know, hell or high water.

We adapt as we go, and I believe they will quickly adapt their business plan to change to come to the U.S. It's hard to believe that they would leave

the largest market in the world aside.

MR. SCHAGRIN: Commissioner Pinkert, this is Roger Schagrin. I think I'll go back to both a question and an answer that Commissioner Aranoff asked earlier, and that was in the Commission's deliberations for future demand, how should you look at likely pipeline projects, discussion of them, applications, permitting, or actual requests for a quote.

So I don't think the Commission has to completely discredit the Japanese business plans in order to make an affirmative determination. I think what you have to weigh in this pipeline area is the difference between, lets say, giving them credit for what is already in our briefs that's public that JFE won a contract for 320,000 metric tons in March of 2013 for a pipeline project called Polar Lead in the Norwegian Sea, an extremely low price, versus if their business plans talk about some of these major, major projects, which will consume millions of tons of line pipe, like Nabucco or South Stream.

I mean, these have been talked about, taking new gas or oil -- I think primarily gas -- from the Caspian area into Europe for several years now. They go across multiple countries. They're going to use

millions of tons. But they have such difficulty getting countries. I mean, here we're talking about towns and local communities. Here they have to get countries to agree.

So the question is whether these business plans are we bid on a project, and we won it, and we're going to deliver this, or the business plan is we're hoping all these projects will be built, and we are going to bid on them, and we are going to win the bids. And I would say you have to differentiate between what is the hoped-for in the business plans versus what is the reality, what is the actual tonnage that has been contracted for, compared to the capacity, the real capacity, not the fake capacity, the real capacity of the mills, and compare the two. And I think that will be a large part of what the Commission undertakes in this sunset review.

DR. SCOTT: Just a brief note on this. I was a professor in a business school for ten years before I became an independent economist, and I know a little bit about business planning as well, and business plans are based on existing structural conditions and your best forecast of what those conditions are going to be going forward.

When conditions change and the business plan

has to be adjusted, that's what you just heard. And if this order is sunset, that will be a major change in existing underlying structural conditions of the world market, and it will have an effect on Japanese producers' business plans.

COMMISSIONER PINKERT: Thank you. I think with that I have no further questions for the panel. I appreciate the testimony, and I look forward to the post-hearing submission.

CHAIRMAN WILLIAMSON: Thank you. Commissioner Broadbent?

COMMISSIONER BROADBENT: Thank you, Mr. Chairman. I'd like to talk just a little bit about what is going on in global demand trends for this product. We talked about China a lot, and the market kind of closing down because of the increase in the Chinese production. Is anyone able to tell me what they project for India?

MR. DELIE: Our mills in India right now are -- several of them are idle. We have one --

COMMISSIONER BROADBENT: Sorry?

MR. DELIE: Several of the mills in India that -- in the Welspun group or idle. And some of the other -- I think one of the company's PSL that actually has a plan here has filed for bankruptcy in

India or about to file for bankruptcy in India. So the pipe industry in India is extremely slow. Our company globally, our parent company globally, is looking and is going to be bidding on a lot of these projects, probably the same projects that the Japanese will talk about this afternoon, around the globe. It is very slow, and there is a lot of excess capacity.

COMMISSIONER BROADBENT: Okay. That seems to be contrary to our staff report on 441, where we're talking about major internal distribution networks being built in India, really ramping up demand for the --

MR. SCHAGRIN: Commissioner Broadbent, this is Roger Schagrin. I think if you read our brief, you will see that we put in a lot of information demonstrating that. Unfortunately, the staff report was mostly based on -- oh, the name is Hatch and Beddows, a report from 2012. And we think that Hatch was very, very optimistic in 2012, and the information that we were able to gather in what is essentially July of 2013 shows that the optimistic projections of that Hatch report from sometime early in 2012 do not comport with the reality of today's world marketplace.

And I think also Professor Scott talked about the real deterioration in the Indian economy

over the past several months, but also in other parts. I mean, nobody would have forecast -- we put something in from TMK, the largest producer of large-diameter line pipe in Russia, their most recent annual report talking about the dramatic dropoff they've seen in their production and supply for the Russian market in this past year.

So we try to take each of those countries and give you the most accurate and complete information available to us at the present time as to each of those places around the world, and I'm sure these folks can respond with their knowledge about those markets as well. We have a very different view from the Japanese. The Japanese are wildly optimistic about what is going on.

COMMISSIONER BROADBENT: Okay. And then you're seeing also a downturn in Europe, even though they're switching from oil to natural gas and having to bring in more from CIS countries and North Africa?

MR. WILLIAMSON: Yes. We have mills over there idle right now trying to get business. There is just none right now, and none that we can see coming up.

COMMISSIONER BROADBENT: Okay. And then what about the Middle East, a lot of growth and

industrialization and gas activity there?

MR. WILLIAMSON: They've also done business in the Middle East, and it's just not there.

COMMISSIONER BROADBENT: Okay.

MR. SCHAGRIN: And, Commissioner Broadbent, I would also point out, in the Middle East, there has been a significant expansion of large-diameter line pipe capacity. And given the fact that in the Middle East most of the energy companies are government-owned companies, we think they definitely favor first their own domestic producers before those national oil and gas companies use imported products.

MR. DELIE: And to expand on that, Welspun put a plant in Saudi Arabia for that exact reason, because as close as India is to the Middle East, they actually located a plant there because the local companies want to deal with local Saudi companies. So they built the plant, and they've expanded that plant to increase the capacity of it in Saudi.

COMMISSIONER BROADBENT: Okay. I'm looking at a table on page 418 of the staff report. We see a general shift in Japanese production toward even greater concentration in the LSAW production and less concentration in the ERW. And doesn't this really speak to the Respondent's claims that Japan is

doubling down on its specialized plate-based production within the subject line pipe production?

MR. SCHAGRIN: No. It means they're not using their ERW capacity, and they have massive excess ERW capacity. That's what it means. And we'll go over that. A lot of those data on the Japanese industry I believe are confidential, so I'd characterize it. But we plan to discuss that during the in camera session today since they insist on an in camera session. That's some of the information you have in your report that I think we can discuss this afternoon.

COMMISSIONER BROADBENT: Okay. And then for the record, Mr. Schagrin, could you give us information on which Buy America amendments apply to procurement of this product by American -- and I don't know much -- whether they would or they wouldn't. I was just interested in the effect on sales.

MR. SCHAGRIN: I think we can answer that. Unless someone in the industry has a different opinion, I think it's none. I don't think any pipeline is --

COMMISSIONER BROADBENT: Really none, because it's all private?

MR. SCHAGRIN: It's all private.

COMMISSIONER BROADBENT: Okay. Is that consistent with what the rest of the panel thinks, that you're not having any preference based on the Buy America, the stimulus package? Okay, great.

I think -- just hang on one second. I think that concludes my questions, and I appreciate all of you traveling here and giving us all your time. It has been very helpful.

CHAIRMAN WILLIAMSON: Thank you. Does the longer lead times associated with large pipeline projects favor imported pipe more than other market segments where the lead times may be shorter?

MR. DELIE: Yes, it does because the transportation time to get here is so -- yeah, so it would favor -- they have more time to transport it. Usually it takes, say, 30 days on the water, so if you have a lot larger lead time, it just helps.

CHAIRMAN WILLIAMSON: Okay. If that's the case, to what degree does the shift in the national largescale projects to localized projects for shale deposits makes this market less attractive for imports, assuming that the shale projects are consuming any project -- are consuming any pipe?

MR. DELIE: Well, the shale projects are consuming the smaller diameter, which are really out

of site. The scope, as we've talked about, that's one of the reasons that caused the demand shift or the expectations of our demand that we expected. When most of us built these mills, it changed because of the shale plays and the pipelines that are six-, eight-, ten-inch diameter has increased significantly.

CHAIRMAN WILLIAMSON: Okay. Thank you. Could you explain the methodology used to calculate the domestic capacity for the subject pipe?

MR. SCHAGRIN: I'll --

(Simultaneous discussion)

MR. SCHAGRIN: I'll just invite the various members of the domestic industry to talk about how they calculate a pipe mill's capacity to produce tons of pipe. Maybe we'll start with Ed. You've got two different kinds of mills.

MR. SCRAM: Okay, yes. So Ed Scram. Yeah. So we -- you know, I mentioned earlier we put a facility in in 2007, the Sparrow Weld mill. You can go out to get the specifications on the equipment to determine what kind of line speeds you can run your product through that new mill. And again, part of it is based on the mix or the product mix.

So if you're running a, you know, 42-inch, you know, three-quarter wall pipe versus a 30-inch

half wall, obviously the tonnage per mill hour is going to be more with the 42 heavy wall than it would be on the 30-inch light wall. So when we decide what we think the capacity of that mill is, it's really based on a history of the marketplace and the mix that we expect we'll see over the next several years, right, so it's a combination of looking at the history, looking at what the future might hold, and matching it up with the specifications on the mill.

CHAIRMAN WILLIAMSON: Okay. Which means you're making some assumptions about what kind of pipe you're going to --

MR. SCRAM: Right. I mean --

CHAIRMAN WILLIAMSON: -- there is going to be demand for.

MR. SCRAM: I mean, if you just look at historically in the last four or five years in this country, a lot of 30-inch and 36-inch outside diameter pipe. So you would say, look, 80 percent of what you're probably going to produce in the next two or three years is 30- or 36-inch, and probably 10 or 15 percent is going to be 42 and 48.

So based on those numbers, you'd say, yeah, we can produce X.

CHAIRMAN WILLIAMSON: Okay. And, Mr. Delie?

MR. DELIE: Just like Ed, you know, when we built our mill and when I've been in the industry, there is a wide variety of, you know, capacity based on each size. And we looked at normally the average size or average like weight per foot that the pipe mill would be running and what is expected in the marketplace. And for large diameter mills, generally what the size that I've seen most of the mills use is like a 36 by half inch.

So if it's heavier than that, 42-inch by 820 wall, you'll get a lot more production. If it's 30-inch, 375, you'll get less production.

You know, we talk a lot in tons, but we sell the pipe actually in foot because that's what important to the pipeline, you know, it's how many feet they need to get from point A to point B.

CHAIRMAN WILLIAMSON: Okay. Thank you. Anybody else? If not, can you discuss right now or not some of the methodologies that were used for the calculation of capacity by the Japanese interested parties? Do they calculate it differently than the way you all do?

MR. SCHAGRIN: I think we discussed this, maybe confidential, in our brief. The short answer, which I don't see a reason I can't say it publicly, is

no, they do not use the same methodologies that the domestic industry utilizes.

CHAIRMAN WILLIAMSON: Okay. Thank you. We can go to the brief for the difference. Good.

Okay. I think with that I have no further questions. Commissioner Pearson? The commissioners don't have any further questions. Do staff have any questions for this panel?

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Mr. Chairman. Staff has no additional questions.

