UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
GRAIN-ORIENTED ELECTRICAL	)	701-TA-505 and
STEEL FROM CHINA, CZECH	)	731-TA-1231-1237
REPUBLIC, GERMANY, JAPAN,	)	(Preliminary)
KOREA, POLAND, AND RUSSIA	)	

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Friday,
October 25, 2013

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

The preliminary conference commenced, pursuant to Notice, at 9:02 a.m., at the United States International Trade Commission, CATHERINE DeFILIPPO, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

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MIKAYLA KELLEY, INTERN
CATHERINE DeFILIPPO, DIRECTOR OF INVESTIGATIONS
DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR
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JAMES FETZER, ECONOMIST
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APPEARANCES: (cont'd.)

In Support of the Imposition of Antidumping and Countervailing Duty Orders:

On behalf of Petitioners:

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JAMES RAKOWSKI, Manager, Grain-Oriented Electrical Steel Market & Product Development, Allegheny Ludlum, LLC
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GEOFF PFEIFFER, General Manager-Specialty Steel Sales, AK Steel Corporation
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In Opposition to the Imposition of Antidumping and Countervailing Duty Orders:

On behalf of JFE Steel Corporation:

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On behalf of Nippon Steel & Sumitomo Metal Corporation (NSSMC):

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TAKAHIRO SAITO, Director/Unit Head, Flat Rolled Products Business Unit, Sumitomo Corporation of America

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On behalf of Novolipetsk Steel (NLMK):

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In Opposition to the Imposition of Antidumping and Countervailing Duty Orders: (Cont'd.)

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On behalf of ThyssenKrupp Electrical Steel GmbH (TKES):

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On behalf of International Magnetic Solutions:

ALPER ISOGREN, President, International Magnetic Solutions

I N D E X

I N D E X

P R O C E E D I N G S

(9:02 a.m.)

MS. DeFILIPPO: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping and countervailing duty investigation Nos. 701-TA-505 and 731-TA-1231-1237 concerning imports of Grain-Oriented Electrical Steel From China, Czech Republic, Germany, Japan, Korea, Poland, and Russia.

My name is Catherine DeFilippo. I am the Director of the Office of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my right, Douglas Corkran, the supervisory investigator; to my left, Charles St. Charles, the attorney/advisor; James Fetzer, the economist; and Jerry Houck, the industry analyst.

As a note, our investigator, Mary Messer, is out with a foot injury. She indicated that she was sorry she would miss it, will read the transcript, and she may reach out to you with questions via email.

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

microphones. We also ask that you state your name and affiliation for the record before beginning your presentation or answering questions for the benefit of the court reporter.

All witnesses must be sworn in before presenting testimony. Any questions regarding time allocations or for swearing in, please see the Secretary. Are there any questions?

(No response.)

MS. DeFILIPPO: Hearing none, Mr. Secretary, good morning. Are there any other preliminary matters?

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

(Witnesses sworn.)

MS. DeFILIPPO: I like that I'm a chairman. Very well. Let us begin with opening remarks.

MR. BISHOP: Opening remarks on behalf of Petitioners will be by David A. Hartquist, Kelley Drye & Warren.

MR. HARTQUIST: Good morning, Ms. DeFilippo and members of the ITC staff. I am David A. Hartquist of Kelley Drye & Warren. My colleagues and I are appearing today on behalf of AK Steel Corporation and

Allegheny Ludlum, LLC, the two domestic producers of grain-oriented electrical steel or, as we'll refer to it, GOES, G-O-E-S. We're also appearing on behalf of the United Steel Workers, which represents workers engaged in the production of GOES at Allegheny Ludlum.

GOES is a product with which the Commission is familiar. The domestic industry petitioned for relief from unfairly traded imports of GOES in 1993 and obtained antidumping orders on imports from Japan and Italy and a countervailing duty order on imports from Italy in 1994. Those orders were sustained for an additional five years at the conclusion of the first sunset review in 2001.

Believing that imports of GOES from Japan and Italy were unlikely to be a cause of future material injury, the domestic industry elected not to participate in the second sunset review of those orders and allowed them to expire in March of 2006.

Unfortunately, the combination of significant excess global capacity to produce GOES, a modest recovery of the housing and construction markets in the United States relative to other major economies and foreign producers' determination to sell GOES at extremely low prices in the U.S. market have combined to once again materially injure the domestic

producers and their employees.

Although imports from Japan and Italy were a past source of material injury, the picture today is more complicated. The petition filed with the Commission on September 18 seeks relief from dumped and subsidized imports of GOES from China, as well as dumped imports of GOES from the Czech Republic, Germany, Japan, South Korea, Poland and Russia. Imports from the seven subject countries account for a significant share of the U.S. market, and their cumulated volume increased both between 2010 and 2012 and during the more recent interim periods.

Despite U.S. demand for GOES being generally flat from 2011 to 2012, subject producers were able to increase their exports to the U.S. by aggressively underselling U.S. producers. Information available to the Petitioners indicates that U.S. demand picked up somewhat during the first half of 2013, but the volume of aggressively low-priced subject imports also increased, capturing more of the U.S. market, and we'll have more to say in our testimony about what's going on now in the second half of 2013.

In the face of this onslaught of unfairly priced subject imports, AK Steel and Allegheny Ludlum have fought aggressively to maintain their market

shares in the U.S. The domestic producers have drastically dropped their prices, despite increases in their production costs, to try to support the jobs of their employees and maintain reasonable production volumes in their mills. Despite these efforts, the domestic industry is in an unsustainable position with U.S production and employment having deteriorated significantly in 2012 and 2013.

The subject imports have been devastating to both U.S. workers, who have been laid off, and the bottom line of the two U.S. producers. So on behalf of AK, Allegheny and the Steel Workers, we respectfully request relief from unfairly traded imports of GOES from China, the Czech Republic, Germany, Japan, Korea, Poland and Russia that have materially injured the U.S. industry and threaten it with further injury in the imminent future. Thank you.

MR. BISHOP: Opening remarks on behalf of Respondents will be by Christopher Wood, Gibson, Dunn & Crutcher.

MR. WOOD: Good morning, Ms. Chairman. On behalf of Nippon Steel and Sumitomo Metal Corporation, I am Chris Wood from Gibson, Dunn & Crutcher, and I'll be delivering the remarks for Respondents.

We think there are several unique aspects to this case that should compel a negative determination even at this preliminary phase of the investigation. First, let's look at the position of the U.S. industry at the start of the period of investigation in 2010. Very profitable. In fact, it's rare I would say to see this level, even from the public position this level of margins in a flat-rolled steel product.

So profits have declined, and you have to ask yourself. Over the period profits have declined, and you have to ask yourself what's changed in the interim? Well, it's clearly not the imports. The petition's own data shows that the increase in imports that Mr. Hartquist referenced is about 1,300 tons over the span from 2010 to 2012. The volumes have been basically flat, and there's certainly no increase in import penetration in the market. That's also unusual for a new petition.

Let's think about what it means for a minute. I don't think you're going to hear from the domestic industry today about any loss of major customers to subject imports because it hasn't happened. The trends are basically flat. The domestic mills are still very dominant in this market. They have the overwhelming share of the business at

all the major transformer manufacturers in the United States, and that fact hasn't changed at all over the period.

What has changed is the behavior of the U.S. mills themselves specifically in their participation in export markets. In 2010, the CEO of AK Steel said that its international shipments of GOES were more than half of their business, and six month later, in 2011, they cited the highest international sales that they ever had.

So let's pause and think about that too for a moment because this is another unique fact. Can you recall another steel case in which the largest domestic producer was exporting more than half of its production? I've been doing these cases for quite a while. I mean, not as long as Mr. Hartquist, but I've never seen that circumstance before.

Since then, however, the export shipments have fallen dramatically. Just from the public export data available on your website, you can see an enormous drop in exports in 2012 and then again in 2013. The loss of sales in international markets by the U.S. producers over the last two years is tens of thousands of tons, and if you track the performance of the industry against that decline in export shipments

you will see a very close correlation. We'll talk more about that later in our testimony.

But there is at least two important -- very important -- implications that come from this decline in export shipments. First, you obviously can't attribute harm from a loss of export markets to subject imports. It affects not only their production, loss of sales, capacity utilization rates, but also costs as fixed costs are spread over a smaller base of shipments.

Second, and this is important. You have to examine the effect on U.S. pricing of tens of thousands of tons of GOES from domestic producers essentially entering the U.S. market. That's new supply to the U.S. market, and it's that new imbalance in supply that's driving down prices in the U.S. It's certainly not subject imports. Even if you removed every single ton of subject imports from the U.S. market, you would not come close to matching the effect of these tens of thousands of tons that they've lost in their export markets.

So what has happened we think is completely predictable. As the U.S. producers have lost their sales in export markets they've begun to compete extremely aggressively in the United States. They've

cut prices to win business from each other, and in some cases it's worked.

You'll hear later today in our testimony about a big shift that occurred when one transformer manufacturer in the U.S. shifted a large volume of its purchases from one U.S. steel producer to the other, and the natural reaction for the producer that loses business is to go out and aggressively cut its prices to regain business from other customers.

You know, the imports are basically bystanders in this process. You know, the import volumes haven't changed, and collectively the U.S. industry continues to be dominant in its market share and its position with major customers. They are clearly the price leaders here.

So to sum up, there's an extremely weak material injury case. There's no volume case at all because the imports are basically flat, and the largest import source, Japan, supplies mostly a unique product that's not even available from the U.S. industry. The other import sources are all very small and in the case of China basically zero for most of the period of investigation.

Prices have declined, but the trigger for those declines have been the actions of the U.S.

producers themselves. So there's no case here for material injury by reason of subject imports. I see my time is up, so we'll tell you in the afternoon why there is also no threat of material injury to subject imports. Thank you.

MR. BISHOP: Will the first panel, those in support of the imposition of antidumping and countervailing duty orders, please come forward and be seated?

MR. HARTQUIST: Good morning again. Our panel has been seated, and I'm going to go through the list of people who will present affirmative testimony, and then we have a number of other folks who will be available to you during the Q&A portion of today's proceedings.

We're pleased, by the way, that you all are back at work and are grateful for your rescheduling the preliminary conference promptly so that our case can proceed. Thank you for that.

Our affirmative presentation this morning will include four statements. First, Mr. Eric Petersen, Vice President, Sales & Customer Service, at AK Steel and then Ray Polinski, Vice President and General Manager, Grain-Oriented Electrical Steel, at Allegheny Ludlum will present statements on behalf of

their companies.

Then Michael Kerwin, the Director of Georgetown Economic Services, will present economic testimony concerning the devastating impact the unfairly low-priced imports of GOES have had on the domestic industry, and finally my colleague, John Hermann, will present brief legal testimony.

In addition to our affirmative statements, we're joined today by a number of very experienced company officials and others who will be available to respond to your questions. From AK Steel we're joined by Mr. Geoff Pfeiffer, General Manager-Specialty Steel Sales; Mr. Jerry Schoen, Principal Engineer for Product Development & Applications Engineering; Mr. Steve Konstantinidis, Product/Marketing Manager; and Mr. Jeffrey Zackerman, Assistant General Counsel for Commercial Affairs.

From Allegheny Ludlum we're joined by Mr. Ron James, Manager, Sales & Marketing, Grain-Oriented Electrical Steel; Dr. Jim Rakowski, Manager of Grain-Oriented Electrical Steel Product Development; Ms. Jamie Bishop, Commercial and Litigation Counsel; and also my colleagues, Grace Kim and Ben Caryl of Kelley Drye & Warren, and Brad Hudgens of Georgetown Economic Services.

So that concludes our introductions, and I'd like to ask Mr. Petersen to proceed with his statement. Eric?

MR. PETERSEN: Thank you. Good morning. My name is Eric Petersen. I am the Vice President of Sales & Customer Service for AK Steel Corporation. I've worked with AK and its predecessor, Armco, for over 20 years, and during that time I've filled positions of increasing responsibility -- engineering, operations.

I was also the plant manager of our Rockport Works plant, eventually assuming the position of Director of Research, which includes all product lines at AK Steel, including the grain-oriented electrical steel or the GOES as we call it today. More recently I've taken on responsibility for the commercial aspects of our company's sales for GOES. I was the Director of Specialty and International Sales from November of 2012 prior to assuming my current position in July of 2013.

Some background for you. AK Steel is one of the world's largest producers of silicon electrical steels. We are a leading producer of high performance grades of GOES. Our company produces GOES at our manufacturing facilities in Butler, Pennsylvania, and

Zanesville, Ohio.

GOES itself is a flat-rolled specialty steel product. It's sold in sheet or strip form. It's used in the production of large and medium-sized electric power generation and distribution transformers. GOES possesses very unique physical properties that make it particularly suitable for use in transformers.

In particular, due to its chemistry and its special manufacturing process large grains are formed in the steel that are oriented in a direction in which the steel is rolled. This allows it to conduct a magnetic field with a high degree of efficiency. Due to these very unique physical characteristics GOES has superior magnetic properties, and it makes it a high efficient electromagnetic material in both power and distribution transformers compared to other types of steels.

Now, the production of GOES is a unique process, and it uses equipment that is specifically designed and exclusively used for the production of GOES. This production begins with the melting process during which we take scrap, it's melted in either an electric arc furnace or basic oxygen furnace, and this molten steel is then further refined.

We have a number of methods, whether that be

argon oxygen refining, vacuum degassing, advanced ladle treatments. These processes essentially refine the steel's chemistry through the addition of silicon, other ferroalloys and ultimately the reduction of contaminants.

From the melt, next we then continuously cast the steel into slabs, and the slab is either continuously cast or it's cast into ingots and then subsequently hot-rolled. The resulting slabs are then subjected to a hot-rolling process that yields coils, and then the continued process is annealed, pickled, and it undergoes a cold-rolling process that actually reduces the material to its final gauge or its thickness.