CHAIRMAN WILLIAMSON: Okay. Do those opposed to continuation of the order have any additional questions -- have any questions for this panel?

MR. HICKERSON: We do not.

CHAIRMAN WILLIAMSON: Okay. Thank you. Well, I guess we'll take an early lunch break. So it's now 12:07. Why don't we come back at 1:10. And please remember that this room is not secure, so if you have any business confidential or proprietary information, you need to take it with you. So we'll see you at 1:10. Thank you.

(Whereupon, at 12:07 p.m., the hearing in the above-entitled matter was recessed, to reconvene

at 1:10 p.m. this same day, Thursday, August 1, 2013.)

A F T E R N O O N S E S S I O N

(1:14 p.m.)

CHAIRMAN WILLIAMSON: Okay, we are back after the lunch break. Mr. Hickerson you may begin when you're ready.

MR. HICKERSON: Good afternoon, Mr. Chairman and commissioners. I'm David Hickerson on behalf of Nippon Steel Sumitomo Metal Corporation and JFE Steel. We're very pleased to appear before the Commission this afternoon, and we're very pleased to present our witnesses, Mr. Kenji Nakayama, who is from Nippon Sumitomo, and Mr. Atsuhito Takeuchi, who is from JFE Steel. Each one of these gentlemen respectively are in charge of the marketing and sales divisions of the two Japanese producers for their worldwide line pipe divisions.

We also have here at the table Ms. Yoko De Groot. She is the translator. Our two witnesses will present their direct testimony in English. However, with respect to some of the questioning Mr. Takeuchi may need the assistance of the translator, so she is here in case she could aid the Commission in asking questions and getting the answers to the questions.

We also have Mr. Daniel Klett, our economist, and Mr. Robert Huey, who is also from Foley

& Lardner, the same law firm I'm from. So we would like to start with Mr. Nakayama's testimony.

MR. NAKAYAMA: Good afternoon, Commissioners, and thank you for the opportunity to testify today. My name is Kenji Nakayama, and I am the general manager, line pipe marketing division, pipe and tube unit, for Nippon Steel and Sumitomo Metal Corporation. I have worked at Nippon Sumitomo for 24 years. I am the person at Nippon Sumitomo in charge of marketing line pipe for products all over the world. As part of my job duties, I prepared the Nippon Sumitomo business plan concerning line pipe that is attached as Exhibit 2 of the Japanese producers' prehearing brief, as well as the summaries that we attached as Exhibit 3 and 4.

The business plan was prepared in the normal course of business planning for Nippon Sumitomo in 2012, and reported to Nippon Sumitomo's senior management and then to the company's board of directors.

Nippon and Sumitomo merged in 2012. This is the first business plan of the merged entity. It is what we refer to as a midterm business plan, meaning that it is for the next two to three years. This is the confidential version concerning line pipe of a

publicly released summary of the company's business plan.

As reflected in Nippon Sumitomo's business plan, our focus is on manufacturing LDLP to be used in critical application projects which are primarily located outside of the United States. These include deepwater, Arctic, and sour service projects. It is anticipated that such projects will utilize the vast majority of Nippon Sumitomo's LDLP capacity for the foreseeable future.

The production of critical application LDLP requires controlling the composition and quality of steel used to make LDLP as well as advanced pipe making technologies. We are a fully integrated steel mill, which allows us to control entire production processes from raw materials to finished LDLP, including the composition and quality of the steel. This allows Nippon Sumitomo to manufacture LDLP for different types of critical applications.

Nippon Sumitomo have invested in research and development and production techniques and machinery to produce LDLP for critical applications. Only five manufacturers in the world can make pipes that can meet the buyer's specifications for critical application products.

It is our understanding that U.S. line pipe producers do not produce heavy LP for critical application products such as deepwater, Arctic, or sour service. This is because the U.S. market is almost entirely for onshore, non-critical application of line pipe projects. Accordingly, the U.S. producers produce LDLP primarily for non-critical application onshore projects, including gathering rights for shale extraction.

It is not anticipated in Nippon Sumitomo's business plan that we will use any capacity that Nippon Sumitomo may have to produce LDLP that would be used to make non-critical application LDLP to compete with the U.S. producers, for several reasons. One, as we will explain in the in camera session, we expect our capacity for our mills that produce LSAW and in-scope ERW will be fully committed for the foreseeable future.

Two, we have made substantial investments in research and development, as well as equipment, for manufacturing critical application line pipe.

Three, Nippon Sumitomo has only four competitors in the worldwide market for critical application projects, and the worldwide demand for critical application projects is growing.

Four, there are many competitors for non-critical application onshore line pipe projects in the United States, including not only the U.S. producers, but also from non-subject imports from non-Japanese importers.

With respect to HSAW line pipe Nippon Sumitomo does not make API grade HSAW and thus are incapable of producing subject HSAW. We have never exported HSAW to the United States and have no plans to do so. Indeed, we didn't produce subject HSAW during the current POR and do not have plans to produce subject HSAW in the future.

Additionally, we understand because of the boom in shale extraction in the United States since the last review, there has been a shift in demand in the types of LDLP in the United States market. This recent development will have no impact on Nippon Sumitomo's business plan, as we do not plan to compete in the U.S. market for the type of line pipe needed to meet the specifications for this demand. The shale fields have created a new demand for onshore line pipe, such as gathering pipes, which is non-critical application line pipe with outer diameters in the range of 16 inches to 24 inches.

In summary, Nippon Sumitomo's business

strategy and production of LDLP show that lifting the order would not cause any material injury to the U.S. industry for the following reasons: (a) Nippon Sumitomo's strategy is to fully utilize its capability to produce LDLP for critical applications; (b) demand for critical application projects, which are and will be primarily outside the United States, is expected to fill or exceed the capacities of the few Japanese and European LDLP producers who make pipe that meet the specifications for critical application projects; (c) the U.S. market has been and is expected to be dominated by non-critical onshore projects which Nippon Sumitomo does not have any plan to focus on; and (d) Nippon Sumitomo does not produce API-certified HSAW and, therefore, would not compete with the U.S. industry for the HSAW market if the order is lifted.

For these reasons, the antidumping order against LDLP from Japan should be revoked. We would like to thank the Commission for allowing us to appear today and would be pleased to answer any questions from the commissioners. Thank you.

MR. HICKERSON: Mr. Takeuchi, please proceed.

MR. TAKEUCHI: Good afternoon, Commissioners. On behalf of JFE Steel, I would like

to thank you for the opportunity to testify today. My name is Atsuhito Takeuchi, and I am the line pipe section manager for JFE Steel. I have worked in this position at JFE Steel since April 2012. I started working at JFE Steel in 1989. As the line pipe section manager for JFE Steel, my job duties include sales and marketing of line pipe all over the world. I was in charge of preparing the JFE Steel line pipe business plan that is attached as Exhibit 1 to the Japanese producers' brief. The business plan was created in the normal course of business of JFE Steel, and was sent to certain of our global customers on a confidential basis. We will discuss those customers and their projects during the in camera session.

In the export market, JFE Steel focuses on LDLP to be used in critical application projects that are primarily located outside the United States and expected to increase in the foreseeable future. These include deep water, Arctic, and sour service projects. The type of pipe needed for these critical applications is different from the non-critical LDLP the U.S. manufacturers supply. As we will discuss in detail in the in camera portion of my testimony, it is anticipated that these critical application projects will fill the vast majority of JFE Steel's LDLP

production capacity for the foreseeable future.

JFE Steel is a fully integrated steel mill, which allows it to control all the production process which includes steel making, substrate rolling, pipe forming, and welding. Therefore, JFE Steel can make LDLP for critical application that other LDLP producers, including the U.S. producers, cannot make.

Moreover, JFE Steel has invested in research and development and new production techniques and machinery so that we can make LDLP for critical application projects. With regard to steel plate that is used to produce LSAW, JFE Steel has developed TMCP, thermo-mechanical control process technology and online heat treatment process. In addition, in 2011 JFE Steel installed new press equipment to its UOE LSAW mill to make much thicker wall pipe.

JFE Steel does not make API grade HSAW and thus are incapable of producing HSAW that is subject to the order. JFE Steel has never exported HSAW to the United States and has no plans to do so. Additionally, JFE Steel did not produce subject HSAW during the current POR and do not have plans to produce subject HSAW in the future.

Additionally, because of the boom in shale extraction in the U.S. since the last review, there

has been a shift in demand in the types of LDLP in the U.S. market. The shale extraction business does not require larger diameter LDLP such as HSAW, because the shale fields are not building large pipelines for transportation of oil and gas. Rather, the shale fields have created a large demand for gathering pipes, which is primarily LDLP with an outer diameter in the range of 16 through 24 inches. Such LDLP is non-critical application line pipe, manufactured and sold by a number of line pipe producers, including the U.S. industry, as well as non-subject imports produced by foreign competitors not subject to the antidumping order. JFE Steel does not intend to compete in the U.S. market for this non-critical application ERW pipe. First, there are many competitors for non-critical application LDLP for onshore applications whereas there are only a few producers in the world that can make critical application LDLP.

Additionally, JFE Steel is a 50 percent owner of California Steel, Inc., which is in the process of building a new pipe mill in the United States to produce non-critical application LDLP for onshore applications in the United States, which is expected to start production in the second half of 2014. JFE Steel will not compete with its own

subsidiary for onshore, non-critical application LDLP projects located in the United States.

Finally, we note that in June 2011, JFE Steel closed its Chiba LSAW mill. This resulted in the reduction of our calculated average capacity to produce LSAW by over 20 percent.

For these reasons, the antidumping order against LDLP from Japan should be revoked. I would like to thank the Commission for allowing me to appear before you today, and I would be pleased to answer any questions you may have.

MR. HICKERSON: Thank you. We have just one more witness, Mr. Daniel Klett. He's our economist.

MR. KLETT: Good afternoon. My name is Daniel Klett, Capital Trade, Incorporated, testifying on behalf of the Japanese Respondents. I will cover six issues; first, significant changes in supplier sunset review for this sunset review. Second, questionnaire data support the testimony of Mr. Takeuchi and Mr. Nakayama on Japan's focus on LDLP to a critical application pipelines. Third, Japan's pre-order export behavior supports a finding of no significant increases in subject imports from Japan. Fourth, there would be no adverse price effects. Fifth, the U.S. industry's performance has been strong

and the industry is not vulnerable. And sixth, I'd like to make a brief comment about certain issues raised with regard to China capacity and demand.

The contribution of U.S. demand and supply will change significantly since the investigation and since the first review. For the reasons discussed earlier, U.S. demand is now dominated by smaller diameter LDLP, 24 inches outside diameter and less, for onshore pipeline projects. ERW is the well pipe benefitting most in this change, and it is supplied largely by U.S. producers and non-subject importers.

U.S. demand for large-diameter, onshore pipeline projects is now dominated by thinner wall HSAW LDLP, which do not require LSAW LDLP. There was minimal U.S. production of HSAW in the first review, but U.S. production is now significant, with five U.S. producers having added capacity. As shown in slide one, U.S. production of subject ERW and HSAW has increased significantly since 2009, and LSAW production has decreased.

One can estimate that in 2012, ERW and HSAW combined accounted for about 85 percent of full U.S. production compared to 60 percent in 2007. In both the prior sunset review and the investigation period, U.S. production was dominated by LSAW. This change is

highly relevant to the Commission's determination because the large volume of U.S. HSAW production will not compete with Japanese exports of ERW or LSAW. Please see slide two.

There is little overlap between Japanese ERW production, most of which is .4 OB and under, and U.S. HSAW production if it's over 24-inch outside diameter. Japanese producers' LSAW exports are focused on critical application projects, while U.S. HSAW is produced for non-critical onshore projects.

In the first sunset review, in fact, the Commission found non-subject imports of HSAW would not compete with U.S. ERW, and the competition of non-subject HSAW with U.S. LSAW would be limited. These strengths on the ability of ERW and LSAW to compete with U.S. HSAW continue to apply today.

Moreover, Japan has no production of API-qualified HSAW, and has no plans to do so. This is a significant change since the prior sunset review not even mentioned in Petitioner's briefs. More generally, Petitioners over-simplify the nature of competition in this market, stating that Japan and U.S. LDLP would both compete head to head with interchangeable, standardized products.

Large diameter line pipe is not a

standardized product. There will be little direct competition between Japanese and U.S. ERW or between Japanese and U.S. LSAW. Mr. Takeuchi and Mr. Nakayama explained why this is the case, given that Japan has a competitive advantage with the production of LSAW and ERW for critical application pipeline projects such as deepwater, Arctic, or sour service. But U.S. production of ERW and LSAW are focused on U.S., non-critical, onshore pipeline projects.

In addition, Japan's total shipments of subject ERW is very small in relation to the ERW volume of U.S. producers and non-subject imports.

The Commission collected data on certain LDLP parameters, including grade and well payments. While there are many other factors that distinguish critical from non-critical application LDLP, the data do support the earlier testimony. The specific data are confidential, but slide three shows the ranking in 2012 of U.S. production, with ERW first, HSAW second, and LSAW third.

In contrast, the Japanese producers off shore, LSAW was first and ERW is a distant second. The Commission has recognized that ERW and HSAW are used in less critical application pipelines as compared to LSAW. The dominance of LSAW for Japanese

producers is consistent with Japan's focus on critical application projects, in contrast to U.S. demand, where the focus is on non-Arctic, onshore pipeline projects which ERW and LSAW can support.

Slide four compares wall thickness rankings for U.S. producers and Japanese producer sales for each wall of pipe. For Japanese producers, thicker-walled LDLP dominates compared to just the opposite for U.S. producers. Pipelines subject to harsh conditions generally require thicker-walled pipe. The relative greater influence of thicker-walled LDLP for Japanese producers is consistent with the earlier testimony that Japan's strategic focus is on LDLP for critical application pipeline projects.

I want to emphasize that these are only two parameters among many others evaluated by purchasers in choosing from whom to buy, especially for critical application pipeline projects.

One factor the Commission also considers in sunset reviews is pre-order competitive conditions and the behavior of subject imports. One condition, according to the Commission's affirmative in the investigation was of a project market that had collapsed in 1999 to 2000. This made the distributor market that much more important to the U.S. producers,

and it was in this channel of distribution, where subject import share had increased the most in 2000.

As shown in slide five, however, at no time during the current POR was the project market as weak as in 2000, so an important condition supporting the Commission's original affirmative determination did not exist in this review period. Moreover, this slide does not include U.S. producers' export sharings, which appear also to be for non-critical application onshore projects in Canada and Mexico.

Total U.S. production, which includes exports, has increased continuously from 2009 to 2012, and in interim 2013. The Commission also may consider import behavior during the original period of investigation as a possible indicator of what may occur absent the order. Import volume in Japan was lower at the end of POI in 2000 than in 1998, with any market share increase being the result of the sharp decline in overall project market volume.

The Commission discounted the sharp decline in Japan's volume and market share in the first half of 2001 as post-petition effects. In fact, as shown in slide six, import volume from Japan began to fall in the third quarter of 2000, and fell sharply in the fourth quarter of 2000, before the petition was filed.

And I know there were some questions this morning about import behavior or trends tracking the U.S. market. And in fact, this is what occurred.

Japan's exports to the U.S. began to decline before the petition was filed as the market declined. Import volume to Japan in the fourth quarter of 2000 was similar to that in each of the quarters of the first half of 2001.

There will be no adverse price effects with revocation. In large part, this necessarily follows from the fact that any increase in export volume from Japan will be comprised largely of critical application LDLP, not in LDLP for non-critical, onshore pipeline projects that is the focus of U.S. producers.

And I just want to clarify, this morning Petitioners indicated that critical application equaled excluded products, and in fact there are non-excluded products that our clients also consider critical application that the U.S. industry cannot produce.

Yes, of the 26 quarterly price comparisons you do have, there were 23 instances of underselling. But these should be given little weight for predictive purposes for at least three reasons.

First, as it did in the prior sunset review, the Commission should give little weight to these comparisons of largely different levels of trade.

Second, the underselling instances were focused early in the POR, with few instances in the last three years of the POR.

Third, as explained in our prehearing brief, the volumes associated with the underselling represent increasingly smaller shares with subject import volume in the most recent years of the POR. Regarding industry conditions, slide seven shows U.S. industry production operating margin from 1998 to 2012. It is clear that operating margins are affected by U.S. production volume, which in turn is affected by U.S. demand.

One can calculate that over 85 percent of the U.S. industry's production drop from 1999 to 2000 was the result in the decline in U.S. apparent consumption and increased market share from non-subject imports rather than any market share gains by subject imports from Japan.

As shown in slide eight, changes in production and operating costs from 2000 to 2009, where you also had a large demand decline, showed very similar declines to U.S. production and operating

profit as the drop from 1999 to 2000 during the POI. So demand does have a significant effect on the U.S. industry production and operating results.

Going back to slide seven, the data also show that the U.S. industry is not vulnerable. Petitioners assert, and they asserted again this morning, that the U.S. industry is vulnerable because U.S. apparent consumption has remained relatively flat at 2009 levels. U.S. apparent consumption has remained flat. However, this is because import volumes have declined while U.S. production has increased. Vulnerability relates to the U.S. industry's condition, not overall demand or the market.

U.S. production in 2012 is at a peak level, and operating profits have been closer to the peak levels. Although not shown on this slide, U.S. production in the first quarter of 2013 is 20 percent higher than in the first quarter of 2012. And I noticed that these three witnesses annualized the first quarter 2013 apparent consumption for that.

If you go to your staff report at table 3-5 and you annualize U.S. first quarter production, it's at the highest level of the entire POR. The number of production and related workers is 6 percent higher in

2012 than in 2007. The industry did report operating losses in the first quarter of 2013. However, they also reported operating losses in the first quarter of 2012, and reported operating profits for the full year.

However, it really doesn't matter for the outcome of this proceeding whether the Commission does or does not find the industry to be vulnerable. Any increase in LDLP enforcement or containment with revocation will be comprised largely of critical application specifications with no material effect on the condition of the U.S. industry, whatever that may be.

And finally, on China, there was a lot made both in the brief and this morning on China's increase in production and exports, and attachment one to the U.S. Steel brief in fact showed Japan's exports to China from 2008 forward. I think it's interesting that they started in 2008 and left off the first year of the POR of 2007, where exports to China from Japan were much lower.

The large volume of exports to China in 2008 in fact reflects a project, the East-West project in China, and the dropoff after 2008 reflects the fact that the pipeline sold for that project -- you know,

the pipeline sold for that project was primarily in 2008.

I think it's a myopic way of looking at the market. You can cherry-pick any particular country, and if there happened to be a large pipeline project in that country, you can see slight exports to the country and a decline in exports to that country. So you really need to look at Japan's exports worldwide and not just to any particular country, where a pipeline project can cause fairly large spikes up and down in Japan's exports or even in apparent consumption in that particular country.

Thank you.

MR. HICKERSON: Mr. Chairman, that concludes our public testimony. We'll be happy to answer any questions. Thank you.

CHAIRMAN WILLIAMSON: Thank you. I want to express our appreciation to the witnesses, particularly those who have come along way to testify today. Your testimony has been very helpful to us.

This afternoon we're going to open questioning with Commissioner Pearson.

COMMISSIONER PEARSON: Thank you, Mr. Chairman. I'm very glad that you're here with us this afternoon. I must say to those of you who are native

Japanese speakers, your English is far better than my Japanese, so I appreciate that.

Has there been a change in the type of pipe produced by Japanese firms since the original investigation? And the reason for asking is at that time, Japanese producers were manufacturing enough ordinary pipe so that it was able to compete quite effectively in the United States for the type of projects that were undertaken then. Is that still the case?

MR. NAKAYAMA: Okay. I will answer your question. I will note that our abilities are improving day by day, and also that the customary quantities also have become more severe. And as we talked -- as I described in this paper, we always make some investment money to our own system and machinery in the capacity. So actually, we get some improving how to make steel, how to make LDLP.

So definitely, ten years ago, compared to the ten years ago, our raw material has promoted definitely.

MR. TAKEUCHI: Generally, major worldwide companies exploit development of areas. This means they call for a harsh requirement with applications. So Japanese pipeline manufacturers have been

developing critical application, specification line.

COMMISSIONER PEARSON: Well, it's very clear from this record that Japanese producers are extremely capable of manufacturing the high-quality product for the critical uses.

Mr. Klett, perhaps could you clarify. On this record, is it clear what the actual composition of production has been in Japan in recent years? And I would be interested in the split between the type of pipe that is being defined as critical versus more ordinary pipe.

MR. KLETT: What you do have from the record -- and I actually collected this information in the prior POR and on this POR, which I think is relevant to the issue, and that is that we collected information on LSAW within different grades and collected information on different wall thicknesses as well as the outside diameters. And for Japan, we also collected information for total exports worldwide, not just exports to the U.S. market.

And one of the things the data show is that from the first POR to this POR, the average wall thickness of Japan's exports worldwide has actually increased significantly, which I think indirectly shows increasing percentage of sales going to more

critical applications because more critical applications require thicker-walled line product.

As we learn from talking to clients over the last few days, there is a lot of elements that go into whether a pipe is critical versus just the wall thickness. There is the steel toughness, and there is tests that measure steel toughness in terms of -- especially in Arctic conditions, you want to avoid split, a lot of other things.

But your record does have information that supports the testimony about increasing a portion of -- or the Japanese production shipments being for more critical application projects.

COMMISSIONER PEARSON: Okay. And Mr. Nakayama.