After it's cold-rolled, the steel is again annealed for carbon removal, and a magnesium oxide coating, which serves as an insulator, is applied to the steel. The coil is then annealed again at a very high temperature for five to six days, and it's during this annealing process that the large sized, very highly oriented grains that I referred to previously, this is when they are formed.

After the annealing process is completed, excess magnesium oxide -- whatever coating is there -- is removed, and a second coating may be applied. The

coil is then heat-flattened in order to affix the coating to the steel and to eliminate any type of residual stress in the steel to prepare it for use. Both magnesium oxide and any secondary coating provides insulation between the transformer laminations or in-wound core of laps. And finally, if requested by a customer, this master coil may be slit to produce coils with a narrower width.

Foreign producers generally use similar processes to manufacture GOES. Now, AK Steel's precursor company was the first to produce GOES in commercial quantities all the way back in the 1930s. Our company has continued to develop new and improved grades of GOES that improve the efficiency of transformers.

AK Steel manufactures both conventional grades of GOES, which will range from the very thickest gauge, the least efficient, which is called an M6, to the thinnest gauge and a relatively higher efficiency grade, M2. In addition, AK Steel manufactures the high-permeability GOES. This provides superior magnetic permeability and the lowest possible core loss due to its high degree of grain orientation.

The core loss of high-permeability GOES can

be further reduced by various surface treatments. This involves laser scribing, mechanical scribing, electrolytic etching. These all alter the surface of the steel sheet, and it improves the steel's magnetic properties. Now, despite the separate designations, conventional and high-permeability grades of GOES compete with each other. End users of GOES make their purchasing decisions with the objective of minimizing the total owning cost of the transformer.

In determining how to minimize the total owning cost, a transformer manufacturer evaluates a number of factors. These include the cost of the GOES that will be used to construct this transformer, the cost of the electricity that is lost as a result of the relative efficiency of the GOES, as well as the cost of other materials, particularly copper, which is used in constructing the transformer.

Now, based on the interplay of these factors, transformer manufacturers can use either conventional or high-permeability GOES to construct a transformer. Now, just as conventional and high-permeability GOES can be used in building a transformer, so too can domestic and imported GOES. Both domestically produced as well as imported GOES are produced to ASTM or to customer specification, and

as a result the bottom line to purchasers is price.

Producers and exporters in the seven countries covered by our petition have demonstrated their ability and willingness to export large volumes of unfairly low-priced GOES to the United States. This downward pressure on prices is occurring despite increasing production costs. AK Steel has fought very aggressively to maintain our customers, and we have been forced to slash our prices to unsustainably low levels.

Having lost sales in overseas markets to the same producers named in our petition, AK Steel has elected to fight aggressively to maintain our company's market share in our home market. And while this strategy has helped us to maintain our customer base, we are at a point where it is no longer possible to continue to drop our prices to compete with imports.

Pricing in the U.S. market has declined to a point where our company is now confronted by an unavoidable dilemma. If we try to increase our prices to a reasonable level, we will lose sales and market share. Alternatively, if we make further reductions to our pricing in an effort to maintain our market share and to keep our mill running at a reasonable

level, our bottom line will deteriorate further.

Now, while the deteriorating financial condition of our company's GOES operations is a very serious short-run concern, it also has implications for AK Steel's long-term competitiveness. Over the last several years, AK Steel has announced $260 million in investments to strengthen the competitiveness of its specialty steel operations, primarily equipment used to manufacture GOES.

In 2011, we completed the installation of a new 175 ton capacity electric arc furnace, as well as a new ladle metallurgical facility at our Butler Works facility. Due to the rapid deterioration in pricing in the U.S. market as the result of significant volume of unfairly traded imports, substantial capital investments have been postponed.

AK Steel's highly trained workforce and state-of-the-art production equipment and processes give our company the ability to compete with any GOES producer in the world so long as there is a level playing field. Our company, however, cannot compete against unfairly traded imports that are flooding the U.S. market. As a result of dumped and subsidized imports of GOES, we have thus far been unable to realize the full potential of our recent investments

in GOES production capacity and technology.

Every ton of dumped GOES that is being sold in the U.S. market is a ton that is not being produced domestically by the hardworking men and women of AK Steel and Allegheny Ludlum, none of whom should lose their jobs as a result of foreign mills that are selling GOES unfairly in the United States. Every ton that we do produce is being sold for unsustainably low prices due to the unfair competition from foreign subject GOES producers.

On behalf of the workers and the communities that rely on AK Steel's GOES operations, we respectfully request that the Commission hold subject foreign producers accountable and require them to compete in the U.S. market with fair pricing. I would be pleased to respond to any questions you might have at the appropriate time. Thank you very much for your time.

MR. HARTQUIST: Thank you, Eric. We now move to Ray Polinski.

MR. POLINSKI: Good morning. My name is Ray Polinski, and I am the Vice President and General Manager of Grain-Oriented Electrical Steel at Allegheny Ludlum, LLC. I have worked at Allegheny Ludlum for more than 29 years and have been the

general manager for GOES since 2005.

Allegheny Ludlum produces GOES at our manufacturing facilities in Leechburg and Brackenridge, Pennsylvania. We have made significant capital investments to improve manufacturing efficiencies and overall productivity in our GOES facilities. In recent years, however, we have been unable to operate our manufacturing lines at anywhere near the capacity due to competition from unfairly traded imports.

Imports of GOES entering the United States from China, the Czech Republic, Germany, Japan, Korea, Poland and Russia, have increased, capturing sales on the basis of very low and aggressive pricing. These imports seriously hurt our ability to sell GOES in our home market. These imports have been able to make inroads into the U.S. market by selling at very low, dumped prices. As we will document in our brief, import pricing is often at or below our cost of production.

The low prices of these imported products have been very attractive to U.S. purchasers. Since 2010, because of the lower prices offered by foreign producers, we have seen customers shift away from GOES manufactured by our company toward imported GOES.

Unless we lower our pricing to compete with the dumped import prices, we would lose business.

Allegheny Ludlum, like AK Steel and the foreign producers, primarily sells GOES directly to manufacturers of power and distribution transformers. Our company's production of GOES is concentrated on the conventional grades, including Grades M2 through M6, and we are in the process of expanding our product mix to include high-permeability GOES.

We have successfully produced and shipped high-permeability GOES in trial orders to select customers. To increase our production of this product to a large scale commercial basis we would need to make additional capital investments. In light of the current depressed pricing levels for GOES, however, we have been forced to put these investments on hold.

Allegheny Ludlum and AK Steel compete with imports across the full range of GOES products. Both U.S. and foreign producers manufacture GOES to ASTM or proprietary specifications, and thus the domestic and imported products are highly interchangeable. Further, although Allegheny Ludlum currently manufactures only conventional grades of GOES, we often compete against high-permeability products, and end users evaluate the cost of each product relative

to the efficiency standards that must be met in manufacturing the transformer.

Pricing continues to be the main driver for GOES customers in making their supply decisions. Most sales are made through either short- or long-term contracts. However, even long-term contracts provide little security against price volatility as pricing terms may be renegotiated during the life of the contract to reflect current pricing trends.

If imports are available at very low, dumped prices in our market, the overall market prices for GOES will significantly decrease. We are then confronted with the difficult choice of either significantly lowering our prices or risking the loss of our existing customers, including customers with whom we have long-term supply relationships.

This precise situation has confronted us in recent years as the volume of unfairly low-priced imports available from the seven subject countries has increased, causing prices in the U.S. market to plummet. One particularly frustrating effect of the imports is that they have forced us to lower our prices, even as the prices we pay for the materials we consume to produce GOES have increased.

While we have had to deal with increases in

input cost, which we have been unable to recover from our customers, the prices of imports have declined. The consistently low and declining prices of imports subject to this proceeding are irrational and unjustifiable. Apparently the foreign producers are so intent on capturing sales in the United States at our expense that they have not increased their prices to a level that covers their costs.

Allegheny Ludlum has been able to retain sales by reducing our prices to compete with low prices of the dumped imports. The result has been a cost/price squeeze and unacceptable financial results for our GOES business unit. Our company has tried to remain cost competitive with the imports, but despite year-over-year cost reductions has struggled to compete with their low prices. If we try to increase prices to a reasonable level we lose sales and market share. If we cut our prices to capture a sale, our bottom line suffers.

These declining trends are tied directly to the presence of imports subject to this proceeding, despite the demand for GOES having increased moderately since 2010. With relatively healthy demand trends, we should have been able to obtain prices that resulted in reasonable profit levels. Instead, we

have been constantly told by our customers that they have lower cost alternatives by sourcing the same product from foreign producers.

The constant threat of losing sales to imported GOES has eroded our ability to price our products at levels where we have the opportunity to make a reasonable profit. The financial losses that our company has incurred by attempting to stay in this market are not sustainable in the long term. This jeopardizes the long-term viability of U.S. GOES producers. It is vital for the United States to have a strong and reliable domestic supply of GOES because it is the key raw material for our power grid.

We have been told by our customers that the increase of low-priced imports is a direct result of the added capacity in the countries subject to this investigation. For example, China has added so much capacity that countries that have historically supplied the Chinese market such as Japan, Russia and Korea have been forced to find new markets in which to sell their GOES. This has caused an increase in low-priced imports that have resulted in price depression in the U.S. market.

Allegheny Ludlum is committed to remaining a domestic producer of GOES. While we recognize that

there is a place for imports in the market, they must not be sold at unfairly low prices. We are confident that if import relief is provided Allegheny Ludlum can effectively compete and again achieve a healthy return on our operations as we were doing just a few short years ago.

Thank you very much for this opportunity to appear before you this morning. I would be happy to answer your questions at the appropriate time. Thank you.

MR. HARTQUIST: Thank you, Ray. We now move to Mike Kerwin of Georgetown Economic Services.

MR. KERWIN: Good morning. I'm Michael Kerwin of Georgetown Economic Services. This morning I'd like to discuss trends in the subject imports, the material injury suffered by the domestic industry, conditions of competition in the U.S. market for GOES and the threat of further material injury posed by foreign producers in the subject countries.

Given the structure of the domestic industry, some aspects of this discussion will need to be quite general in order to avoid disclosing proprietary information. As shown in our petition, cumulated subject imports of GOES grew from 29.9 thousand short tons in 2010 to 31.2 thousand in 2012.

This represented a 5 percent increase over the period. Over the first six months of 2013 subject import volumes increased again, reaching 15.1 thousand tons as compared to 14.1 thousand in the comparable period of 2012. That amounted to a 7 percent increase.

Imports of GOES are not a new phenomenon in the U.S. market, but the big change over the last several years has been the number of countries that have started to ship to the United States in significant quantities and at low prices. While imports from Japan remained relatively moderate in the years immediately following the revocation of the original antidumping order, they increased in 2009 and then spiked dramatically in 2010.

Since 2010, imports of GOES from the six other subject countries increased significantly. Sources that had traditionally shipped little or no GOES to the United States, such as Poland, the Czech Republic and Korea, suddenly became large players. China, which exported no GOES to the U.S. market as recently as 2009, had become the fourth largest source of imports by 2013.

Stoking this aggressive behavior and focus on the U.S. market are the global economic slowdown, most notably in Europe, and the reduction in export

opportunities as China develops its own indigenous GOES industry and also imposed unfair trade orders on imports of the product.

As these new sources simultaneously expanded their focus on the U.S. market, they did so on the basis of increasingly aggressive prices. Imports from multiple sources competed for the same business and bid down prices to obtain sales volumes. The result has been the numerous examples of sales and revenues lost to subject imports that have been detailed in our petition.

As the subject imports have expanded and increased their price aggression in the U.S. market, there has been a dramatic impact on the domestic industry producing GOES. Domestic industry production, capacity utilization, employment and net sales all declined significantly in the 2010 to '12 period and again in interim 2013. Most significantly, the industry's operating profitability has plummeted and turned to a substantial loss in the interim 2013 period.

The pricing data in the domestic producer questionnaires demonstrate just how dramatic the destructive effects of persistent and deepening underselling of the subject imports have been on the

prices of the domestic producers. And bear in mind that these price declines have occurred during a period of increasing demand for GOES in the U.S. market. They also occurred during a period of rising raw material costs and production costs generally.

In other words, in a period of improving demand, domestic GOES producers saw their prices plunge despite increasing costs. This peculiar fact pattern can only be attributed to the increasing price aggressiveness of the subject imports.

As to the conditions of competition in the U.S. market for GOES, the most important is the structure of the market. GOES is a specialty product that is consumed in a relatively limited number of applications, predominantly power and distribution transformers. For that reason, there are a relatively small number of purchasers of GOES, including producers of transformers, subcontractors of the elements of transformers and processors who serve the needs of transformer manufacturers.

Because of the small number of market participants, purchasers are well aware of the prices being offered by GOES producers, whether domestic or foreign, and are willing to use competing offers to rachet down prices from suppliers.

As imports from a growing number of countries have expanded their presence in the U.S. market, the degree of price competition has increased and purchasers have used this knowledge to achieve price concessions from the U.S. industry. This has proven to be the case whether or not these customers were buying under contracts and whether or not they had a preference to buy from a domestic source.

On the issue of threat, while we do not have full questionnaire responses from all the foreign producers subject to this investigation, we do have ample public information indicating that such producers present a real and imminent threat of further injury to the domestic industry. China now stands as the worlds largest producer of GOES, and its global exports nearly tripled from 2011 to 2012. Similarly, Russia's exports nearly doubled over the same period, and indeed all of the subject countries other than Germany expanded exports of GOES between 2010 and '12.

The available information also shows that subject producers have substantial excess capacity and that many have increased their capacity in recent years. The Polish producer Stalprodukt, for example, increased its GOES capacity by 67 percent in 2010.

Russian producer NLMK is the world's second largest producer of GOES and is developing its capability to produce high-permeability grades. Despite huge global overcapacity currently, NLMK has announced its intention to significantly expand both of its production facilities.