MR. NAKAYAMA: Please add my explanation. For instance, real sample, real product with which we achieve the very high critical application, one is that in the deepest record, only Nippon Steel has established the world deepest record as for the roughest terrain type in Mediterranean Sea. This is approximately 6 -- 2,300 meters, so 6,600 feet. This is a world record. And also, another one is we -- arctic subsurface durable in Russia, for the very low temperature like minus 60 degree fahrenheit. And

also, and that material require a very high deformability. It could be only Japanese that can do that. That's the truth.

COMMISSIONER PEARSON: Again, I appreciate the ability of your industry to manufacture these very high quality pipes that have specific uses and for which the United States industry really doesn't compete, for a number of reasons.

But again, what I'd like to understand better is how much product do Japanese manufacturers sell that might be considered directly competitive with the type of pipe that is produced in the United States.

MR. NAKAYAMA: So for our case, for the LDLP during this period, almost all of our LDLP pipe -- and for our LDLP pipe, the customer requires not only strength, but also arctic subsurface or low-temperature subsurface service. Almost 90 percent or 95 percent requires such a kind of high criteria application.

COMMISSIONER PEARSON: Such a high figure. Is it similar for you, in your --

MR. TAKEUCHI: It is very similar, a similar number.

COMMISSIONER PEARSON: Okay. So I

understand the testimony correctly that a very high percentage, perhaps 90 percent or more, of the production of your large diameter line pipe are of grades and qualities that would go to the specialized uses, the most high value uses, and that you're producing during this period of review relatively little pipe that would be directly competitive with pipe manufactured in the United States. Is that correct?

MR. TAKEUCHI: No, sir. We don't have any experience to compete with U.S. producers to get the products worldwide.

MR. KLETT: Commissioner Pearson, I think this really reflects the different nature of pipeline demand in the U.S. versus the rest of the world, where in the U.S. the most demand is for onshore, non-harsh pipeline projects. Outside the U.S., it's just the reverse. So I think their production shipments pretty much just reflect the different types of pipelines that are being built in the U.S. versus outside the United States.

COMMISSIONER PEARSON: Well, this is very interesting testimony. Mr. Klett, perhaps for the post-hearing in working with your clients you could give us a little more breakdown of what their

production and sales have been over the period of review. I assume we'll take it all the way back to the original investigation because my sense is something -- things have changed since the original investigation, and those changes are hinted at on this record, and yet at this moment they're not entirely clear. So that's what I'm interested in.

MR. KLETT: We will do so.

COMMISSIONER PEARSON: My time is close to done, and my next question might take a little while. So, Mr. Chairman, I think I will defer for now.

CHAIRMAN WILLIAMSON: Thank you. Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman, and welcome to this afternoon's witnesses. I actually want to follow the questions that Commissioner Pearson was asking because I figured that the most important thing that we need to nail down on this record is over the period what portion of available capacity for large diameter line pipe in Japan has been used to make these critical service products. And what I would really like to see is for the numbers that you gentlemen testified to tonight, the 95 percent, I'd like to see if it was possible the percentage for each year of the period that have gone

into these critical applications. And I'd like you to define very carefully for us what you're putting in that critical application category so that the domestic industry can take a look at that and tell us whether they agree that these are products that are suited solely for these high-end projects in which the domestic industry doesn't really compete.

Is that something you think you can put together for us?

MR. NAKAYAMA: I think you're correct and know what is the critical application. So based on the specification, we have of course a standard specification like API is a very, very famous brand. And when the customers, especially the critical application customers, requires, in addition to the API grade, they always require the higher performance or higher tolerance For instance, longness or, for instance, arctic subsurface. They always require a higher specification, tailor-made by the customer.

COMMISSIONER ARANOFF: Right. Well, I understand that. I just want to make sure that you can give me a definition that spells out all the extra specifications that you would include in the critical category so I understand what is not included, and then I'll understand that you and the domestic

industry are talking about the same thing when you're talking about critical because --

MR. HICKERSON: Commissioner Aranoff, we will provide that definition and the information you requested.

COMMISSIONER ARANOFF: Okay. That would be really helpful. Thank you.

So both companies indicated that there is some portion of your production, a small portion, that does not fall into these critical applications. Can you tell us a little bit more about what these products are and where you're selling them?

MR. NAKAYAMA: Well, the known application. You know that of course our LDLP after it is milled can produce not only line pipe, but sometimes in the structure for the domestic business. The structure itself is not so difficult to make. And, of course, it is completely different from line pipe. But we have a customer in Japan, so we have to produce such a kind of grade.

MR. TAKEUCHI: And different still, in our case there is a supply, the structure for off-shore platform. Off-shore platform pier. This is close to standard grade, not critical. And in addition, you know, conductor casing, this is the surface casing of

-- target. Thank you. This is also close to standard grade.

COMMISSIONER ARANOFF: Are these line pipe products that you're describing, or are you saying that you go to structural pipe products?

MR. NAKAYAMA: What I mentioned is that structured.

COMMISSIONER ARANOFF: So now if I understand you correctly, you're talking that 90 to 95 percent of your production on your LDLP mills is critical application line pipe, and that everything else that you're making is not line pipe at all. Am I understanding you correctly?

MR. NAKAYAMA: Uh-huh.

COMMISSIONER ARANOFF: Okay, okay. Thank you.

In the prior review, the Commission in its opinion took the view that you couldn't give that much weight to the capacity utilization figures that were supplied by the Japanese producers because they appeared to be matched to production rather than reflecting the available capacity that might be available to produce any product that could be produced on the line. And I imagine that you can tell me whether capacity was calculated the same way in

this review, or whether the Commission needs to reconsider its conclusion from the prior review. Is there any reason for us to do so?

MR. KLETT: Commissioner Aranoff, this is Dan Klett. I would just give a general answer. In the prior review, production and capacity I think matched each other very closely, so they were matched 100 percent capacity utilization year by year. I think that was one of the reasons you rejected that.

In this review, that's not the case. Basically, you do have capacity utilization in some years, but most have been 100 percent. What Petitioners are arguing with is that because the average reported capacity varies year by year, in other words, because it's not constant across the whole POR year by year, that there is something wrong with our data.

One of the industry witnesses this morning specifically said our capacity varies with product mix. So I would ask Petitioners -- I would question the reliability of their capacity data, given that they don't show variations in the actual capacity, when they testified that there should be, given changes in product mix. I doubt their product mix was constant over each year of the POR.

The other thing is that I did a little calculation. If we -- if the Japanese mills had taken their average annual capacity and rather than vary it year by year just put a straight average, which essentially would be assuming, you know, the same product mix over the whole POR, which I think is the methodology that Petitioners used to calculate their capacity, capacity utilization rates in 2012 on that basis are very similar to what the Japanese mills reported in their questionnaire.

I think another important thing for capacity is that when you look at capacity utilization, you look not just at subject product, because there are other products made on the same mill, you really need to look at capacity utilization, not just for LDLP, but for total ERW in all the products that are made at the same mill.

But I think that the gentlemen can maybe explain how they reported capacity based on the importance of product mix in capacity and why the capacity numbers varied from year to year.

MR. NAKAYAMA: Yeah. Can I --

COMMISSIONER ARANOFF: Please go ahead.

MR. NAKAYAMA: Basically, we calculate the work over time, the hour, you know. And after we

secure the work over time, the work over hours -- for instance, this May, there is 31 days, but we have a limited number of operator, so we have not so many choice to decide that site mill because we have a limited number of operator. And this operator requires a high knowledge of how to operate a machine. So, how can I say -- you trace them. And anyway, we calculate the working hour cost, and after that, reflecting on the real product mix. You know, the pipe is -- sometimes it depends on the outside diameter, and it changes, quite different.

That's the reason why, you know, we submit our capacity for tonnage basis. But sometimes it fluctuates, depends on the product mix. That's the reason why. But anyway, we calculate the operation hour.

COMMISSIONER ARANOFF: Okay. All right. Thank you. I'm going to stop there and come back in the next round. Thanks, Mr. Chairman.

CHAIRMAN WILLIAMSON: Thank you. Commissioner Pinkert?

COMMISSIONER PINKERT: Thank you, Mr. Chairman. And I join my colleagues in thanking all of you for being here today. I know you've had a number of questions about this already during this particular

discussion, but I want to ask you a question for post-hearing that's very specific. What percentage of Japanese LSAW capacity is currently going into critical application pipeline projects?

I think you've had a number of questions about shipments and about production. But I want to focus for this particular question on the percentage of current capacity.

MR. NAKAYAMA: Current capacity? So --

COMMISSIONER PINKERT: For LSAW.

MR. NAKAYAMA: LSAW. And, for instance, this year, now roughly calculates -- we got approximately, maybe -- approximately at least more than 80 percent or 85 percent is dominated by critical application service, this year.

MR. TAKEUCHI: JFE Steel got a big order from the region, the quota 300,000, over 300,000 was ordered. So now JFE also -- and this project is out of the areas, critical application projects. So now JFE is now over 85 percent for critical application.

COMMISSIONER PINKERT: Thank you. I saw you nodding in the back, Mr. Klett. Did you have anything to add on that, or perhaps in the post-hearing?

MR. KLETT: Post-hearing.

COMMISSIONER PINKERT: Okay. Thank you.

Now, concerning business plans -- and I know we're going to be talking more about that later. But just as a general matter, how flexible are your business plans in responding to changes in the market? Are you able to respond quickly to changes in the market, or does the business plan limit your options in responding to changes in the market?

MR. NAKAYAMA: Let me explain. At least at this moment I'm following that business plan, and we have already been invited to bidding for a very big project. And our business plan mainly -- our business plan has been made mainly for this target. So from that viewpoint, we don't -- I don't see any big changes for business plan realization after this moment.

COMMISSIONER PINKERT: But are you able to respond flexibly to changes in the market if -- just suppose that there was some change in demand or change in market conditions. Can you respond flexibly to that, or does the business plan keep you limited as to how you can do that?

MR. TAKEUCHI: When we make our business plan, we take much time to study the market in the future, carefully, and we decided -- have decided to -- we look to the critical applications market. And

so -- and this -- and the line pipe demand for critical applications will be increased -- will increase in the future. So now we think we don't need to change our business plan.

COMMISSIONER PINKERT: Thank you. Mr. Nakayama, did you want to add anything to your answer?

MR. NAKAYAMA: Yeah. You are asking that the business plan is a business plan, but what if the target project is missed. You would like to know what we are going to do?

COMMISSIONER PINKERT: Or what can you do? In other words, are you limited in what you can do?

MR. NAKAYAMA: Basically, it depends on the target project's condition, and it's dependent on how not various projects we choose, it realistically depends on. If you know the -- if we chase that two or three big projects, in that case we can easily substitute A from B, from A to B. And we'd like to say after this moment in the near future, we have many options. We can do it. So that's the reason why I say there is not so big change to my business plan, at this moment.

COMMISSIONER PINKERT: Thank you. Thank you very much. And, Mr. Takeuchi, did you want to add anything to your answer?

MR. TAKEUCHI: No.

COMMISSIONER PINKERT: Okay.

MR. HICKERSON: Commissioner Pinkert, I believe we can clarify this in post-session. We actually looked at some of the details. But I would just comment that I believe what Mr. Nakayama was saying was that a business plan, as you will see, will include a number of potential projects they are going to bid on. They don't expect to get 100 percent of all of the projects they bid on, but there is enough projects that they do expect, although it may not be that you can identify is it going to be numbers one, three, and five. It might be numbers two, four, and six.

But to the extent that you don't get number one well, then, you're pursuing number two and the others alike. But again, I think that in the post-session, we can look at that.

COMMISSIONER PINKERT: Thank you. That's very helpful. And how has competition with Chinese exports affected Japanese producers' ability in recent years to compete for sales in third countries?

MR. TAKEUCHI: We think the effects are very limited. With the effects, of course we look at the critical, big application projects all over the world,

and we have confidence to -- have an advantage on this compared to Chinese mills.

MR. NAKAYAMA: And the Chinese Mill are not -- I'm sorry, non-critical. They are chasing for non-critical application. We are chasing critical application. So it doesn't affect so much.

COMMISSIONER PINKERT: Thank you. And finally, to what do you attribute the downturn in U.S. and international demand for line pipe, and do you consider that to be a long-term plan?

MR. NAKAYAMA: As far the land pipe demand?

COMMISSIONER PINKERT: The demand for line pipe. There is a decline in demand, and I'm wondering, is that a long-term trend, short-term trend? What do you see going on there?

MR. NAKAYAMA: In this country you mean --

COMMISSIONER PINKERT: Correct.

MR. NAKAYAMA: -- I mean this country?

(Pause)

MR. NAKAYAMA: So properly speaking, we are not so sure about United States country's market situation, because we don't export so much at this moment. And anyway, I can't say that worldwide demand is growing, as I told you. So at the end of the day, in five years or ten years, this country's demand also

is picking up, I believe.

COMMISSIONER PINKERT: Thank you. Mr. Takeuchi?

MR. TAKEUCHI: No. United States have -- but in some plants, they export LNG, natural gas to Southeast Asia. And this trans requires line pipe -- also line pipe. And so currently speaking, I also am sure that, I think, that is I hope to increase a lot of demand increase with production and LNG exported product.

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

CHAIRMAN WILLIAMSON: Commissioner Broadbent?

COMMISSIONER BROADBENT: Thank you. Just to get this out of the way, I was interested in Buy America, since I asked the Petitioners this morning whether any of our laws regarding Buy America requirements affect your exports to the U.S.?

MR. HICKERSON: Commissioner, do you mean exports of the subject merchandise?

COMMISSIONER BROADBENT: Either one.

MR. HICKERSON: Ah, I do not believe it affects exports of subject merchandise. I do not believe that they have federal financing to state and

local governments. I know of no application of large diameter line pipe that would be in projects that are covered by Buy America, such as a water treatment facility or something like that, which would not be subject merchandise.

COMMISSIONER BROADBENT: Okay. And so exports and even non-subject exports that you might sell to the U.S., are they at all covered by Buy America requirements?

MR. HICKERSON: Large diameter line pipe, no. I can't answer to things like structural or some of the other -- capital products might be. In fact, they probably are.

COMMISSIONER BROADBENT: Okay. And the witnesses don't have any observations on the Buy America requirement.

MR. HICKERSON: They would not because the product that they are responsible for, even if exporting to the United States, would not be covered by Buy America.

COMMISSIONER BROADBENT: Great. Thank you very much. I appreciate that. Could you talk to me a little bit about global demand for your product and where you see -- and subject products. Where is it growing globally?

MR. NAKAYAMA: Global market condition in these two years or three years, it should be increased. And due to the worldwide demand for energy, and especially growth -- I expect growth of critical application service and non-critical application service, both demand will be increased in worldwide.

COMMISSIONER BROADBENT: Okay. So, for example, in China, what will happen to the subject project in China?

MR. NAKAYAMA: As for China, they work to install new gas pipeline in the near future. But from the information I've got, that specification is not so harsh, not so critical. And there are a lot of mills in China who can produce the non-critical application pipe. So maybe such a demand will be treated by Chinese producer.

COMMISSIONER BROADBENT: Okay. Thank you. And then what about India? I understand that they've got a lot of energy projects going.

MR. NAKAYAMA: Yeah. Of course, India has much, much potential. But at this moment, you know, especially in this year, there is some kind of recession in the Indian economy. So at least in this year until the next election of the president --

president I think, anyway, the next election, that things won't move quickly. But after that, you know that they have a huge number of population. They need energy definitely. So in that case, of course, we Japanese manufacturers are interested in offering products to extract gas offshore in the Indian Ocean project.

COMMISSIONER BROADBENT: But not in the onshore projects.

MR. NAKAYAMA: I'm sorry?

COMMISSIONER BROADBENT: Not in the onshore.

MR. NAKAYAMA: Oh, yeah. Maybe -- it should be -- there should be some onshore project also. But maybe such a time demand will be treated in Indian producers. So we Japanese are not interesting as onshore producers.

COMMISSIONER BROADBENT: Okay. Does the Keystone pipeline offer any opportunities to Japanese producers?

MR. NAKAYAMA: No. You mean Keystone XL?

COMMISSIONER BROADBENT: Yeah.

MR. NAKAYAMA: It's -- Keystone project is a huge project, it's true. But the requirement is not so critical. So it is not for Japanese manufacturers.

COMMISSIONER BROADBENT: Okay. Why does the

Japanese ERW pipe not compete head-to-head with the U.S. ERW?

MR. NAKAYAMA: Yeah. I will respond first, and Mr. Takeuchi will respond next, okay? In my case -- actually in our case, Nippon Sumitomo Metal Corporation, we have one ERW mill, which can make LDLP. But this mill has to serve the domestic, the domestic pipe service and the construction service, and also this mill has special equipment for the thread and coupling for oil companies.

So actually, our ERW mill have many portfolio, and we have repeat customer. So we have to secure our capacity to them. And also, as for the line pipe, we, Nippon Sumitomo has a contract with a very famous major oil company in Malaysia and all over the world. We have to serve their line projects.

So in conclusion, we cannot deliver so many pipes to this company for non-domestic sources.

COMMISSIONER BROADBENT: Okay.

MR. NAKAYAMA: And Mr. Takeuchi.

MR. TAKEUCHI: In our case, as I mentioned in my testimony, our company JFE Steel now is building new mill, and so JFE Steel don't want to compete. And JFE Steel product with critical applications in the ERW market, the ERW, as the sole alternative of

seamless and small dent type LSAW which require the critical application, for example, from low temperature toughness, to high heat ready as well.

COMMISSIONER BROADBENT: Okay. So the California Steel plant plans to sell -- can you describe their production for me? What do you plan to sell from California Steel, just so I understand?

MR. NAKAYAMA: California Steel is now building new mill, and they expand their size range outside the size range. Now their capacity is up to 16 inches, and they expand -- they will expand up to 54 inches. And the operation will start the second half of next year.

COMMISSIONER BROADBENT: Okay. So it will compete directly with the Petitioners.

MR. TAKEUCHI: Yes.

COMMISSIONER BROADBENT: Okay. And could you describe to me the decision to make that investment? What were the factors that led you to make that investment?

MR. TAKEUCHI: I think in the U.S. market there are facilities for extraction in the U.S. So their lack of demand will increase, especially 16 piece to 50 point.

COMMISSIONER BROADBENT: Okay. And the

Petitioners seem to be saying that the growth in the shale market would diminish demand for their product, and they didn't seem to be able to forecast anything positive about the growth in the shale production. How do you interpret that? What is your perspective on that issue?

MR. TAKEUCHI: Generally in Japan, in Japan shale does -- it will be -- it gives a very positive impact in the oil and gas industry --

COMMISSIONER BROADBENT: Right.

MR. TAKEUCHI: -- in the U.S. So generally speaking, they will still say that it's positive.

COMMISSIONER BROADBENT: Okay.

MR. HICKERSON: If I could just add to that.

COMMISSIONER BROADBENT: Sure.

MR. HICKERSON: The shale boom has caused an increase in demand for smaller piper, pipe under 24 inches. So that is served, for example, by the California steel industry ERW mill that is being built to fill that demand. With respect to the U.S. industry, their five new HSAW mills cannot make pipe that small. The shale boom is not helping a U.S. company that recently built a billion dollar HSAW mill.

The kind of HSAW mill, because of the

construction process, you're not going to get it under 30 inches. So the U.S. industry that's doing well is the part of the industry that's manufacturing pipe that's 24 inches or less that's hitting where the demand is, which is in the shale industry. The part that's doing poorly are the large pipe manufacturers that are manufacturing big piping through HSAW mills because no one is building the large pipeline.

COMMISSIONER BROADBENT: Okay. That's great. And I appreciate the answer. Thank you very much.

CHAIRMAN WILLIAMSON: Thank you. Mr. Nakayama, Mr. Takeuchi, I was wondering if the -- you were talking about 80 to 85 percent of your production of the LSAW pipe goes into critical service sample. The equipment that makes that pipe, can it also make a non-critical LSAW pipe for non-critical applications?

MR. NAKAYAMA: Yes.

MR. TAKEUCHI: Yes.

CHAIRMAN WILLIAMSON: What does it take to, say, convert a line from critical to non-critical? Is that a big task, a simple task, or expensive? If you're producing a critical -- you know, online, critical LSAW, LSAW for critical applications, what is involved in producing LSAW that's not critical

applications?

MR. TAKEUCHI: When we make a critical application pipeline, we have the special process, process from steel-making, not only pipe-making, but also steel-making quite long, with the special treatment, the steel, and special pipe-building conditions we need to make the application pipe. And we have to arrange, special arrange for making LSAW.

CHAIRMAN WILLIAMSON: Okay. So in other words, the raw material, the preparation of the raw material, is going to be different.

MR. TAKEUCHI: Different.

CHAIRMAN WILLIAMSON: But in terms of running the pipe through -- or running the plate through the machinery. It's not --

MR. TAKEUCHI: Machine. We use the same machine.

MR. KLETT: Mr. Chairman?

CHAIRMAN WILLIAMSON: Yes.

MR. KLETT: This is Dan Klett. I just want to make sure that there is a cost too that needs to be taken into account, and that is that in my talking with the two gentlemen over the past few days, they've made a lot of investments in being able to produce the critical application pipeline. So basically, if you

were to switch to non-critical, those are essentially costs, and you would not be absorbing them. You've invested in having the capability to make the critical application pipeline.

CHAIRMAN WILLIAMSON: I guess what I'm asking, is the cost in the line the equipment, or is the cost in the, say, preparing the steel or whatever the alloys of the raw -- how do you prepare it for running it through the line?