As recently as six years ago, China had just a single producer of GOES, but it now has five. Chinese producer Wuhan maintains its position as the world's largest producer of GOES. China's second largest producer, Baosteel, doubled its capacity with the opening of a new plant in 2012 and then proceeded to install another 100,000 tons of additional capacity in 2013. New entrants in China include Anshan and Shougang in 2011 and Hunan Valin, which is coming onstream this year and is in the process of adding another 100,000 metric tons of capacity by 2015.

As a result of these expansions, China now has far more GOES capacity than any other country, but much of this capacity is understood to be underutilized. And it should be noted that all of these companies have government ownership and that subsidization of the GOES industry by the Chinese Government is widespread, which has allowed many of these capital investments.

In short, as difficult as conditions have been for the domestic industry in recent years, the structure and growth of the industries in the subject countries present a real and imminent threat of far worse conditions if orders are not imposed.

Thank you for allowing me to address you this morning. That concludes my remarks.

MR. HARTQUIST: Thank you, Mike. And we'll conclude with John Hermann.

MR. HERMANN: Good morning. I am John Hermann of Kelley Drye & Warren, and I will conclude our presentation today by briefly addressing two legal issues.

First, the domestic like product. As set forth in the petition, we believe the domestic like product should mirror the scope of the case and be defined to include all grades of GOES, both conventional and high-permeability grades. As the testimony you have heard this morning demonstrates, GOES is a unique product made to precise specifications. Both conventional and high-permeability grades of GOES have similar physical characteristics and the same specific end use -- the manufacture of power and distribution transformers.

Different grades of GOES are interchangeable

to a certain degree with purchasers evaluating different grades of GOES to minimize the total owning costs of a transformer. Those considerations include the following: The cost of the GOES used to construct the transformer, the cost of electricity that is lost in the transformer, which is affected by the relative efficiency of the core steel, and finally the cost of other materials used in manufacturing the transformer.

All GOES is sold through the same channels of distribution direct to end users and to distributors that process the GOES for end users, and GOES is also manufactured on the same production equipment using the same manufacturing processes.

The prices of all domestically produced GOES are in a similar range and support a single like product determination defined as GOES. Such a determination would be consistent with the Commission's findings both in the original investigation concerning GOES from Italy and Japan, as well as the Commission's sunset review of those orders where it found a single like product.

A second legal issue facing the Commission is cumulation. The statutory factors supporting a cumulative analysis are met in this case. Petitions against all seven subject countries were

simultaneously filed, and there is a reasonable overlap of competition among the imports from all seven countries and the domestic product.

Regardless of the producer, GOES is a fungible product. It is sold through the same distribution channels by both the U.S. and subject producers and in the same geographic areas. In addition, GOES from each of the subject countries and from the U.S. industry was simultaneously present in the U.S. market in each year of the period of investigation. Given that each of these factors is met and a reasonable overlap of competition exists, cumulation is mandatory in this case. That concludes our presentation. Thank you.

MR. HARTQUIST: Thank you, John. We're ready for your questions.

MS. DeFILIPPO: Thank you, Mr. Hartquist, and thank you very much to all the members of the panel who have come on short notice. Thank you again for being patient during the shutdown and making arrangements to get here when we finally could open and reschedule.

I do appreciate all of you coming. And I know it's hard to get away from your jobs, but it is really helpful to have the people that know the

industry help us learn better about the industry. So I will turn first to Mr. St. Charles.

MR. ST. CHARLES: Thank you. Excuse me. Thank you, and thank you for coming and sharing your testimony with us today.

Perhaps related to like product, as I was listening I understand that the two domestic producers have somewhat different product mixes. Could you explain the differences in the products you're producing at the two companies?

MR. POLINSKI: Raymond Polinski, Allegheny Ludlum. Yes, Mr. Charles St. Charles. As I prepared in the prepared statement, we produce the conventional grade products, the M2, M3, M4, M5 and M6 grades.

They are, again as I also mentioned though, although we are developing the high-permeability product -- we've been developing it. Dr. Rakowski, who is with us here, has been product development lead for that, and we've been working on that product for three years. We're at the stage now where we have a product that's acceptable, and we've put trial quantities out into the marketplace, as I mentioned.

So that's the one piece of the puzzle we're still working on. We'd like to with the aid of the Commission to be able to make the final investments.

As I mentioned, if we don't have the situation where we're injured and we can get some price recovery we can make some investments and bring that high-permeability product to the marketplace.

MR. PETERSEN: Eric Petersen, AK Steel. We make the entire grade of products there, so for both the high-permeability products, H0, H1, H2, as well as the conventional grades that Mr. Polinski just mentioned, M2 through M6, we produce.

So the only distinction would be that we have been producing the high-permeability grades for a number of years, but, as Ray said, they are now coming into the market in that grade as well.

MR. ST. CHARLES: Thank you. The Respondents gave us a preview of what we can expect to hear this afternoon when they testify. They say the problem is competition between you two companies and not between the imports and the domestic producers. What do you think of that?

MR. PETERSEN: Eric Petersen, AK Steel. We have been in the U.S. competing with this product since I believe we said the 1930s in regards to the competition side, and Mr. Polinski can state how long they have been competing.

So the two companies competing against one

another is not new. That's been going on for the U.S. for a long time. The issue is certainly not one associated with our two companies competing against one another or else we would have seen this issue previously, in my opinion.

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Again, we've been producing this product from back in it was early in the '40s and the '50s, so for a long time as well, and there have been two domestic producers for the product and for the majority of that time over that long span our companies have not been injured. We've been able to make an adequate return.

The few times that we were injured back in '92, '93, it was dumping occurring and there's dumping occurring currently. Thank you.

MR. PETERSEN: Eric Petersen. If I may add to that? The product that we talked about that we have a history in, the high-permeability that Allegheny has not entered into, we have been the only supplier of that during this period of time and we see the same issue associated with the prices dramatically dropping in that product, and ATI is not competing against us in that product.

MR. ST. CHARLES: Which of the subject countries do compete with you in that product?

MR. PETERSEN: China, Korea, Japan.

MR. ST. CHARLES: In the opening statement of Respondents they also note that your problems really have been related to your export fluctuations or changes in the percentage of your sales that are going to exports or the volume that's going to exports. Do you have any comment on that?

While you're here, we'd like to hear your response to as many of what we're likely to hear in the afternoon as possible.

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Again, the whole export situation, as the panel may be aware or may not be aware. I'm sure you are.

But back in 2009, China, the largest market for grain-oriented electrical steel, had filed a dumping action of their own against Russia and the U.S., which it was unjustified, and recently the World Trade Organization has ruled that their actions were inconsistent with the rules of the World Trade Organization. So obviously when the largest market that consumes about half of the GOES, a growing market that consumes half of the GOES in the world, shuts their doors it creates issues.

As mentioned in my statements as well, some

of the countries -- Korea, Japan and Russia -- that were huge suppliers to China, because not only did they file the unjust case against the Russian producers and the U.S. producers in 2009; it's been reported to us by global customers that they have told other countries -- Japan and Korea, the suppliers there -- if you don't take your product elsewhere we'll file action there as well and so now those products cannot be sold in China and then they find their way into the United States.

MR. HARTQUIST: If I can comment further on that, Mr. St. Charles? With respect to ATI's situation, Allegheny Ludlum's share of the Chinese market was very small. They were essentially a supplier, an excess supplier.

When the Chinese industry had not ramped up to the levels that it is today, they needed more material and they would call Allegheny and they would say we need some tonnage from you because we can't get enough from our other suppliers. Can you supply X number of tons? And here's the price. Take it or leave it. That's the way it worked.

So while the loss of that market, because of this case which Mr. Polinski indicated has been appealed successfully by the U.S. Government to the

WTO, was unfortunate, don't buy the Respondents' strategy here of trying to divert attention from the U.S. market to what's happening in markets like China. It's just not a major factor in terms of the financial condition of the U.S. at least of Allegheny Ludlum.

Mr. Petersen?

MR. PETERSEN: Eric Petersen, AK Steel. The comment that I would also add in regards to the Respondents' points that were made this morning is that there has not been a shift in taking the export products of AK Steel and putting those into the markets here within the U.S. There has been a reduction in capacity within AK Steel.

Mr. Kerwin talked about the significant issues associated with overcapacity within the marketplace and rattled off a number of statistics that are very relevant. All those points really played a major role associated with what we've seen outside of the U.S. and now present, as he mentioned, the very real and imminent threat of far worse conditions here within the U.S.

MR. ST. CHARLES: And as I recall, another point raised by Mr. Wood in the opening statement was that the volume we're talking about, the increase in the volume, doesn't look particularly significant and

therefore any injury that the industry is suffering is at least not a result of this volume effect. What would you say in response to that? I heard Mr. Kerwin describe the volume trends.

MR. KERWIN: I'm itching to hit my microphone button here, Mr. St. Charles. I think that one of the things that's shown in the information is that there was a significant import presence right from the beginning of the POI, so to put this in some kind of context you might not have seen the same dramatic increase that you may see in some other cases, but at the beginning of the period of investigation the imports were already commanding a very significant share of the U.S. market.

The volume did increase, and a significant change over the period was just the number of countries that chose to either begin to ship to the United States or to significantly increase their shipments to the United States, so as the situation became one in which more and more competitors were entering the U.S. market and bidding each other down on price as they were pushed out of markets such as China or facing a very stagnant European market, there was an incentive to make increased sales here and to do that on the basis of falling prices.

MR. PETERSEN: Eric Petersen, AK Steel. I think the emphasis, as Mr. Kerwin made the comment, upon AK Steel and certainly our industry is one point, and that's really pricing. Pricing continues to deteriorate in a market where we see relatively improved demand over the timeframe that we've talked about, as well as increased raw material or increased input costs, but yet pricing continues to make dramatic decreases.

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Just to reiterate is the reason the volume hasn't -- it has increased 5, 7 percent, but the reason it hasn't increased dramatically is we've had to react with very low prices to prevent that. That's the only way we can maintain our market share.

If you look at the data through the years, it's growing as a trend. Sometimes it's choppy for one country. It's up and down. That's because in one year one of the countries would bring a dumped price in, take some market share, and then the U.S. industry the following year would have to react with much lower prices to get that market share back.

It's all about pricing. The only way to keep the volume at bay and still growing is we have to continue to lower our prices to unsustainable levels.

Thank you.

MR. ST. CHARLES: Thank you. I have no further questions.

MS. DeFILIPPO: Thank you, Mr. St. Charles. We'll now turn to our economist. Mr. Fetzer.

MR. FETZER: Thank you, and I would like to just thank everyone for coming here this morning and helping share this industry. It's a new product for me so I might ask some stupid questions, so please excuse me on that.

I wanted to talk a little bit about how prices are negotiated. Mr. Polinski, you talked about the fact that there is predominantly short-term contracts, but that they can be renegotiated, and I just wanted to get a sense of are these short-term contracts typically formally renegotiated or are there clauses in them that maybe kick in given changes in market conditions, or does it really vary by customer?

And, Mr. Petersen, if you have any comments on it too I'd appreciate your input.

MR. POLINSKI: Raymond Polinski, Allegheny Ludlum. In the U.S. market, typically for our large consumers they're annual, annual contracts. Sometimes it can be longer than that. There have been some contracts that -- you know, the typical was annual,

but there are some that have been three years or longer. So for the annual ones it's every year around when the third, fourth quarter of the prior year you're bidding on the business for the following year.

Some of the longer term contracts, as I mentioned, there are price collars and provisions within it so you would have a commitment for some volume for the next year, but the pricing is typically renegotiated on an annual basis.

MR. HARTQUIST: During the one-year period?

MR. POLINSKI: Well again, there are some. As I said, we have some. As I say, the one-year contracts, again those prices for one year are somewhat firm, but then we have other customers that do buy on a quarterly, and then there are some customers that don't have contracts that buy on a quarterly basis, and certainly that price, it changes quarterly throughout the year.

MR. FETZER: And how prevalent is that, because you said I think the short-term contracts were the major. Can you give a sense of, I mean, is that half or 25 percent or something?

MR. POLINSKI: For our business, the short-term business today is -- and I'm just doing the math in my head here. Is that something that I can --

MR. FETZER: You can file it confidentially if you want. You don't have to --

MR. HUDGENS: I'm sure that information is in the questionnaire.

MR. FETZER: Sure. Okay. Well, I wanted to get just a sense of this, the price dynamic of contracts being renegotiated. I mean, I didn't want you to give necessarily all the details that you have in the questionnaire, but just to get a sense of it.

Mr. Petersen?

MR. PETERSEN: Eric Petersen, AK Steel. Annual contracts. A very limited amount that's not within the annual contracts. We're just guessing. Easily less than 5 percent. So it's really an annual contract.

MR. FETZER: Okay. Thanks. Thank you. I appreciate that. Raw material costs. Is the price fixed on the annual contracts? I think that's in the questionnaire.

Raw material costs. I think, Mr. Petersen, you said that raw material costs are going up. Taking a look at the questionnaires, some of the importers have indicated that maybe they're fluctuating or going down. I can only guess that they're looking at different proxies for raw material costs.

So what should we be looking at when we're looking at raw material costs for this industry? Should we be looking at iron scrap and ferrosilicon? Should we be looking at hot-rolled and electricity? You know, if we want to just get a sense of what are the main raw materials here, what would be the best measures to look at?

MR. PETERSEN: Eric Petersen, AK Steel. Thank you. Really electricity is one of the things we have seen as one of the most dramatic increases of course. Then of course the raw material inputs associated with iron scrap, ferroalloys, et cetera, but electricity has been a major driver.

MR. FETZER: Mr. Polinski?

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Again, this is in addition to what Eric has mentioned. He talked about in his initial statements about MGO powder, magnesium oxide. It's a very high purity, very specialized powder that we have to put on our product. Those prices have been rising year over year.

A lot of the other coatings we have to put on for insulation, phosphoric acid and base coatings and things like that, so there's plenty of raw material prices that are rising every year.

MR. FETZER: Okay. In terms of do you -- and you can answer confidentially if you want, but do you have any type of raw material surcharges? If you do, like how do they work in terms of how do you measure them? Do you link them to a particular type of cost like electricity or iron scrap or ferrosilicon? And that's something you can answer confidentially if you want.