I understand that probably the steel -- the critical -- probably the LSAW that's used in the critical application is probably more profitable. You make more money doing that. But would it be viable to do non-critical if you had the orders, and didn't have another use for it?

And if you want to do this in post-hearing --

MR. HICKERSON: Mr. Chairman, we'll address it in post-hearing so we can move on to the next question. I'm not quite sure they understand the question.

CHAIRMAN WILLIAMSON: Okay. That's fair. So post-hearing would be appropriate.

MR. HICKERSON: Okay. Thank you.

CHAIRMAN WILLIAMSON: And actually there

would be the question -- if you have -- suppose you have a large project you're bidding on, and some of it is for LSAW for critical applications, and some is LSAW for non-critical. Would you bid on that? Would you bid on all of that project, or would you subcontract out the other?

MR. NAKAYAMA: Yes. And the answer is that we only bid the critical application because our critical application steel-making process has a limited capability to make a fine steel. Of course, we freely use the secondary refining process for steel-making process. But even in that, there is a limitation for capacity. And we like to continue to use our capacity because it completely meets our strategy.

CHAIRMAN WILLIAMSON: Okay. That was -- yes, I can see it. It's the most efficient use of your equipment and probably the most profitable use of it.

MR. NAKAYAMA: Yes.

CHAIRMAN WILLIAMSON: But if you had the capacity, you could do both, I assume.

MR. TAKEUCHI: Generally, in critical/non-critical, there are many factors. And the concern of the company is very, very hard, very hard. So prefer

to go to the critical applications for that.

CHAIRMAN WILLIAMSON: It's the best -- for you it's the best use of your production capacity. Is that one way of putting it?

MR. TAKEUCHI: So --

(Pause.)

MR. HICKERSON: Mr. Chairman, as Mr. Klett was talking about, in order to, you know, maximize the value of their capital investments, the research and development, and the equipment that they bought, is by far the best use with them in terms of output of pipe. I'm not sure you understood what Mr. Takeuchi was just saying, but he was saying that there are so many competitors for the standard grade pipe, both within the United States and in China and Korea that you've heard the U.S. industry talking about this morning, that it's just not something they're interested in focusing on since they can bid on these critical application projects where there are four or five makers in the entire world who can make it rather than competing against the tens or hundreds of manufacturers of non-critical.

CHAIRMAN WILLIAMSON: Yes. I understand all that. I guess what I'm saying, if you don't have -- if there is not currently enough demand for your

critical applications, then you need to make something. You can still -- rather than letting it sit idle, you an use it for maybe non-critical.

MR. HICKERSON: Well, Mr. Nakayama started his answer by saying theoretically yes.

CHAIRMAN WILLIAMSON: Okay. But if you don't want to do it.

MR. NAKAYAMA: I understand, yes. You understand that my answer is what you would like to ask. Theoretically we can produce that --

CHAIRMAN WILLIAMSON: Theoretically, we would do everything we could to avoid that.

(Laughter.)

CHAIRMAN WILLIAMSON: Okay. Thank you. I guess the sense -- I almost asked the same type of question regarding the ERW production, because I think a lot of that is for critical applications also. Is that correct?

MR. NAKAYAMA: That's correct.

CHAIRMAN WILLIAMSON: Okay. But the same theoretical possibilities would apply.

MR. NAKAYAMA: Of course, and compared to our LSAW pipe, ERW pipe is onshore based. LSAW pipe, I said that we had a world record for over 6,000 feet. And compared to the LSAW, ERW offshore record is over

3,000 feet or something like that. But anyway, still, it's offshore, and not so shallow water. And especially in Southeast Asia or Australia, such a pipe demand is now growing. So we have to secure our capacity to that kind of product. And so there is unlimited capacity.

CHAIRMAN WILLIAMSON: Thank you. The prehearing report indicates that Japanese producers rated ERW and LSAW capacity as greater than the actual production of it. This is on tables 4-14 and 15. And I was wondering, how should the Commission assess this available capacity? Mr. Klett?

MR. KLETT: Mr. Chairman, I just want to explain, based on my understanding, I think that the companies described in their questionnaires in terms of how they calculated rated capacity versus average production capacity. It's my understanding that the rated capacity is based on a theoretical, very efficient product mix. In other words, a product mix where you can really turn out a lot of tonnage. And so that's the rated capacity for both mills, and that's why you see the rated capacity fairly constant from year to year. It's a theoretical rated capacity based on a very efficient product mix, maybe even one very efficient product.

So it's not realistic in terms of what actually can be produced, which is based on the actual product mix. So the average production capacity being reported is more realistic in that it reflects more realistically the actual product mix, and therefore actual production capabilities.

MR. HICKERSON: And I'd like to just add briefly that the rated capacity is like, you know, the number that comes on the box. If you looked at the instructions it would then say you're 500,000 tons a year. But that would require you to be running it, you know, 24/7, 3 shifts, no maintenance, no down time. It's not a number that anybody ever hits.

CHAIRMAN WILLIAMSON: Understood. So what should we see? What should we say about Japanese capacity in terms of capacity?

MR. HICKERSON: I believe that the relation, you have to give weight to the average rated capacity, the average capacity that's been reported. There is no reason not to. It's the same method as you heard the U.S. industry said they take into account the product mix. That is what, you know, the capacity is, and they certainly explained, you know, the method for the calculation of that capacity in their questionnaire responses. And if there is any further

questions about that, we'd be happy to answer them or address them in the post-hearing brief.

CHAIRMAN WILLIAMSON: Okay. Thank you for those answers. Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman.

Mr. Klett, as I've listened to the discussion, it occurred to me that it's possible that a meaningful percentage of the production in Japan is actually a product that has been excluded from the scope because it is a highly specialized product. For post-hearing, could you perhaps use that definition and give us a sense of how much of what we're talking about here as being produced in Japan already is outside the scope?

MR. KLETT: I can check. I will discuss that with the mills and see if we can give you a figure.

COMMISSIONER PEARSON: Right. The reason is, of course, the scope excluded quite specifically. We know what products they're talking about, I think. And it would just give me a better sense of how much overlap that there might be between production in Japan and production in the United States.

MR. KLETT: We can do that.

COMMISSIONER PEARSON: Thank you. Do we have on this record any information regarding the profits that Japanese producers may be bidding on? You've indicated that you have optimism about certain projects that are coming up for bid. Do we have that on the record now or could we get it for the post-hearing?

MR. HICKERSON: Commissioner Pearson, we have submitted the JFE information as Exhibit 1, the confidential exhibit. And Nippon Sumitomo information is 2 through 4. Those are the exhibits that we plan to discuss in detail in the closed session.

COMMISSIONER PEARSON: Okay, fine. So it will give us some sense of the demand in the reasonably foreseeable future.

MR. HICKERSON: Correct.

COMMISSIONER PEARSON: Okay. I think my last question has to do with an issue that was raised by the domestic industry. They have the view that a Japanese producer was able to attain a project in the Norwegian Sea somewhere, in Scandinavia, at a very low price. And I'm wondering either now or in the in camera session or in post-hearing could you perhaps discuss that? Is there more that we should know about the pricing on that project?

MR. HICKERSON: Again, I believe this is a project that JFE Steel has currently bid for, won, and has been supplying pipe currently. I'm quite certain information about the pricing of that will be confidential.

COMMISSIONER PEARSON: Okay.

MR. HICKERSON: And we will address it in the post-hearing brief.

COMMISSIONER PEARSON: All right. Well, I look forward to all of that. Well, thank you very much for your participation here today, and we'll have more participation in the confidential session. With that, Mr. Chairman, I have no more questions for this panel.

CHAIRMAN WILLIAMSON: Thank you. Commissioner Aranoff?

COMMISSIONER ARANOFF: Thank you, Mr. Chairman.

I asked the domestic industry this morning about the fact that because the demand projections have proved to be somewhat unreliable in this industry, you know, what -- how the Commission can measure what business is really likely to be out there in the reasonably foreseeable future. And I asked whether we could limit our consideration to projects

for which an RF2 has already been issued, that those we would know are more likely than not to actually be buying pipe in the reasonably foreseeable future, and maybe could say more likely than not for anything that was earlier stated.

Would you agree with that as a way of looking at what you are doing?

MR. NAKAYAMA: I can't really with the U.S. producers speak as for this especially after this moment. Actually, we get RF2 from countries in this product for that project. That means that we have to promise to secure our capacity for that project. Maybe, of course, in the American -- whether it be one month or two months or maybe three months, I'm not sure. But anyway, we are in -- I can say we have to secure our capacity to get the order. And, you know, this is the most efficient proof that anywhere in the worldwide that this pipeline demand is still picking up.

MR. HICKERSON: If I could add to that, I do believe the standard here talks about a reasonable likelihood of the foreseeable future. It has enough flexibility that you don't have to look only at contracts that are firmly in place. I believe that when you talk in the in camera session with witnesses

about the projects, you'll talk about dates when bids are due, when production is supposed to commence, when product is supposed to be supplied.

We can talk about projects that they are bidding on and their level of confidence that they're going to obtain in a particular project or a percentage of those projects as a whole, and talk about a capacity of the five manufacturers in the world who can supply that demand compared to the demand for those projects that are up for bid and coming up for bid.

I completely reject Mr. Schagrin's contention that the legal standard will require you to look at open signed contracts.

MR. KLETT: Commissioner Aranoff, this is --

MR. TAKEUCHI: Usually we still gather the preparation for the project, but critical applications, big projects all over the world, with various information sources, and take a close contact to our clients, the companies. So we have the detail for that information, and we can analyze when this big project will realize something.

So this is our situation.

COMMISSIONER ARANOFF: Okay. When you decide that you're going to bid for a large project, I

think that what Mr. Nakayama was saying is you have to hold aside enough of your capacity to supply that project for the duration of the bidding process until you know whether or not you've won the business, correct? And then if you don't win the business, you can go back to looking for a customer to fill that portion of your capacity.

MR. NAKAYAMA: Of course, we try to mediate the risk to use the project what -- how can I say -- to have enough space over capacity. So we always chase the multiple project. And, of course, we carefully arrange the time schedule, and of course we always set a critical pass point. And then this is very, very complex, but it's our position, for instance, now we are bidding the big project, and, for instance, if -- until this November, there is no award or something like that. In that case, we can seek another project. That's the way how to secure capacity for the future portion.

COMMISSIONER ARANOFF: Okay. So what you're telling me is you can bid for multiple projects that are going to implicate capacity by carefully figuring out your production schedule. Okay. I understand that. But going back to this issue of demand, I think the concern that we have is that there are lots of

projects that are on the drawing board, and they're discussed for long periods of time before they're ever built, and this may mean offshore projects as well as onshore projects in the United States. And the question is, at what point are we sure that a project is really going to go forward. And I think that's -- maybe it's not the point of a signed contract. That's why I suggested maybe it's at the RFQ stage, which is earlier than the signed contract.

But I'm trying to figure out if the Commission wanted to come up with a list of all the projects either in the U.S. or somewhere else that are very likely to be built in, say -- you know, start being built by end of 2014, how would we define that category, because it's less than all of the projects that are out there being discussed. And, you know, you were suggesting to me that I don't need to wait for a signed contract to be sure. So I said, well, what about RFQ, if people are actually going out and taking bids, then maybe before that maybe it's a permit stage. What is the best place at which to say now we're pretty sure this project is being built in the next one to two years.

MR. KLETT: Commissioner Aranoff, this is Dan Klett. I think it probably varies on a project-

by-project basis, in the sense that there is probably different factors that affect the probability of one -- or the likelihood of one project going forward versus another project. But there is a whole lot of factors that go into whether a project is going to be built or not, which is why using an RFP may not be the best measure.

I mean, an RFP maybe is a very high probability that the project will be built even if it hasn't yet been an issue. There may be other factors that will give you guidance to the probability of whether a particular project will be going forward or not. So I think it's really case-by-case. Maybe in the in camera session, when you actually have the list of active projects on there, the gentlemen can go through why they feel some projects are more probable than others.

COMMISSIONER ARANOFF: Okay. That will be helpful, and I'll wait for the in camera session to do that because the exhibits themselves really are not that clear on which of those are actually going forward and which are more aspirational. Okay.

So then the question that a number of my colleagues have been going through with you this afternoon, and we've been trying to understand first

whether there is capacity in your plants in Japan, both the LSAW and the ERW, that is not being used for these critical applications, and what would be the next best use under those circumstances. And I think you've received a number of questions about that.

That's all based on the Commission's assessment in the prior review that there was excess capacity, that it might make sense to make less critical products, then sell them in the U.S. market, rather than leave the capacity idle.

The other question that I think we want to consider is whether if there are other products that are being made on these mills -- and you mentioned, for example, some structural product -- whether by not producing those products, and producing some, you know, base type line pipe there and shipping it to the U.S., you could in fact make a better profit than, you know, whatever alternate products are being produced so that there would be a price-based incentive to shift some existing production to products that could be sent to the U.S. market after -- if the order were revoked.

I don't know if you have any comments on that now. You're welcome to do that. Otherwise I want to just make sure that you are addressing both of

those scenarios in your post-hearing brief.

MR. HICKERSON: We will certainly address it in the post-hearing brief. I think the witnesses have already testified today about that to some extent, and we will address it fully in the brief.

COMMISSIONER ARANOFF: Okay. Thank you very much. Thank you.

CHAIRMAN WILLIAMSON: Thank you. Commissioner Broadbent?

COMMISSIONER BROADBENT: Thanks. I just wanted to review one thing to make sure I understood your perspective. Going back to the likely increase that we're seeing in the liquid natural gas production and trade over the long-term, tell me why subject line pipe will increase -- I think that's what you said -- if we're doing more trade over the ocean versus trade over pipelines. Does that make sense? I'm not very clear, and I apologize.

MR. NAKAYAMA: Okay, okay. Sorry. Maybe it's my hearing.

COMMISSIONER BROADBENT: No, it's not. I'm going to try it again, okay?

MR. NAKAYAMA: Okay.

COMMISSIONER BROADBENT: We're expecting that liquid natural gas, LNG, to increase, trade in

that product to increase. And I'm trying to figure out why trade in the subject product, subject line pipe, will increase if really this LNG trade is going to be more ocean-borne transportation versus pipe transportation.

MR. NAKAYAMA: Yeah. You are correct. And LNG capacity will increase in the near future. And, of course, the LNG capacity sometimes require the offshore pipe. It definitely will increase usage, but not only in critical usage, but LNG capacity sometimes require that non-critical pipe.

COMMISSIONER BROADBENT: So the project pipe, it would be -- the LNG facility sometimes requires the subject pipe.

MR. NAKAYAMA: Yeah, especially in the offshore, line pipe, this must be critical line pipe.

COMMISSIONER BROADBENT: Right.

MR. NAKAYAMA: Once the gas comes from the sea to the land, and maybe there is in the facility to refine the Alemite or something like that. They require the gas from the facility for onshore product. In that case, especially such a kind of case -- well, it already happened in Saudi Arabia. In that case, that onshore pipeline is product from our company.

COMMISSIONER BROADBENT: Okay. I appreciate

that explanation. Thank you.

Mr. Nakayama again. You cited I think today an offshore kind of record of LSAW that was able to go down 6,000 feet. That's a record accomplishment. And then 3,000 feet for ERW.

MR. NAKAYAMA: Right.

COMMISSIONER BROADBENT: And this is not subject line pipe; is it, or is it not?

MR. NAKAYAMA: Mainly subject line pipe has a heavier wall thickness. So pipe, no subject, non-subject that's sometimes -- especially, you know, that -- for the ERW case --

COMMISSIONER BROADBENT: For the what?

MR. NAKAYAMA: ERW.

COMMISSIONER BROADBENT: ERW.

MR. NAKAYAMA: I said that they are 3,000 feet. This is a record. Sometimes they require the subjects to march under the size, but very, very tight roundness specification they require.

MR. HICKERSON: If I could just elaborate, we do disagree with the U.S. industry's statements that all critical application pipe is already within the exclusions of the order. It's just not true. And the I think the witnesses can give you a couple of examples of those.

COMMISSIONER BROADBENT: Okay, yes. I appreciate that for the record. That would be great.

Mr. Chairman, I have no further questions right now. Thank you very much.

CHAIRMAN WILLIAMSON: Thank you. One question for Mr. Klett. Now, in the steel investigations we hear that American processors must maintain high levels of capacity utilization. And I'm wondering, is that true for this industry? Is that true in this case?

MR. KLETT: I think -- Mr. Chairman, this is Dan Klett. I think the higher the capacity utilization you have, the greater the profitability because you're including more fixed costs, so your unit costs are going to go down. So obviously big capacity utilization almost by definition is also higher profitability, given a certain price level. I mean, you could see capacity utilization go up and profits go down if prices are going down.

But I don't think that leads to the conclusion that companies are going to always attempt to operate at 100 percent capacity utilization just to reduce their production costs. I mean, if that were the case, why isn't Japan, even with the order in place, maximizing capacity utilization and shipping as

much as it can to non-U.S. markets? I mean, the notion that if the order were to go off there is excess capacity that would automatically be used to be shipped to the U.S. market, it would seem to me that same logic would apply to the incentive to ship to non-U.S. markets.

So as a conceptual matter, higher capacity utilization, lower cost. But I don't think that necessarily results in companies wanting to always operate at 100 percent capacity utilization. And companies can operate below 100 percent capacity utilization and be profitable.

CHAIRMAN WILLIAMSON: Okay. But there would be some concern, say, if the company is not able to get any preferred product by critical applications. There would be some desire, I assume, to maintain at least to maintain high enough capacity utilization so that you --

MR. KLETT: Well, it depends on -- Mr. Chairman, it depends on the market you're selling into. For example, for LSAW, there is some price theories in the staff report from a public source that looks at U.S. HSAW prices and Japanese LSAW prices, and the U.S. LSAW prices, by the way. So for Japan to compete in the U.S. large-diameter onshore market,

they would have to compete with HSAW, which as one of my charts showed, most U.S. large diameter onshore is not HSAW.

So given that price level, it may still not make sense for them to produce more LSAW to compete with the HSAW in the U.S., given the HSAW price level because at that level, they might still be selling below cost. So there would be no economic incentive. There is not necessarily an economic incentive to just always maximize your capacity. There is a lot of other parameters that have to go into that decision.

CHAIRMAN WILLIAMSON: But if they were profitable, if they thought the price was attractive enough, a company would want -- and since LSAW and HSAW are apparently, as we saw, competitive, I think you just saw the U.S. industry was saying this morning.

MR. KLETT: Well, I disagree with that. I mean, for the U.S. industry, HSAW and LSAW might be competitive because you're talking about LSAW and HSAW maybe in the same wall thickness. But basically for the Japanese producers that have a strategy for focusing on critical applications, where their LSAW is much thicker walled, that couldn't be cost competitive in a walled HSAW or LSAW for onshore applications that

were cost competitive.

MR. HICKERSON: David Hickerson, Mr. Chairman. We do disagree that LSAW and HSAW are interchangeable. HSAW cannot be made at the same small diameter as LSAW. The HSAW mills build larger pipes for large pipelines for which there has been refined, and Japanese don't compete with that at all.

LSAW mills can make smaller pipe, in the 16- to 24-inch range, that can be used as a critical application. So that's the difference. HSAW can never be used for a critical application. LSAW can. We could also have the witnesses give examples of contracts or RFQs that they received which they had asked to be LSAW. They can't be HSAW. But we fundamentally disagree with the point that the U.S. industry is urging upon the Commission that LSAW and HSAW are just the same thing. They're not.

CHAIRMAN WILLIAMSON: But they both could be used if the product meets the specifications, right? In other words --

MR. HICKERSON: If they both met the specifications --

CHAIRMAN WILLIAMSON: Yes.

MR. HICKERSON: -- but I've given you a number of reasons why they wouldn't, and Mr. Klett

gave you a number of reasons why the economics of that would probably not compete.

CHAIRMAN WILLIAMSON: No. I think he was saying that you wouldn't have a thick LSAW product compete with a thin if the specification required the thin-walled diameter.

MR. KLETT: Mr. Chairman, I think that the testimony this morning was that for a particular wall thickness with a particular project, LSAW and HSAW could be used. And I would agree that the HSAW is for non-critical offshore applications, and it's also possible to produce LSAW with a thinner wall also for onshore and non-critical applications. And given that example this morning, apparently there was some interchangeability.

I think what we're saying is that for the Japanese producers that is not the market focus. The market focus is on critical applications.

CHAIRMAN WILLIAMSON: Yes. I know why they're doing that, because. So the question was whether or not if we had different circumstances. Say you didn't have the demand for the critical application. Is there anything that theoretically would prevent you from competing in that -- I guess that LSAW production? It's not attractive right now.

You'd prefer to do something else.

MR. KLETT: No. I think it gets back to one of the questions about whether the mills have -- the Japanese mills have the theoretical ability to produce non-critical application pipeline. And I think they said they do have that theoretical capability.

CHAIRMAN WILLIAMSON: And you're going to say something like the cost of producing the LSAW versus the cost of producing the LSAW in those ranges is a big difference. Okay. That may be something different. But at this point, it's just a question of where do you want to put your resources.

MR. KLETT: Well, where you want to put your resources, and also whether you have the economic incentive to put the resources there.

CHAIRMAN WILLIAMSON: Okay, yes. That's fair. Good.