MR. PETERSEN: Eric Petersen, AK Steel. We can mention that yes, there are some surcharge mechanisms within the pricing and so I'll just leave it to simply state that we do have that.

MR. FETZER: Okay.

MR. PETERSEN: We can provide more detail in the postconference briefing if that's necessary.

MR. FETZER: Yes. I appreciate that. Thank you.

MR. PETERSEN: Certainly.

MR. FETZER: Mr. Polinski?

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Yes, we have a surcharge mechanism, and we can elaborate on it if required in the postconference brief.

MR. FETZER: I think that would be very helpful, especially since raw material costs seem to

be an important issue.

I think you mentioned that even though you sell conventional GOES that there's competition from high permeability GOES, and I just want to get a sense of that. I've been having a little trouble seeing how least -- I could see where there might be competition, but are prices really comparable? Because my understanding of this, and I don't know much about this product, is that the high permeability is going to have less electricity loss, so it's going to be, you know, higher quality if you will or be higher performance, so how is it competing?

Is it competing at different price levels that are comparable given the loss of electricity, or how is that kind of -- is there a way to measure that? Or if we're looking, how would we see competition from high permeability products? Because I assume they would be higher priced.

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Yeah, they are interchangeable. I mean, when we go to a customer and we're talking about, you know, to acquire business for the next year or the next quarter for an application, they say, hey, I can use high permeability steel, .27 millimeter high permeability, or I can use .27 millimeter

conventional, or I could use point, you know, M3. I mean, so, you know, so like, well, maybe our M3 grade might compete with their .27 millimeter, our thinner.

They're used interchangeably, and ultimately it's a price performance, you know, comparison the customer has to make, but ultimately it's the price of the product that determines the sale in conjunction with the performance of the material.

MR. FETZER: Thank you. Mr. Petersen?

MR. PETERSEN: If I may, Mr. Fetzer. Eric Petersen, AK Steel. There's a feature called relative worth of these products and Mr. Jerry Schoen, our technical expert, I think could give a quick understanding, because what you're looking for is really how can these products be interchangeable, and they really are from a pricing perspective.

MR. SCHOEN: Jerry Schoen, AK Steel. We provide core loss data and user catalogs on the website with great detail in it on the core loss versus magnetic induction data. Transformer manufacturers take this data, they enter it into their design models. The design models very quickly compute the value of the material and optimize the transformer to meet whatever efficiency specification is provided.

So it calculates the amount of core steel,

the amount of conductor material, be it copper or aluminum, the size, weight of the transformer, the tank size, very quickly. These are all very standardized modeling programs. And they very quickly can arrive at what is the steel worth to them compared to another grade of steel. We call that relative worth from our end. A high permeability steel has lower loss, it's more expensive to make, it can be sold at a higher price against a standard grade.

MR. PETERSEN: It's really that you could use any of the different types of steel, though you may have one that's a higher quality and it should be at a higher price. But if you have one that is a lower quality, but if it's at a low enough price, although you may have to buy more of it, cost-wise you can end up still being favorable to a lower quality steel because of that price impact. They're interchangeable.

MR. FETZER: So is it that you have a price and then you have this core loss data attached to the price? But it sounds like not something that I could just look at and figure out they're comparable. It sounds like the purchaser would depend on what their cost structure would be and how they're going to use it. Is that accurate?

MR. PETERSEN: Yes, sir, that is correct. So based upon the type of transformer they're designing, the efficiency standards, the capabilities of the transformer, you have a range of products you could use that you can then consider what the core loss is of that product versus the price and figure out the best ratio of that core loss to determine the overall lowest own cost of the transformer.

MR. FETZER: Okay. That's helpful. And just out of curiosity, I know there's lots of different types of transformers, but how long do these usually last? Because I think that's probably going to be a big variable here in terms of, you know, if the transformer lasts for a longer period of time, then the energy loss is going to be much more important than if it's a short period. Does it vary a lot or is there a sort of a typical age of the transformer? I don't know if there's somebody here who can --

MR. PETERSEN: Eric Petersen, AK Steel. Distribution transformers are typically looking at about a 40 year life, 4-0.

MR. SCHOEN: Their design life is 20 years. That's accepted minimum.

MR. FETZER: Okay.

MR. PETERSEN: But typically within the field you'll see utility companies change the amount, go to that life about a 40-year type window.

MR. FETZER: So I think that means the energy loss could be, you know, very expensive over time.

MR. PETERSEN: Absolutely.

MR. FETZER: Yeah. Thank you. That's very helpful. I mean, and I don't know if you can answer this, but how typical is in the marketplace, in any kind of competition, whether it's a domestic on domestic or domestic/import, where you'd see conventional, different grades competing with each other? Is it everywhere, is it pretty much in all transactions, or is it just you see it occasionally? Because I'm thinking how are we comparing prices in terms of transactions, you know, if it's hard to really pin it down without knowing what the customer's needs are or their cost structure.

MR. SCHOEN: Jerry Schoen with AK Steel. In the medium voltage distribution transformers, the high permeability and conventional GOES types compete together continuously and they're interchangeable.

As you get up to the larger and larger power transformers, the really colossal one, the high

permeability steels then take over because they have particular advantages for those designs over the conventional ones.

MR. PETERSEN: So there is some distinction based upon the type of transformer. So your typical distribution transformers, which you'll see outside of a home, a can hanging on a pole, very easily competable in regards to those products. As you get into the larger transformer, power transformers at utility companies, that's where you really look at then that much higher efficiency, high B type products.

MR. FETZER: And generally do you know how large those market segments are?

MR. PETERSEN: Yeah. Roughly 70 percent of the U.S. market is the distribution transformers.

MR. FETZER: The bigger ones you mean.

MR. PETERSEN: The smaller ones.

MR. FETZER: The smaller ones.

MR. PETERSEN: The ones hanging on your home or on a concrete pad outside of a apartment building.

MR. FETZER: Okay. And then 30 percent on the higher.

MR. PETERSEN: Yeah. I think it's actually closer to 25, and then there's 5 percent that is like

the low voltage if I remember the numbers right. Seventy percent distribution transformers, 25 percent power, 5 percent dry type transformers. Rough numbers.

MR. FETZER: Okay. Thanks.

Mr. Polinski?

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Just to build on that, you know, we service all the way up through even the medium power. We don't have the high permeability. Only a trial basis.

We don't get to the very large, we don't supply the large power, so we're supplying, you know, with the 70 percent in the medium, up to the medium power. So we're supplying maybe 80 percent of the market and constantly our conventional products are being substituted I mean continuously, all the time with high permeability in that large segment of the market. I mean, they are interchangeable and they make a perfectly fine transformer for our conventional product.

MR. FETZER: I mean, without knowing the customer's model, you know, costs exactly, can you just looking at a price and a loss kind of roughly gauge how much the equivalent, you know, value of it is? I mean, it might not be perfect, and does that

vary a lot by customer maybe?

MR. PETERSEN: The answer is yes. There's actually extensive programs that look at the different quality of the steel versus pricing and then you can see based upon that quality and pricing what the next quality's price should be relative to that one, relative to that product.

Sometimes I've tried to explain this in a manner to people that aren't familiar with it, if you think of a conventional type of steel in regards to carrying a load, you may have a very high strength steel that only needs I'm going to say a one inch bar that could suspend a load, but yet you could also if you wanted to get a lower strength bar and instead of having it one inch, you might have three one inch bars. It could still hang that same load.

At the end of the day, whether you purchase that single, one inch, high strength bar or whether you purchase those three lower strength bars to suspend that load is really going to be dependent upon the cost of the single bar versus the cost of the three lower strength bars.

It's kind of the same principle in regards to electrical steel, that you can use a higher efficiency steel, a very low loss steel at a higher

expense, or you can use a greater quantity of a lower quality steel. If that lower quality steel is priced such that it's low enough that its relative worth is equivalent or better than the higher quality steel, you can substitute them.

Just as I could hang a load and suspend it with a single bar or with three bars depending upon the cost of that single bar or those three helps me make my decision for my engineering solution.

MR. FETZER: Mr. Polinski?

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. The high permeability steel, and I know this is new to you, so at the higher inductions where you really drive it, at like 1.7 Tesla, the high inductions for the power business, that's where it has an advantage in losses.

A lot of the distribution transformers are designed in like the 1.5 Tesla range. That's where the difference between conventional -- from a core loss standpoint, I mean, the differences are much smaller.

As I say, we are faced with customers constantly making the decision between, you know, high perm and conventional interchangeable. And it's all about their -- as, you know, Jerry mentioned, they

have the optimization programs and they put the losses and the prices in, and it depends on the price of copper, how other things move, because the transformer has copper, aluminum in it. But all the time conventional competes directly with high perm and it's interchangeable.

MR. FETZER: Okay. It does sound like it's not something I could see necessarily looking at it. I'd have to have one of these programs to figure it out. But if you have the program -- it sounds kind of like, reminds me of like shopping for a mortgage, you know? You're looking at different rates and, you know, terms and there's different factors. But, yeah, if you have the right program, you can probably figure it all out. But okay.

Let's move on to demand. So I believe someone said that demand is going up, or maybe representatives for both companies said demand is going up. Looking at the questionnaires, it looks like some of the importers are saying that demand is going down. But it seems like everybody is looking at the same stuff. It seems like, you know, looking at housing, construction, so it might, you know -- and I think, you know, it was funny looking at the responses. It was kind of like, well, the economy's

weakly growing, so that means demand's down, it's going up. It could be two different ways of looking at it.

But are there things we should be looking at, like housing starts or anything in the energy sector, particular data that we could go and get, public data, that would tell us about demand? Or what do you look at when you're looking at demand?

MR. PETERSON: I'm going to have Geoff Pfeiffer, our Manager of Sales, go ahead and field this question for you.

MR. PFEIFFER: Hello. Geoff Pfeiffer with AK Steel. We are obviously constantly given this question being that we're a public company, and we're looking at this data quite often, and you're right.

The housing starts that you see, the housing start index that you look, that you hear about, which this year will be about a million, close to a million units, that is what is the biggest driver in the new transformer market, which is new transformers that are placed on the grid. There is a multifamily versus a single-family or apartment building versus single-family component of that. That is one driver of demand.

The second driver of demand is the

replacement market, which you talked about earlier, how long is the life span, being 40 years. So there is data that the utilities have on the amount of the transformers on their grid that they need to replace because they've reached a certain life span or they're failing.

So two different demand drivers. The one that you can most publicly see is the new construction or housing starts.

MR. FETZER: Is there any way to measure the replacement market? Anything out there? Data?

MR. PFEIFFER: We've seen data in the past. There have been some models by insurance companies and others that they have to know that information. It in general grows on average about 3 percent per year. Because the age of the infrastructure of the grid is at a -- most of the grid was put in and most of the infrastructure in the 1970s, so it's reached a point where there is a decent small increase in replacement rate of 3 percent.

MR. PETERSEN: We've actually done some modeling on that and it's been previously submitted to the Department of Energy, and so if that's something that you would want to see, we could show them to you.

MR. FETZER: Yes. That would be really,

that would be helpful. In terms of the replacement market, what share is that? I assume that's a smaller share than the new market, or is it --

MR. PFEIFFER: The replacement market depends on the total market. The current market right now we would guesstimate to be 65 to 70 percent of the market is distribution.

MR. FETZER: Distribution. But that varies, that can vary from year to year?

MR. PFEIFFER: It depends on your -- we talked about the housing starts being a million housing starts. If that was a much bigger number, if there was more construction going on, then there would be a different percentage obviously. The replacement is pretty consistent as to what to expect when it comes to replacing those 40-year-old transformers. But as far as -- it's right now 65 percent.

MR. FETZER: Okay. Thanks.

MR. POLINSKI: Ray Polinski, Allegheny. Just to build on that, again, just so to help the Committee, the older transformers, the 40-year-old ones, are typically your pole type, your above ground utilities, and so that's a very high -- other than rural areas today, you're putting underground utilities.

So you have the pad mounts that you see in our developments, the boxes or the underground, and so that's tied to new construction, as was pointed out. The pole type is a very high percentage of replacement because other than a rural area, you're going to the underground utilities.

Other things that -- you know, housing starts is a key. Certainly the last -- through the period of investigation, housing starts have improved year over year through the period of investigation. When you build a new house, you build a couple of houses, you need a transformer, you know, to power that home. So that's why we show the increase in demand driven by that.

Also, wind farms, new generation wind power, solar power. Anytime you're generating, be it coal fire, be it the new technologies, the renewables, you need a transformer in there to, you know, get the energy, the electricity headed toward the user. So those are other markets that are growing that are, you know, bringing on some demand for grain-oriented.

MR. FETZER: Okay. Thank you. Any measures of demand that you have you can include in your postconference brief. Even if they're proprietary, we can treat them as confidential just to get a sense of,

you know, what's driving demand in this market.

Substitutes. So looking at the questionnaire responses, it looked like the biggest substitute was amorphous steel but that it didn't really have an effect, too much of an effect on price for GOES. And then also a couple companies mentioned NOES, which they said did affect prices for GOES.

So, in particular, on either those or any other substitutes, is NOES a substitute? Is amorphous steel a substitute? And even if they are a substitute, how much do they really impact the market? Is it just a technical substitution? Does it really happen? You know, the prices, are the prices correlated between those potential substitute products?

MR. POLINSKI: Ray Polinski, Allegheny. AK and Allegheny, we were both members of a Department of Energy 24 member committee that just talked about transformer standards. We were down here two years ago meeting many times with the Department of Energy. So there's a lot of information that we put together with the Department of Energy and Navigant Consulting that talked about all those dynamics of how amorphous compares to grain-oriented and at one part how's the non-oriented.

So I think we could, you know -- and Jim, Dr. Jim Rakowski was working with me on that -- I think we could just pull some of that information together with DOE information and I think it would answer a lot of your questions if that makes sense.

MR. FETZER: No, that would be helpful. But can you say it? I mean, do you agree that they're substitutes at all?