MR. HICKERSON: But you also have to look at what the demand is here. There isn't a large demand. There is a sinking demand for that larger pipe, and that's why the HSAW mills are not doing well. And if you were going to replace production, you wouldn't go to LSAW at 30 inches or greater. You might go to LSAW if you're trying to compete with ERW and others in the smaller pipe. But, you know, we're talking about

looking at what is reasonably likely in the foreseeable future. And given the market conditions for pipe of that size, I think it is very unlikely in the foreseeable future that that would happen.

CHAIRMAN WILLIAMSON: Okay. Thank you.

MR. HICKERSON: Thank you.

CHAIRMAN WILLIAMSON: Good. I have no further questions. Let's see. Does anyone? Commissioner Pearson.

COMMISSIONER PEARSON: I have one that follows -- that goes out of your line of questioning.

CHAIRMAN WILLIAMSON: Sure.

COMMISSIONER PEARSON: Mr. Hickerson, do we have on this record the information that you just mentioned regarding RFQs that exclude HSAW from participating in the bids?

MR. HICKERSON: I don't believe we have anything on the record now. But I do believe that if you asked the witnesses, that they could provide record testimony right now.

COMMISSIONER PEARSON: Okay. So there is a high probability it will be there in the post-hearing, right?

MR. HICKERSON: Yes. We could address it in the post-hearing brief.

COMMISSIONER PEARSON: Thank you.

MR. HICKERSON: Okay. Thank you.

CHAIRMAN WILLIAMSON: Good point. Thank you. Does any other commissioner have any additional questions for this panel at this time?

(No response.)

CHAIRMAN WILLIAMSON: So if not, I guess we can go to the -- does staff have any questions at this time?

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Mr. Chairman. Staff has no additional questions.

CHAIRMAN WILLIAMSON: Do those in favor of continuation of the order have any questions for this panel?

MR. SCHAGRIN: Mr. Chairman, Petitioners have no questions at this time.

CHAIRMAN WILLIAMSON: Thank you. I guess it's time to go to the in camera session, so we can prepare the room for that.

MR. BELLAMY: If everybody would please clear the room, we will check people in off the service list, and also admit the witnesses.

(Whereupon, the hearing recessed, to reconvene in an In Camera Session.)

P U B L I C S E S S I O N

CHAIRMAN WILLIAMSON: Please come to order.

Those in support of continuation have a total of 19 minutes, and those in opposition have a total of 24 minutes. I'm not going to tell you what the breakdown is since we always combine it.

MR. SCHAGRIN: Good afternoon. Again, Roger Schagrin with closing for the Petitioners.

I will not use the 19 or anything close to that, I promise.

Let me start on a personal note, instead of getting into all the issues in this case. If my congressional intelligence is correct, and maybe it's an oxymoron to talk about Roger Schagrin and congressional intelligence. I'm told, Commissioner Pearson, that Professor Keefe who was nominated for your seat on this Commission, is on some kind of a hotline as the Senate is preparing to go on a four week recess, of which I'm very jealous. And if that intelligence is correct, and this is the last hearing that I am able to participate in your presence, I wanted to thank you for your wonderful service to this Commission. I think you've always been very professional and I've enjoyed our repartee over the many years that we've been here, I think also

including 9/11 which was, I guess because you've served more than nine years, or maybe you came on after 9/11. I'm not sure whether there are any Commissioners left on the Commission who were here during 9/11.

I think it's a great symbol of our democracy that it would work even better on Capital Hill sometimes between Democrats and Republicans that maybe folks who don't always agree with each other ideologically can still respect each other very much professionally, and I want you to know I do respect your professionalism and your service to this Commission over the time that you have been here. So thank you.

Now back to the case.

It's too facile for Petitioner's counsel to come up in these sunset reviews and say why are the Respondents here if they're not interested in the market, so you shouldn't sunset the order because they're here. But this case is particularly unusual. I don't do that in other sunset reviews. This case is quite unusual. You actually have Respondents making the centerpiece of their presentation that their business models are so focused on products not subject to the scope of this order that they will have

no capacity for years to come, have no interest in the kinds of products the domestic industry makes, they don't want to compete with the domestic industry, and yet please, please, please, sunset this order so that during the next foreseeable timeframe we can make no sales to the United States. It just doesn't make sense. It's a matter of record that they sell a lot of products that are the same kinds of products the U.S. industry makes in markets around the world. They have connections to the U.S. market through both their sales of excluded products and their sales of subject products on which they pay duties.

If you look at Mr. Klett's box overview of the size, grade and wall thickness, ranges of the two industries, you will find some difference in focus. Sometimes the Japanese are in Box 1 and we're in Box 2. But when you look at the actual data which we went over in our pre-hearing brief, you see a great deal of overlap. Much more overlap than difference between what the industries make.

As to the competition between the HSAW method of production and the LSAW method of production, I would not be surprised if for off-shore projects some producers would say we don't want HSAW product. We'll provide in our post-hearing brief

information showing that for most of the requests for quotes that come to the U.S. industry, what is stated on the request for quote is grade, OD, wall thickness, not method of manufacture. And we would disagree that HSAW mills don't make down to 24 inch. I think you heard even in the domestic industry's testimony as to their size ranges, HSAW goes from 24 to 64, and overlap pretty much with LSAW mills. And of course at 24 inch you get some overlap with the ERW right at 24 inch.

When Mr. Klett said that the Commission somehow in the original investigation got the Japanese to focus on the U.S. market incorrect as to saying well they only declined after the filing of the petition, but look we actually declined in the quarter before the filing of the Petition. He gave you the volume on that chart. He didn't give you the quarterly information on consumption. Yes, were the Japanese following the market down? Yeah, but not as fast as the market was declining, which is what was the basis for the Commission's original injury determination? As the market was declining, the Japanese industry was gaining market share during the POI.

What do we have going on in the U.S. market

now unfortunately? The U.S. market is declining at an even greater rate than it was in the '99, 2000, 2001 time period. So this industry is extremely vulnerable.

The Japanese are very hungry for orders. That's why they took the polar led contract at prices less than EuroPipe, causing EuroPipe to have to idle mills in Europe. They have that kind of hunger for off-shore projects. They will exhibit that kind of hunger for the on-shore projects on which the U.S. industry depends.

The argument that JFE as a 50 percent owner of CSI wouldn't want to participate in the U.S. market. It's pretty simple math. If you've had a choice, let's say a 24 inch project comes up and they can either bid it at CSI which they own 50 percent of or they can bid it as JFE which they own 100 percent of. What would you rather have? A hundred percent of something or 50 percent of something? So it's different from the wholly owned subsidiary situation that this Commission confronts.

So in general we have a very weakened industry right now. A lot of mills on idle, with the industry losing money, with testimony this morning that things are getting worse and some companies are

about to lay off more employees.

When you see the dire vulnerability of the U.S. industry, weigh that against the Japanese excess capacity and their desire to make at least some sales to the distributor and contract market. For all those reasons I believe this Commission should make an affirmative determination that a recurrence of injury will occur if you continue this order.

I thank you and I thank the staff and I thank the witnesses for the Japanese and their counsel for participating in this hearing today.

Thank you.

CHAIRMAN WILLIAMSON: Thank you.

You may continue when you're ready.

MR. HICKERSON: Thank you, Mr. Chairman. Again, we do want to thank the Commission for allowing us to present the testimony and evidence to you today.

Mr. Schagrin essentially just said that well, if your Respondents are not going to argue that they're -- If they're going to argue that they're not going to compete with the U.S. industry and they're not going to harm them, then why would you lift the order? Well, that would be true in every case. For him to say well, maybe it's a little bit too cute for this case. He still made the argument, that's not the

standard. We all know what the standard is.

The standard is that -- And again, it's not like there are hard lines on this. It's turned in terms of reasonably foreseeable future, likely to cause material injury.

So when Mr. Schagrin again argued that you have to have signed contracts. The Japanese producers have to have signed contracts or you should just ignore them. Where does he get that from other than Mr. Schagrin's opinion? There's certainly no authority for that. And I would certainly argue that the standard doesn't require anything like that. It talks about reasonableness and likelihoods and reasonably foreseeable future.

If you look at the evidence that the parties presented today, the Japanese producers came in here with their top marketing and sales people for the line pipe business and candidly shared with you the details of their projects, their bids. These were reports not prepared for this litigation but were prepared in the ordinary course of business. And I'd ask you to contrast that with what we heard from the U.S. industry.

We heard a lot of lawyers' argument and we heard some very very general statements from the U.S.

industry witnesses.

I believe in evaluating the strength of the case here that you should take that into account.

I also am not going to come anywhere close to using my full 24 minutes. But I do just want to emphasize a couple of things. The Japanese producers have come forward with evidence that they do not compete with the U.S. industry in two critical ways. One is in geographic markets. The other is in the type of product. The importance of that is that when you evaluate under the standard of the causation requirement, whether if you lift this order there's a reasonable likelihood of a material injury to the U.S. industry, and you say well, hey, they're not competing. And the Japanese producers came in here and testified. We have so many reasons why we're not going to shift production and compete with the U.S. market. We've made all these big investments in all this machinery and equipment to manufacture a different grade of product. There's only three or four or five manufacturers in the world that can make this critical application steel, and we're much better off competing in that realm rather than against all of these U.S. markets who make standard grade pipes for the U.S. market, and all of the other countries'

producers, the non-subject imports from them. They're simply not going to shift production away from the techniques, the machinery, the R&D that they've put so much into to try to compete in a much tougher market where their advantages wouldn't apply.

The last point I want to make is just responding to Mr. Schagrin's point in closing about California Steel and JFE's 50 percent investment. He says which would you rather have? Fifty or 100? Well that's a pretty simplistic view. The 50 or 100 is on for one particular contract. The company, JFE Steel, has made a huge investment in that company. They're not going to take short-term actions even if they might make 100 percent of the profit on that deal compared to 50 percent as a shareholder if it would adversely affect the whole company. Their investment is much larger than that particular project.

And companies just don't behave that way. You're not going to cannibalize your own company that your Board of Directors just approved, you made a huge public announcement about, and you're making a huge effort to bring on-line in the reasonably foreseeable future.

Thank you very much.

CHAIRMAN WILLIAMSON: Thank you for your

closing statements.

Post-hearing briefs, statements responsive to questions and requests of the Commission and corrections to the transcript must be filed by August 12, 2013.

Closing of the record and final release of data to parties is September 5, 2013.

Final comments are due by September 9, 2013.

I want to thank all of the participants, everyone who participated in today's hearing. We found it very valuable.

With that, the hearing is adjourned.

(Whereupon, at 4:55 p.m. the hearing in the above-entitled matter was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Welded Large Diameter Line Pipe from Japan

INVESTIGATION NO.: 731-TA-919 (review)

HEARING DATE: August 1, 2013

LOCATION: Washington, D.C.

NATURE OF HEARING:Hearing

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

DATE: August 2, 2013

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

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

SIGNED: Micah Gillett
Signature of Proofreader

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

SIGNED: Diane Humke
Signature of Court Reporter