MR. PETERSEN: If you have an example -- Eric Petersen, AK Steel -- this is non-oriented electrical steel. So, when you talk about a non-oriented electrical steel, it's in transformers that are very small. Something like this, this actually is a very small transformer. We could do, so to speak, a little education on how it's built. The core and the laminations that you can see are something very small. Obviously distribution and power transformers are significantly larger than this.

Higher voltage is a key component, so when you're running at a much higher voltage, you need that grain orientation. So you can use a non-oriented electrical steel in something like this that is extremely low voltage. However, once you get into anything that's on the grid, you're utilizing grain-oriented electrical steel, you're not using

non-oriented.

So to say that they are competing against each other is only in markets like this. What we're talking about today is nothing in regards to tons associated with what grain-oriented goes after.

MR. SCHOEN: Jerry Schoen, AK Steel. The non-oriented steel transformers are used on the user side of the distribution network, not on the generation and distribution side. In your house, this is the kind of a power supply that's used for a GPS system or for a battery charger for your cell phone, for your computer, for inside other electronic devices like televisions and other things. There's a lot of them made, but they're not very efficient.

MR. FETZER: So about what share of the market would that be? I know I already asked you about shares along the --

MR. PETERSEN: Well, I would say that if you're talking about grain-oriented electrical steel versus non-oriented electrical steel, there is such dramatic differences in applications that it's really not a share of the market because they're so completely separate that I wouldn't call it a share of the market because everything that we do is completely different in regards to looking at those markets.

MR. SCHOEN: I should mention they're going away, too. In 2016, the DOE will pass regulations that will move all of these low voltage transformers away from non-oriented because they're so inefficient.

MR. FETZER: Okay. So there's a small overlap right now? I mean, I'm just looking for applications where both NOES and GOES would be.

MR. SCHOEN: There's small overlap in the low voltage transformer market but not in the sector that we're talking about in the power and distribution network.

MR. FETZER: Okay. But how big is that? Like low voltage, is that --

MR. SCHOEN: About 10 percent to 15 percent of the total market in distribution. There's a lot of these little transformers --

MR. FETZER: For GOES.

MR. SCHOEN: Yeah. For NOES. Yeah.

MR. FETZER: What share of the market is it for GOES, though? I mean, how much GOES goes into, how much grain-oriented steel goes into the market for these small transformers?

MR. SCHOEN: Right now it's probably about 30 percent.

MR. FETZER: Thirty percent?

MR. SCHOEN: After the DOE rules go into effect it will be about 90 percent.

MR. FETZER: I'm sorry. It will be 90 percent?

MR. SCHOEN: Ninety percent.

MR. FETZER: Okay. Because you won't be able to use NOES then, right?

MR. SCHOEN: They're very inefficient transformers, they barely meet requirements today, and the requirements will be raised and it will make non-oriented, NOES steels, unusable.

MR. FETZER: Okay.

MR. PETERSEN: I think again, because we've got such distinct products here that we're talking about, we can kind of get convoluted. It might be best within a postconference briefing if we try to lay out a little bit more for you what those markets are, the type of product, and then where they're at so there's not some confusion there.

MR. FETZER: Okay. Thanks. I appreciate that. What is amorphous steel, by the way?

MR. POLINSKI: Ray Polinski, Allegheny. Amorphous steel is a product that's produced by, there's one Japanese company that produces this product, and it's a very thin glass. I tell you what.

The better person to talk about it, I'm going to pass this to Dr. Rakowski. He forgot more about amorphous than I know, so I'll pass it to him.

MR. RAKOWSKI: Jim Rakowski, Allegheny Ludlum. Amorphous metal is a distinct material. Other than superficially in terms of the elements that go into it, it is not very similar to GOES. As Dr. Petersen laid out, GOES is produced by like a steel making process where you melt and you cast extremely large, 10-, 15-ton sections, and roll them on heavy equipment.

Amorphous metal is metal that in its molten state you add particular elements to it that slow down the crystallization during solidification. So instead of being a crystal and metal, which is, you know, the vast majority of all metals that exist, you get a glassy material. It's like a frozen liquid that does not have any regular atomic structure. The elements are arranged, the atoms are arranged more or less randomly. So it's a metallic glass. It's produced by rapid solidification.

So, when we make our steel, it's poured into molds or run through a caster and it cools slowly, over the matter of minutes to hours. This is cooled at hundreds of thousands of degrees per second. So it

is pushed out onto either a spinning wheel or a spinning belt that has a very high heat transfer rate so it comes off in a paper thin sheet. And at that point, the material is basically completed.

So it's one step, plus oftentimes it is annealed at a low temperature afterwards. So it's sort of a one step to finish, and, you know, you have a machine that spins this amorphous material out. So it's distinctly different in terms of its production, and then in terms of its use, it can't really be used on the same equipment that is used to produce transformers made out of GOES. Because it is so thin, you can't handle it on the wrapping or stacking machines. So a company that wishes to use an amorphous material as a transformer construction has to have a dedicated production facility for that material to make those transformers.

So it's physically a very different material. It behaves very differently. The transformer designs also are quite different physically and electromagnetically.

MR. POLINSKI: And this is Ray Polinksi, Allegheny. It's a niche product. There is some overlap, just as Jerry pointed out, at the M6, you know, the higher loss end of the grain-oriented

specification, there's a little bit of overlap with NOES.

Now at the low end, at the M2 and the thin, high permeability -- the one thing about amorphous material, it has very low losses, you know? I mean very low losses. But because it's so thin and it's so brittle, it's really not -- you know, the feedback through the DOE is people really, transformer producers really prefer not to have to work with it because it's very delicate and it's very difficult.

But there are some small niche markets where energy costs are very high, when the cost of generation is very high in some region where they say, okay, the total owning cost is so high of this transformer that's going to be designed for 20 years, maybe it will be used for 40 years, we're going to take the extra expense and time, you know, to put, you know -- so there's a niche at the super low loss area where amorphous does have some overlap, to try to explain it.

MR. FETZER: Okay. Thanks. I appreciate that. Looking at interchangeability, I know your position I believe is that GOES produced in the U.S. is interchangeable with imports from the subject countries. That's correct?

MALE VOICE: Yes.

MR. FETZER: Okay. But looking at some of the questionnaire responses, you're probably not surprised many of the importers feel it's only sometimes or frequently interchangeable. So I just wanted to throw out some of the comments that are in there and see if you have any thoughts on that.

There's a mention of having a thinner gauge product. The imports, it's not available. Or domestically, talking about mechanically scribed or laser-scribed material, high frequency material. Also, supposedly a focus on higher grades in the imported material and that U.S. producers can't make product with a thinner wall than a tenth of a millimeter and low loss M6.

So any comment on any of those particular -- I mean, are those products that you produce, can produce? Any thoughts on where their thinking might have been in terms of that?

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. The one product that you mentioned, you know, I think mechanically scribed thin product, our M2 grade, our conventional M2 grade always uses, you know, substitutes for that product that are used interchangeably in many of our customers. Again, we

compete with that. When it's time to make a supply decision, am I going to, you know, it's the lower loss material, and our M2 kind of competes with that.

MR. PETERSEN: Eric Petersen, AK Steel. I think the key point is that, as we've had in much of our discussion here, you can utilize all of these different products within a transformer design. There may be some nuances associated with one product versus another, but they can all be interchangeable within a transformer design.

So, at the end of the day, these products are very interchangeable. It really comes down to the relative worth, the price of the products, that ultimately allows the transformer designer to choose which product they're going to manufacture. And the end of the day, the driving factor is price.

MR. FETZER: Okay. Are you able to make thinner walled product, and if you want --

MR. POLINSKI: Yeah. When you say thinner walled product, can you provide --

MR. FETZER: Well, a tenth of a millimeter.

MR. SCHOEN: Jerry Schoen, AK Steel. Those are typically not used at 60 hertz. We're talking about power frequency applications of 50 and 60 hertz materials. Those very thin materials are typically

being used at 400 or 1,000 hertz.

There's a domestic manufacturer of those materials, Arnold Magnetics or Group Arnold, that makes .1 and, goodness, they make as thin as .02 millimeter material, that buys substrate from us and I believe ATI to make that product.

MR. FETZER: A U.S. producer?

MR. SCHOEN: It is supplied through another company that we supply.

MR. POLINSKI: Ray Polinski, Allegheny. The volume of this, I mean, it's like nothing. It's so small it's, you know, inconsequential.

MR. FETZER: Okay. Just looking for any thoughts on that. That's all of my questions. Thank you very much for indulging me.

MS. DEFILIPPO: Thank you, Mr. Fetzer. You'll save me time because I crossed off a lot of the ones that I had. We seem to be channeling the same ideas.

Mr. Houck, questions for this panel?

MR. HOUCK: Thank you, and thanks to the panel for coming in today. I just have a couple questions. First of all, Canada was the largest nonsubject supplier of GOES in 2012 to the U.S. market. Can you comment on the nature of what that

product is and what the nature of the Canadian GOES industry is if there is one?

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Yeah. We're working on -- there's no home market producer for GOES in Canada so that we're working to understand that. We couldn't address that because it's obviously misclassified data, and so we're trying to determine where that's coming from. The only answer would be there's some trans-shipment of other product because there's no home market producer of GOES in Canada. So that's why we didn't address that.

MR. HOUCK: Have there been any changes in the manufacture of GOES since the previous round of investigations?

MR. PETERSEN: I'm sorry. You're saying new suppliers or?

MR. HOUCK: No. I'm saying have there been any changes in the method of manufacture. I listened pretty carefully to your description of the method of manufacture earlier and it sounded pretty similar, but I wanted to verify that point.

MR. PETERSEN: Within AK Steel we do have some changes in regards to the high permeability grades in regards to its chemistry, some of its

processing. It is -- what would you like to say about that in regards to changes? I mean, yes, we've changed it. I'm not sure how much we want to say about that.

MR. HOUCK: Okay.

MR. PETERSEN: Capital equipment. We've made capital investments associated with that grade.

MR. HOUCK: Okay. That's basically where I was going because I heard Mr. Polinski indicate that in order to move into the high permeability material it was going to require some capital investments, and for the last time, when we had the previous investigation, it seemed like the equipment and whatnot for both products was pretty much the same.

So I'm wondering, perhaps you could mention now or in a confidential brief if that's more pertinent for you, tell us what type of equipment or capital investment would be required on your part and on the part of the importers in order to produce the high perm product.

MR. POLINSKI: Ray Polinski, Allegheny Ludlum. Some of the general things, without getting into anything proprietary, but it's a very good question, but we talk about, you know, we hear about high permeability steel and we talk about laser-

scribing, you know. So you do not laser-scribe conventional material, so we would have to buy, purchase.

You know, Jim's been, Dr. Rakowski's been spearheading this and we've talked to many suppliers and we have quotes for a large facility. It's like a clean room kind of environment where you have to laser-scribe this material. You know, for us, we have to make some investments in annealing, different annealing capacities.

There's different atmospheres that are used for conventional. It's typically -- and this is not proprietary, this is like public information. For conventional grain-oriented, you use 100 percent hydrogen atmosphere for your annealed that develops the grain orientation. And for the high perm it's a nitrogen and hydrogen. You have to switch atmospheres. So we need to make some large furnace investments for high temperature furnaces. We have this all, you know, mapped out and lined up. It's just that currently, unfortunately because of the dumped prices, there's no return on that investment for us to move into the high perm business.

MR. PETERSEN: Eric Petersen, AK Steel. If I can just add to try to reference from your point

that you made back in 1993. At that time, we did not make the full range of high permeability products, particularly in some of the lighter gauges. Today we do the full complement and even lighter than some of the typical grades that are out there, all the way down to .20 millimeters. So, yes, today we produce all of them.

MR. HOUCK: In your testimony, you mentioned the fact of the equipment used to produce GOES was used exclusively for GOES and so forth, but that is not all of the equipment, because certainly the melting and the hot-rolling and whatnot. Could you be more specific about what processes and equipment are used exclusively for grain-oriented steel as opposed to those that are used for a variety of other steel products?

MR. PETERSEN: Very good question. Eric Petersen, AK Steel. We've actually developed a chart that goes through all the different processes, whether it be a cold-rolled carbon steel, a non-oriented electrical steel, a grain-oriented electrical steel, and it helps you identify every processing piece of which ones are used jointly, which ones are used just for non-oriented, which ones are used just for grain-oriented. So I think that because of the complexity

of this process it would be best for us to submit this to you so that you can see what's at stake.

MR. HOUCK: Okay. No, that would be very helpful.

MR. PETERSEN: Certainly.

MR. POLINSKI: Ray Polinski, Allegheny. Sorry. Just, you know, that's the details there, but the simple answer is you're correct, 100 percent. The melt shops, you know, we share melt shops with other specialty products, but the finishing equipment, that's where, you know.

So when you get to, you know, the finishing equipment for this material, which is, you know, of the 20 some steps, it's a very costly product, you know, very difficult product to produce, and the finishing steps, which were probably two-thirds of the operations, that equipment is specific, unique.

In the past, in the years we've tried to find other uses for it, but the equipment is so unique it is only good for producing grain-oriented electrical steel and it has no other use.

MR. HOUCK: Eric Petersen?

MR. HARTQUIST: Well, I think if I'm correct, Eric, I believe you told us that there's something like 26 steps in making grain-oriented

electrical steel and maybe 20 of them are unique to GOES versus other products.

MR. PETERSEN: And if I could -- Eric Petersen, AK Steel -- it's important to point out that international producers of this have the same issue and actually have exclusive plants specifically for grain-oriented electrical steel as well. So they would have issues associated with these specific plants needing to produce product over these lines.

MS. DEFILIPPO: Thank you, Mr. Houck.

Mr. Corkran?

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you all very much for your appearance today. It's been extremely helpful.

A number of the questions that I had have already been covered, but there are a few that I've been going through when I look at things like AK's annual report. One of the things I was wondering about was there's a statement in the 2012 annual report that talks about changes in mix and changes in production requirements to meet evolving quality requirements principally for sales to international market or to the international market.

Can you explain a little bit about are there evolving standards outside the United States that's

affecting your product mix? How extensive is that, to the extent you can address it.

MR. SCHOEN: Jerry Schoen, AK Steel Corporation. Yes, there are a number of countries that have had efficiency standards. The U.S. has largely led the way on that, along with Japan, but Europe is putting in place transformer efficiency standards.

The difference between U.S. transformers and Europe's really are in design. The U.S. transformers, the distribution transformers, are largely this wound and annealed core type. They're highly efficient. A design that's not readily used elsewhere in the world. In Europe, they're typically cut and stacked cores. So you have to have the heat-flattened coated products and especially the high permeability grades to compete in those markets.

They also have very specific transformer noise standards in Europe that we do not have in the United States. High permeability steels again are favored in those designs.

MR. CORKRAN: Thank you. That's very helpful. I was wondering when we heard the earlier discussion on non-oriented electrical steel and the phaseout of the use of NOES in certain applications,

is that also occurring in the international market? Is that part of what's going on too?

MR. SCHOEN: Yes and no. Yes, they are putting transformer efficiency standards in place. No, they never widely used non-oriented in as many places as we did in the States. Energy was more expensive there than here. Different regulatory environment.

MR. CORKRAN: Okay. Thank you very much. That's very helpful. I wonder if you can go into a little more detail on international markets in terms of demand. Again, looking at some of the published material, it seems like there may be a different experience depending on the different markets.

There seems to be an indication that maybe the NAFTA markets have strengthened somewhat but that the European markets and China remain problematic, although that's a general description. I'd welcome any additional information you could provide on that.

MR. PFEIFFER: This is Geoff Pfeiffer. Talking about the different international markets, you're correct. The first thing you said, the NAFTA markets have been steady with a slight increase in demand, as we've talked about, due to a housing slow construction start, but improving.

As far as international markets are concerned, the Chinese market continues to grow, but the capacity in China is outpacing demand by an enormous amount, which is what we've talked about repeatedly here. So the China market is the largest market that is growing, but the capacity far outweighs it, which is why they're becoming an exporter of steel and they are selling steel at lower prices around the world in order to fill that capacity.

As far as demand in Europe, yes, the recession in Europe has caused a decrease in demand in Europe. What has happened is that the Japanese/Korean steel that was going to China when they increased their capacity over demand, then the steel going to China has now gone to Europe, which has gone into an environment that is in a recession.

So Europe is coming out of a recession, as most of us, or at least a lot of people think they're coming out of a recession, so that demand picture should change, but as of right now there are some -- that is the weakest market compared to past history.

MR. POLINSKI: Ray Polinski, Allegheny. Everything that has been said is correct and so, you know, the punchline I guess is that the U.S. market is the most attractive market for GOES at this time

because, you know, it is improving and because of the other issues where China has closed their market, their other markets out there. There are also closed markets where, you know, there were no imports in Russia that we could see or in Japan and some other markets, so the U.S. is the most attractive market for GOES.

MR. CORKRAN: Thank you. That's very helpful. Looking at the NAFTA market, we talked a little bit about Canada because I think we all shared the same sort of confusion over whether or not there was any production in Canada.

Are there slitters or laminators in Canada? Do slitters and laminators play much of a role in either the U.S. or the Canadian or Mexican markets? How do they participate in the market separate and distinct from the transformer manufacturers themself?

MR. PFEIFFER: The Canadian and Mexican markets, how do they play a role in supplying the United States. I think you're asking are there slitters, laminators, cutters. There are, and they are supplying the U.S. market. It is on a relatively small scale as far as distribution is concerned, but yes, they are playing a role.

There is also core making which makes the

core that we see there. They are making that core, which is essentially a solid piece of steel with many laps. So there is that, and that is what distributors on electrical steel do. They will either slit it, they will either cut laminations, or they could make cores that are then supplied to the transformer manufacturers. So there is that ability from Mexico and from Canada, and we think some of that data that we're seeing might be that, but once again, we need to get to the bottom of that.

Transformers are made in Mexico and Canada and supplied to the United States, but I believe your question was on distribution.

MR. CORKRAN: I was primarily interested in the role of slitters.

MR. POLINSKI: Ray Polinski, Allegheny. Sorry. That was a very, you know, good question you asked there about Canada and Mexico. Just for the record, you know, the U.S. producers are very concerned about some slitting and stamping and some what we feel is very low value add.

People can take dumped products into Canada and Mexico, dumped GOES, because there's no home market producer. So they can take dumped pricing into those markets at prices that are very low and they can

add, a person can add, it's a small amount of value, and turn it into a wound core, which is just taking it from a big coil to a smaller coil, and the harmonic code changes and that's some ways for, you know, then dumped product to find its way through those markets.

MR. CORKRAN: Thank you all very much. That does go to some of the questions that I had been wondering about to some of the data that we see and the market characterizations that we've heard.

For Allegheny Ludlum, Mr. Polinski, can you tell me a little bit more about what's driving the desire to invest in high permeability GOES? I mean, the reason why I'm wondering is we heard almost at the outset of the conference that, you know, competition between the two U.S. producers has been a factor in the market for many, many, many years, and that's true, but likewise, that competition has been defined by the various product mixes that in Allegheny Ludlum's case did not include high permeability. What is driving the interest in that market at this time?

MR. POLINSKI: Ray Polinski, Allegheny. Again, really, we want to be a full supplier of the total market material that's required there, and so we've embarked on that, started on that program, as I said earlier, around three years ago. And at that

time, you know, there wasn't the dumping that was occurring in the States. It was just starting at that time. Conditions were better. As I mentioned in my opening comments, we were profitable at that time. And so to grow our business -- and our customers in the States.

As the Department of Energy is pushing standards up, you know, then we wanted to have the offering of high permeability steel because it's an important product that it's growing. That market is growing a little bit, you know, as well. As efficiency standards go up, it's a growing market, and that's why we're investing in that market. We're anxious to, you know, bring that investment forward if we can get some improved pricing.

MR. PETERSEN: If I may add to that, there actually are three new power transformer customers building here within the U.S. and there's one expansion, so there is imports today of power transformers into the U.S., so there is a growing opportunity for power transformer manufacturing within the U.S.

MR. CORKRAN: Okay. My next question may reflect the dangers of having a little bit of knowledge and dated at that. However, we have talked

a bit this morning about competition between conventional and high permeability GOES. One element of that competition that I thought I recalled was that it was most prevalent in moving from one grade to a single grade above or below but that you don't typically experience substitution across a large number of the various M grades. Am I misremembering? Is that still the case? How does that work?

MR. PETERSEN: Yeah. That's actually a good summary. Yes, that's correct. That's very good.

MR. CORKRAN: Okay. It still is the case that, to the extent that competition exists, it is focused in one grade up or down?

MR. PETERSEN: Now the only change I'd make to that is that if you have an extreme price change that would allow you to go beyond just one step. So you could consider more than one step if the relative worth of that lower quality is much lower such that it would be worth a redesign to go to that more than one step quality change.

MR. CORKRAN: I certainly understand that being a possibility in theory. In practice, is that something that you see in the marketplace?

MR. PETERSEN: Yes, we have.

MR. CORKRAN: Okay. Thank you. Can you

tell me a little bit more about domain-refined high permeability? You gave a very good overview on the production process. Can you tell me a little bit more about why that's particularly desirable?

MR. PETERSEN: It is a surface treatment that improves the core loss by as much as 10 percent in high permeability steel, electrical steel. So it is a methodology by which you can improve the core loss to a greater degree.

MR. CORKRAN: I think for the most part that takes care of the questions that I had, although I'll probably urge you to do something that you were probably going to do anyway, which is to continue to look at the argument that changes in the volume of exports are having a large effect on overall electrical steel operations in the United States, though I know that you'll already be looking at that, so thank you very much.

MS. DEFILIPPO: We'll turn back to Mr. Fetzer, or did you have something first before --

MR. ST. CHARLES: I have something too, yeah.

MS. DEFILIPPO: Well, then we'll go to Mr. St. Charles, Mr. Fetzer, and back to me if I have any left after that.

MR. ST. CHARLES: Mine is for Mr. Hermann. Thank you for your presentation on domestic like product and cumulation. We've heard testimony and answers to questions that relate to that. I would be grateful if in your postconference you could elaborate on each of the statutory factors for those two beyond what your original testimony included.

MR. HERMANN: Sure. Certainly. We'd be happy to do that.

MR. ST. CHARLES: Thank you. That's all.

MR. FETZER: Thank you.

Mr. Petersen and Mr. Polinski, just one thing I'm sort of struggling with going back to the substitutability between high permeability and conventional grades, I think, Mr. Petersen, you said they're, you know, substitutable and just it depends on how you design your process, you use it, but on the other hand, both of you seem to desire to have a large product range too, so does that mean that there's some limits to the substitutability? I just want to get a sense of that. I think there's substitutability maybe, but, you know, maybe there's costs to just producing one or a couple different products, so is there a way you could reconcile those two?

MR. PETERSEN: Let me try. Eric Petersen,

AK Steel. We've talked about two different type of transformers: power transformers, distribution transformers. Distribution transformers is where you would see the majority of that interchangeability between a conventional grade and a high permeability grade. Power transformers, much larger size, much higher voltage. That is where you will see very minimal, if any, real interchangeability because of the very large size, extreme voltages that you're dealing with where you would utilize high permeability grades.

And as I mentioned, you have three new power transformer manufacturers moving into the U.S., one of them expanding. That's part of the business justification associated with expanding and looking at more opportunities in high B. Does that help?

MR. FETZER: That's helpful, yes. Thanks. But if you could think of anything else because it just seems like you have very large product lines and even in that, even where there is, in this market segment where there is substitutability and distribution, right, it just seems if there's so much substitutability you would think that maybe you would specialize, you know, economies of scale in a couple particular grades. And why have a wide product range

if really it -- unless there's some other limitations that are there.

MR. SCHOEN: If you look -- and this is in our filings -- our investment plan was moving away from the M4, 5, 6 grades because federal efficiency standards for those distribution transformers are ever going up.

At this point in time, the distribution transformer market, really, nothing is going into -- you know, when I say regulated transformers, that's 95 percent of those distribution transformers. You can't use anything really better than an M4 unless it's extremely inexpensive material and you could design a very unusual, you know, cost minimized transformer.

The federal standards moved everything really to move to M3 or better, which would be M3, M2 conventional type and H1 to H0 high permeability types.

So, to your point, the market, it should be more organized; however, the low priced M4s and things like that have altered that landscape significantly, and then you see the same thing. It's there's substitutability. So, yes, it was not the intention of the rulemaking to have this chaotic a market.

MR. FETZER: So that's why the product -- is

that why you strive -- what's the motivation for the large product range? Because of that? Because you have to serve these different regulations?

MR. SCHOEN: Well, at this point in time, that part of the market is regulated. Then you go into small power transformers which are not regulated, medium power transformers that are not yet regulated, and the large power transformers. So there's a lot of market segments where there is a tremendous amount of substitutability as well over and above distribution.

It's -- oh, goodness. There's about 5,000 different types of transformers out there in our system today and each one, only a fraction of them are actually being regulated at this time. So there's a lot of applications for the lower value, higher loss materials available to us, so we continue to try to make and manufacture those grades, but our mix is moving towards an ever larger proportion of the lower loss steels.

MR. FETZER: Okay. Thank you.

MS. DEFILIPPO: Thank you, Mr. Fetzer. I just have a couple things if I can read through my scratched out notes.

Mr. Petersen, I think earlier you had noted a number of the subject countries that do produce the

high permeability, but am I correct that it's not all that -- well, I guess produce and/or export.

MR. PETERSEN: We have China, Korea, Japan that produce the high permeability, and actually Germany that produce the high permeability. And wasn't there some comment about some investment efforts by Poland and Russia to move into those grades as well.

MS. DEFILIPPO: Okay. That was my next question was was there any other knowledge of subject countries moving towards that.

MR. PETERSEN: Making capital investments, move into it. Yes, ma'am.

MS. DEFILIPPO: Okay. Thank you. In followup to some questions that Mr. Fetzer had earlier I think with Mr. Polinski and maybe Mr. Petersen also where you were talking about the contract sales and I think you indicated you might provide some additional information on that in terms of the flexibility to renegotiation of prices -- and this may be in the questionnaire and I apologize if it is -- could you provide any estimates in your postconference brief of what percentage of your sales during the POI may have had prices that were renegotiated within the term of a specific contract.

MR. PETERSEN: Yes, we'd be glad to take a look at that and review that number for you.

MS. DEFILIPPO: Thank you. We've talked a lot -- and this may be a dumb question, to phrase something earlier from Mr. Fetzer -- we talked a lot about high permeability and conventional and sort of the overlap and the decisions that are made by purchasers when purchasing. Is it an either/or decision? So once you are using your model to look at it, you're either going to go with high permeability or you're going to go with conventional, or is there ever a mixture of the two within a purchase?

MR. POLINSKI: Ray Polinski, Allegheny. Just to clarify, in a given transformer, I've not seen where a customer says I'm going to put half conventional in the core and half high permeability, but for a given design, then they're totally interchangeable.

I mean, maybe the first quarter of, it could be within the year, the first six months of the year they're making this same transformer out of conventional M4 and maybe later in the year to some other decisions they make and factors, they're making it out of high permeability. So the same one can be, but it's typically not within one unit.

MS. DEFILIPPO: Okay. That's actually very helpful. Thank you for that.

I guess sort of taking that and putting it towards country of origin, do you see the same situation, maybe not transformer, you may be mixing from different suppliers, but along the same design they may change suppliers. Is that something --

MR. PETERSON: Absolutely. You absolutely could substitute an M4, just to use that designation since Mr. Polinski mentioned it, from AK Steel, from Allegheny, from a domestic producer of M4, you could certainly be able to take an M4 product and substitute it in to replace it, into an existing transformer design.

MR. POLINSKI: I agree. Say, they are substitutable, you know, interchangeable. It's like water. They're the same as far as their usage and decision-making, other than at different losses. But the designer will use either one interchangeable in a given design.

MS. DeFILIPPO: So to your knowledge, do the transformer manufacturers/purchasers of GOES, are they tending to dual source in their contracts for a given year? Any information -- I know it's not you, it's the purchaser, but any information that you have on

that that you could provide either here or later would be helpful.

MR. PETERSON: We would say that we do have some customers that single-source, some customers that multi-source. So I think it really depends upon the purchasing strategy or the perspective of that particular customer, as well as their footprint, whether or not they are a global manufacturer or just a U.S. manufacturer. So it's really dependent upon the customer.

MS. DeFILIPPO: Okay. Thank you. I think Mr. Polinski made a comment at one point that you were operating nowhere near capacity during the period. Were there any instances for either of you were there supply disruptions or any ability to supply customers with GOES during the period?

MR. POLINSKI: Ray Polinski, Allegheny. Never. Any order we could -- we would take any order that was out there for us. We've never pushed an order away. We need more orders.

MR. PETERSON: The only orders we've pushed away has been on price.

MS. DeFILIPPO: Okay. Thank you. It looks -- I know, I have it circled. I was just looking at my own questions. Those are I think all of my

questions. One request for post-conference briefs, Mr. Kerwin talked some about the issue of the threat of material injury. To the extent -- or could you please brief using at the statutory criteria for threat of injury.

I'm going to look up and down the table. Mr. Fetzer, do you have another question?

MR. FETZER: No.

MS. DeFILIPPO: Okay. Mr. Corkran, any additional questions?

(No response.)

MS. DeFILIPPO: With that, I will again thank you all for being very patient with our questions. It has been very interesting. I've learned a lot, and I appreciate you taking the time to go through all of the answers to our questions, and we look forward to the information that will come in in your brief.

With that, this panel is dismissed. We'll take a 15-minute break, let people stretch their legs, get a snack, and we'll come back at 11:20. Thank you.

(Whereupon, a brief recess was taken.)

MS. DeFILIPPO: Welcome back, everyone. Mr. Secretary, will you please call the next panel?

MR. BISHOP: Our next panel, those in

opposition to the imposition of antidumping and countervailing duty orders, have been seated.

MS. DeFILIPPO: Thank you. Mr. Wood, welcome back. Please proceed when you're ready.

MR. WOOD: Okay. Thank you very much. Chris Wood from Gibson Dunn. We're going to begin the testimony for our panel this afternoon with Mr. Shinichiro Kondo from Nippon Steel and Sumitomo Metal Corporation.

MR. KONDO: Good morning. My name is Shinichiro Kondo. I'm the senior manager of the electrical steel division in Nippon Steel and Sumitomo Metal Corporation. I appreciate the opportunity to be here today to tell you about the grain-oriented electrical steel products and to describe our participation in the U.S. market.

We have been the technology leader in the development and production of GOES for many years. We were the first company to produce high-permeability GOES, and we have continued to lead the industry in development of domain-refined GOES through the surface treatment such as laser, irradiation, and mechanical scribing.

Our competitive advantage is in our product quality and technical capabilities. As a result, our

sales strategy for GOES worldwide is to focus on high-grade GOES products. Our participation in the U.S. market is consistent with this overall approach. We sell high-permeability GOES products in the United States, mostly domain-refined grades.

We are not a high-volume supply to the U.S. market. In fact, you will see from our questionnaire response that our exports to the United States have declined by about 50 percent from 2010 to 2012, and we do not anticipate any sudden increases for the foreseeable future.

Why do U.S. customers purchase our product? Our understanding is that there are two main reasons. First, A.K. Steel is the only U.S. supplier of domain-refined, high-permeability GOES products. Some customers value diversity in their supply base and award us a portion of the overall requirements. All of our U.S. customers purchase the vast majority of their GOES requirements from U.S. producers. We are a relatively small player by comparison.

Second, customers tend to buy products for application with demanding technical requirements. For example, some transformers have very strict efficiency requirements and also strict -- also restrictions on size, size of the transformers.

Mechanically-scribed, domain-refined GOES products can be annealed and retain the low core-loss properties, which make them uniquely valuable for high efficiency distribution transformers.

While we highly value our U.S. customers, the United States is not one of our major export markets for GOES. Sales to the United States are typically around 5 percent of our total GOES export. The main sources, growth in demand for GOES are the rapidly industrializing economies in Asia, such as China and India. As these countries build out their power transmission infrastructure, there is increasing demand for GOES. We have advantages in selling to these markets, including proximity, customer relationships, and the quality of the products.

By comparison, the United States is a more matured market, and has strong local GOES producers. Due to the high-growth potential and the geographic closeness of the Asian markets, we expect our business goals for GOES will continue to focus on these markets.

Thank you very much for your attention, and I'll be pleased to respond to your questions.

MR. SAITO: Good morning. My name is Tak Saito, and I'm the director of flat-rolled steel

business unit at the Sumitomo Corporation of America. I am responsible for the marketing of our imports of grain-oriented electrical steel from Nippon Steel and the Sumitomo Metal Corporation.

Sumitomo also operates two service centers for the GOES in the United States through Vicksmetal Armco Associates, which is a joint venture with A.K. Steel.

I appreciate the opportunity to be here today to share my views on the GOES market. Our imports mainly consist of mechanically-scribed domain-refined GOES from Nippon Sumitomo. This product is used in the distribution transformers that requires GOES with a very low cost. For example, distribution transformers used in the solar or wind power applications often have lots of idle time when no power is being transmitted.

For these transformers, the amount of loss during these nonload times is an important part of calculating the total owning cost. Transformers using the mechanically-scribed GOES from Nippon Sumitomo may have a higher initial purchase cost than those with conventional GOES product, but such higher costs will be offset by a lower total owning cost over the 30- to 40-year lifespan of the transformers.

Mechanically-scribed, domain-refined GOES is not available domestically. A.K. Steel makes domain-refined GOES, but only through laser scribing. The difference is important. Distribution transformers are made from one course, which usually are annealed after forming. Laser-scribed, domain-refined GOES such as that offered by A.K. Steel is not used for these distribution transformers that are annealed because the benefit of laser treatment would be lost by the annealing.

But annealing doesn't affect the property of the mechanically scribed domain-refined GOES, so it is suitable for distribution transformers with a strict efficiency requirement. Because the Nippon Sumitomo product sold in the United States typically needs specialty grades that are not available from U.S. producers, there is only limited competition between the domestic product and the GOES imported from Japan.

Allegheny doesn't make domain-refined, high-permeability GOES at all, so there is essentially no direct competition between its product and the Nippon Sumitomo's product. A.K. Steel does make domain-refined, high-permeability GOES, but its domain-refined products are all produced by the laser surface treatment that I explained is not suitable for most

distribution transformers.

Our customers' requirements for mechanically-scribed, domain-refined GOES are relatively small volumes. The large majority of their GOES purchases are made from the domestic producers. Under these conditions, we do not see that our pricing has any particular impact on our customers' purchases from domestic producers.

In annual price negotiations, our customers typically start their discussion with A.K. Steel or Allegheny as their major suppliers. After they get an indication from the direction in which prices are moving, then they will give us a guidance on their expectation for our prices. The domestic producers set the overall pricing environment, and our negotiation with customers is shaped by those developments, not by price.

The pricing environment in the United States has definitely changed over the past few years. Several years ago, gold supplies are very tight, and customers are very concerned about getting enough material. When we heard several purchasers that they entered into long-time contracts with a fixed-quantity commitment for their GOES purchases around this time.

After the financial crisis, however, the

demand for GOES declined, but the customers still had to honor the prior commitments, which was very burdensome for some customers. As these contracts have expired, customers have the freedom to resource their requirement. They moved away from contracts with fixed-quantity commitment, and are inviting bids from both domestic suppliers.

At the same time, the volume of export sales by the domestic producers has declined sharply, so they are trying to sell more GOES in the United States. This has resulted in very aggressive price competition among the domestic suppliers. For example, I am aware of one recent case where major U.S. customers have switched large volume of its GOES requirements from one domestic supplier to the other.

The producer that lost significant sales as a consequence of that switch had to find new customers for its product, which has resulted in a more competitive environment. Overall, it appears to us that the price competition between the two U.S. producers has become much more intense during the last two years, and this competition has driven price down throughout the market.

Thank you for your attention, and I'm pleased to answer any questions.

MR. HUSISIAN: I'm Greg Husisian. I'm here on behalf of JFE Steel, and we'll be making a presentation on behalf of Respondents. We're first going to begin with two industry witnesses, two people who have considerable experience within this industry, not only with regard to the Japanese products, but with regard to the U.S. market as well. They're going to tell you about what is actually going on with regard to the U.S. market and the different ways in which the Japanese product is unique and how it competes in the market. And the two witnesses are Mr. Suzuki and Mr. Becker, who will be proceeding in turn.

MR. SUZUKI: Good morning everyone. My name is Hidenari Suzuki. I have worked for JFE Steel Corporation, including Kawasaki Steel Corporation, for 20 years, having 12 years of experience in the steel industry. This includes seven years with grain-oriented electrical steel, sometimes called GOES. I am currently the staff manager of the electrical steel export section in the electrical steel sales department. My responsibility includes worldwide sales and marketing of GOES.

JFE is a large, integrated steel producer that produces many different steel products, including GOES. With respect to GOES, JFE focuses its efforts

on products where it can take advantage of its world-leading research and highly specialized high-value products of high quality. We have developed strong customer relationships all over the world. JFE currently supplies GOES to more than 130 companies in more than 50 countries. We are concentrating on these sales opportunities and strong customer relationships in these countries for our future sales of GOES.

Due to our strong global sales, the U.S. market accounts for a small percentage of JFE's total GOES sales. The domestic industry, by comparison, dominates the U.S. market, accounting for the overwhelming majority of GOES sales within the U.S. market.

JFE's emphasis on high-efficiency GOES is now greater than ever. With the cost of electricity rising and government regulators increasingly focusing on mandating higher and higher levels of energy efficiency, we believe that JFE is most likely to prosper by serving customer needs for high-efficiency GOES products at the premium end of the market.

JFE's strategy is to continue to emphasize the sales of high-efficiency GOES to the U.S. market. JFE does not seek to be a mass-market seller of GOES to the U.S. market.

Instead, most of JFE's sales are to a few U.S. customers who require high-efficiency products because of regulatory and commercial requirements, or who have physical limitations that only the Japanese product -- only Japanese producers can meet. JFE's focus on these high-end products distinguishes us from the U.S. industry and other foreign producers.

I have reviewed the public copy of the GOES petition. As the petition shows, import volumes from Japan have been modest and stable, and have been declining in recent years. I also know from our own market intelligence that Japanese products sell at higher prices than the lower-efficiency products sold by the U.S. industry or other GOES producers.

Compared to the large volume of the U.S. production -- product in the domestic market, even including the increased capacity of the U.S. industry in the POI, it is apparent that the small volume of Japanese imports is having no material impact on the U.S. industry. The amount of GOES that Japan exports to the U.S. market each year represents only a small fraction of the industry's production. Our estimated, based on public sources, is that Japanese GOES imports are about 5 percent of the total U.S. market.

The vast majority of JFE's GOES products

sold to the U.S. are manufactured using a production method, owned and used only by JFE Steel. As a result, JFE's U.S. sales involve products that are not sold by the U.S. industry. JFE does not directly compete with products made by the U.S. industry.

JFE has served an important niche role in the U.S. market for several years. Although sales volumes are not so high, our U.S. customers rely on us for the high-end, high-efficiency products in order to meet increasingly stringent requirements for efficiency, smaller size, less noisy transformers that meet evolving government regulations.

As a globally traded product, prices for all forms of GOES have been falling worldwide for the last few years. There was a global recession which has impacted housing starts in the U.S., one of the major drivers of demand for GOES. Because housing starts in the U.S. are currently increasing and expected to continue to increase in the future, prospects for improvement in the GOES market are positive. Accordingly, there is expected to be an increase in non-U.S. energy development projects, creating additional demand for GOES worldwide.

JFE does not believe that Japanese imports, which have been decreasing over the POI, are the cause

of any decline in the performance of the U.S. industry. Nor are overall imports the cause, which have also been small and stable and have not been a factor in the fall in prices caused by the U.S. industry.

JFE does not plan to increase its sales to the U.S. market. We have global customers all over the world, and it is sales to these customers, which are far larger than our small level of sales to the U.S. market, that will continue to be our focus. We intend to continue to serve our global customers in accordance with our goals of continuing our long-term customer relationships. Finally, our capacity utilization is fully committed, and we intend to continue to supply worldwide demands.

So thank you very much for your attention, and I'm looking forward to answering your questions. Thank you.

MS. DeFILIPPO: If I could just interrupt for a second. We would like to collect -- can you hold it up -- the exhibits that were passed out. I think we have --

MR. HUSISIAN: If I could talk about that, as I discussed with Mr. Bishop when I was putting them up on the screen, we have removed all APO data from

them. That's why they have no Y-axis. We will be submitting the APO versions in our briefs, which will do things. What these show you is trends. I've seen this done in many conferences and in final-phase investigations. But if you look on the left-hand side, the reason why there is no Y-axis on any of them is to -- so that we can present you with the trends but without showing any of the confidential data.

MS. DeFILIPPO: I think our concern is there is a mixture of public and confidential data in some of the slides, and if you know what the public number is, there is a relativeness to those numbers on a graph and potentially you would be able to figure out the confidential.

MR. HUSISIAN: In a very rough way, but the ITC commonly refers to data like that, just like the Department of Commerce, when you're public if you're within 10 percent. You wouldn't be able to get anything that's meaningful out of that. I've seen it done this way in many presentations, which is why we did it this way on purpose. And if you'd like, I brought a version of the confidential chart to show you the difference and what we've removed.

MS. DeFILIPPO: Our preference is to collect from anyone outside of the people sitting on this side

of the table any of the papers. And you are welcome to discuss in your testimony. We'll have them, whether -- and if you want to give us the confidential ones, those will reside just with us, and you can speak about them without referring to any of the confidential information.

But our preference is to be better safe than sorry and collect from those that are in the audience the graphs. But we will keep them, and you can refer to them.

MR. HUSISIAN: We'll understand, and we'll put the confidential versions that have the statistics in our post-conference brief because we actually like the statistics in this case and really want you to focus on them.

MS. DeFILIPPO: Thank you for understanding. We appreciate your cooperation. Please proceed when you are ready to continue, and thank you again.

MR. HUSISIAN: Okay. We'll move on to Mr. Becker, who is an expert in the U.S.-side industry, not only with regard to the sale of JFE products, which is where he works, but also in the operation of the market as a whole. So, Mr. Becker.

MR. BECKER: Thank you. Thank you for allowing me to come before you today. My name is

Bruce Becker. I'm a manager in Toyota Tsusho America, Inc.'s international steel unit. Toyota Tsusho imports and sales GOES in the U.S. market on behalf of JFE Steel Corporation. As a manager in Toyota Tsusho's electrical steel section, I have intimate knowledge of the U.S. market, including the special role that Japanese GOES serves in the U.S. market.

JFE has a strategy of targeting the high end of the market. By high end, I mean two things. First, the Japanese GOES is of unique high quality, and just recently I had a customer tell me that JFE was the only steel supplier that they used that had never had a product rejected for quality reasons.

Second, we don't just compete in the high-permeability domain. We also have created a special type of domain-refined or DR GOES that is heat-proofed. Heat-proofed means that our DR GOES can be annealed without losing the efficiency and core loss benefits gained from its domain-refined characteristics.

This is important because it allows our customers to build entirely different products in an entirely different way. Unlike products made in any other country, including the United States, the JFE GOES can actually be placed into wound cores and then

heated up again without altering the benefits of the DR GOES.

This allows for the creation of an entirely different type of transformer. It allows transformer manufacturers to create specialized transformers that take advantage of the special properties of this steel. Moreover, because steel made in this way is approximately 20 percent more efficient than other forms of DR GOES, the product is superior on that basis as well.

Only two companies in the world can produce this type of product: JFE and Nippon Sumitomo. JFE makes it using an electrolytic etching process, and Nippon Sumitomo makes it using a mechanical-scribing process. The U.S. industry by comparison makes its domain-refined steel using a laser-scribing process. Laser scribing does not survive the annealing process.

This means that the DR effect will disappear if the steel is annealed. The ability to anneal using Japanese heat-proofed products allows the product of small -- excuse me, the production of small, high specialized coil transformers that carry high magnetic flux with minimal heat loss and maximum efficiency. Moreover, it is impossible to substitute other grain-oriented steel for our heat-proofed product.

The production of our specialized form of DR GOES has three very important ramifications. First, heat-proofing represents a major difference between Japanese product and those sold by the other producer. This is not a situation where there is a continuum of products. In other words, it is different in kind, not in degree.

Second, there is no competition between the product produced by the U.S. industry and those made by Japanese producers. The vast majority of the product sold by JFE Steel into th U.S. market are these heat-proofed products. We will provide additional details on a confidential basis later on.

Third, prices for heat-proofed DR GOES and the other forms of domain-refined steel cannot be compared. We note that the U.S. industry ignores this distinction, but the ITC should not. The ITC questionnaire improperly groups these products together, which will yield meaningless comparisons where the Japanese products are concerned.

JFE Steel first began exporting heat-proofed DR GOES in 2009 at the request of its U.S. customers, who needed a highly specialized product that the U.S. industry cannot manufacture.

JFE Steel only sells its products to a small

number of U.S. customers, and these customers have no domestic substitute for the specialized Japanese DR GOES. Even if the U.S. industry were to give away its product to these companies, the product could not be used in the specialty transformers that our U.S. customers have created to take advantage of the unique attributes of our product.

Although Japanese GOES serves a niche function in the market, it is an increasingly important one. There is a growing demand for these highly specialized transformers in places including New York and California, as well as in other urban areas. Indeed, the new Department of Energy efficiency standards that go into effect in 2016 will mandate the use of heat-proofed DR GOES for many transformers.

Our U.S. customers, who include two transformer manufacturers, are counting on JFE to continue to provide these products. This demand and the Department of Energy regulations are not going away. Additionally, high efficiency transformer manufacturers in the United States will not be able to compete in the high efficiency transformer market if they do not have access to Japanese heat-proofed DR GOES. This means that foreign competitors would

supply the high-efficiency transformer market in the United States rather than U.S. transformer manufacturers supplying it.

An antidumping order won't help domestic GOES producers enter this niche market. If U.S. transformer producers cannot get their hands on this product, then the most likely result is going to be -- is to be pressure on them to move their operations abroad.

It is not hard to make transformer component in another country and ship them to the United States for final assembly.

The second item I want to discuss is the conditions of competition in the United States. I see two claims in the petition, that subject imports are pushing down prices, and that they are causing excess capacity due to their volume. But everyone in the industry knows the two reasons why domestic prices are falling: first, that the domestic industry, which always has exported a lot of its production, lost much of its foreign export sales in 2012 and 2013, and so they've been massively underselling here to maintain volumes.

Secondly, because of a dispute between Allegheny Ludlum and one of its major customers,

around 30,000 tons of sales was allocated away from Allegheny to A.K. Steel. These two developments have driven price competition in the U.S. market, first with Allegheny underselling to replace its volume, and then with A.K. Steel retaliating by driving down its own prices. And because these companies dominate the market, with huge production and huge sales, these factors drove down all domestic prices for GOES.

As for the volume claim, imports are small and stable. These small and stable imports, which sell at premium prices, cannot be causing injury to anyone.

Thank you very much for listening to me, and I look forward to answering your questions.

MR. HUSISIAN: Thank you. I'm still Greg Husisian, on behalf of JFE Steel and representing Respondents. I would start out by saying I feel like the policeman at the end of *Alice's Restaurant* without my charts, but that would really date me, and so I'm not going to explore that reference anymore.

Regardless, I know that you mostly want to hear from the witnesses, so I'm here more to put things into context and to try to talk a bit about the unique conditions of competition in this industry, what is going on, and what we see as an utter lack of

a causation case, and on top of it an utter lack of any kind of threat indicators as well.

Basic reaction when I saw this petition was I remember the 1980s commercial where the woman in the Wendy's commercial saying, "Where is the beef?" And that was the reaction when I first saw this petition because we all know what a petition looks like usually. It features skyrocketing imports, rapidly growing market share, subject prices, you know, shoving down the U.S. prices, leading to lost capacity, and therefore the petitioners get up there and say, you know, you do the math, take a look at it, and what do you see. This is the reason for our poor financial performance.

Well, this is not that case. When you look at it, it looks like in the narrative it's going to be that case. You see things in there about, you know, quote, "significant increases," or "rapid increases," or on page 29, they get a little bit more hyper -- bring in a little bit more of the hyperbole, and say that the U.S. industry is suffering from a low-priced, high-volume assault.

And today, we saw Mr. Hartquist continue that and get up here and say that there has been an onslaught of imports, and then Mr. Peterson got up

here and talked about flooding the U.S. market.

Well, the link that they draw from all of this is they say it goes like this: subject import volume has increased. As a result, we have poor capacity utilization, as a result we have poor financial performance.

So when you look at the data, when you look for the beef, what do you see? You see a 4.5 percent increase in imports, in subject imports, between 2010 and 2012, 1,300 tons. When you annualize the 2013 data by basically doubling the first half POI, what you see is a 1.1 percent increase, a few hundred tons in a market that's somewhere around 300,000. That's 0.1 percent of the U.S. market.

Now, I've been litigating against Mr. Hartquist for many years, going back to the mid-nineties in stainless steel wire rod and stainless steel bar, and I've seen him make some creative arguments. But I don't think that even he can say that there is going to be any kind of volume impact from subject imports increasing by .1 percent of the U.S. market.

The reality is that imports are stable and small, and any claims that there is lost capacity utilization, that the production is plummeting, has to

come elsewhere.

If you take a look at the second page of the charts that I sent out, it shows on the bottom the level of subject imports, and they're small and stable. It also shows the level of U.S. shipments, which not only are stable, they're increasing. And we'll give you the amount in our confidential brief.

And then the third line, the one that they should be looking at, is the level of the U.S. exports. And if you look at that, what you see is this is not an industry that has a problem with increasing subject imports. This is an industry that has a problem with its own declining exports, and that is what is explaining its loss of capacity. It's explaining why it's not shipping what it used to, and it's explaining why its factories are sitting idle, not this flood of imports that was mentioned this morning.

With regard to the prices, what we heard is that, well, even if there is not increasing subject imports, we're reacting to the surging imports. Well, again, if you take a look at the little line at the bottom, what you see is that the subject imports are stable. There is nothing to react to. This isn't a case where the U.S. industry had to come in

counterpunching and try to regain sales that had been lost through underselling.

In fact, it's quite the opposite. This is a U.S. industry which has been seeing not only stable subject imports, but stable overall imports. It's just a constant through this.

Now, if you take a look at the fourth page of the pretty charts which are no longer up on the wall, what you see is information on pricing. And this is very important. What you see is that subject import prices have fallen. That is very true. But the subject imports have fallen, as is shown on the first page of the charts, worldwide.

So what you have here is subject imports have fallen consistently with what is happening worldwide. Not unexpected. There is a very global market for this.

You also see that the prices for nonsubject imports, which they're not in here complaining about, have also fallen to a similar degree. You even see that the average unit values of U.S. sales to other countries have fallen somewhere in the same ballpark as well.

The one difference that you see is the pricing of the U.S. market into the U.S. market. It

has gone done to a much greater degree, and this in and of itself refutes the idea that they are only trying to meet the prices of the subject imports. The reality is they're coming in, and they are driving down prices. And the reason they are driving down prices is just what you heard from Mr. Becker today. It's two reasons. The first is the declining level of their exports, which dwarves not only the increase in subject imports, but the entirely level of subject imports.

If they had the choice between saying -- telling Customs you need to throw every ton of grain-oriented electrical steel that comes into this country into the harbor and regaining their sales that they used to make into foreign markets in 2010 and 2011, there is no question that they would choose to regain their export sales.

This is a case, pure and simple, of scapegoating. And then you had coming in at the same time with a tsunami of lost export sales the fact that they had this ruinous price competition caused by the reallocation of one customer who accounted for approximately a third of the sales of one of the producers. No producer can withstand that kind of lost sale, and they've had a dogfight since then

coming at the same time as these declining exports, where they have tried to make up and to reallocate their customers.

Subject imports, pure and simple, have been bystanders in this, as shown by their stable market share, and as shown by the fact that it's the U.S. producers who are pushing down prices more.

Now, you heard people say today that the exports were, quote, "not a major factor," and something you shouldn't be considering at the ITC. I would submit that when you have a situation where, as Mr. Woods stated in the beginning, at the beginning of the POI you had almost a 50/50 split between the U.S. sales abroad and U.S. sales to the U.S. market. And by the end of the POI, that had dramatically changed. It's something that you just can't ignore.

That is the reason why the capacity utilization is falling at the subject producers. That is the reason why they're in this dogfight and driving down prices. And that is the reason why their financial performance has deteriorated.

Everything was good in 2010 and 2011. You can think of it as a controlled experiment. They had no case they could possibly have brought at that point because their profitability was high and because their

capacity utilization was going well. They even had navigated the recession okay, and that would be something you would think would be a factor in this case as well. But in 2010 and 2011, they were making very good profits for a steel maker. Something changed. It was not subject imports.

With regard to the threat, again this is not a case where they can try to shoehorn it into the normal proceeding. What they have said is this is a case where the U.S. market is the most attractive in the world, and that the U.S. -- and that the foreign producers are export-oriented. It's just not true. What the reality is, is this is a very global market. Even the U.S. industry sells a lot abroad. So what you see is a situation where there is a diverse sales opportunities all over the world for everybody, and it's not just JFE Steel. It's everyone is benefitting from this diverse market.

The U.S. represents only a tiny fraction of the sales that are out there, and that is going to continue to be the target. So any claims that there is threat is just not true.

So I would urge you to take a look at the data. We'll be submitting confidential charts that are going to show that. But in the end, the case

comes down to as simple as this. Whatever problems they're having, it ain't us. Thank you.

MR. LUNN: Good afternoon. My name is Mark Lunn, with the law firm of Dentons US LLP, here representing Novolipetsk. With me today is Connie Chan of Queen City Steel, an importer of the steel produced by my client, and Alper Isogren, an importer of the product produced by Ashinsky Metallurgical Works. Together these two companies represent 100 percent of the exports of grain-oriented electrical steel from Russia.

Before turning it over to my colleagues, I want to raise a very brief technical issue that I'll discuss more in mu post-hearing brief that relates only to Russia. Based on Russian import -- or export statistics, excuse me, it appears that a large amount of steel is being exported from -- a relatively large amount of steel is being exported from Russia that's actually scrap steel that has been reclaimed from broken-down transformers.

The country of origin or the country of destination in the Russian export statistics is the United States. We haven't been able to determine what HTS number it's being imported into the United States under. We have reached out. We do know who the

importer is, and we've reached out to them to determine how it is being classified and what exactly the product is.

But we do believe that if it is scrap, and if it's nonsubject merchandise, it may be overstating the Russian import figures.

I'll now turn it over to Ms. Chan. She is going to discuss a condition of competition that was surprisingly ignored, in my opinion purposely, in the affirmative statements by the domestic producers, and was only addressed briefly in the questioning stage. And this relates to the DOE regulations that govern the production of transformers in the United States.

This has been a significant change in the conditions of competition since 2007 in the United States, and has effectively resulted in Novolipetsk, as you heard, the second largest producer of GOES in the world, being locked out of the U.S. market.

Novolipetsk has made no sales of GOES in 2013. They did have some small entries from sales that were made in 2012. They don't foresee any sales in the United States in 2014. And the reason for this are these regulations. And I believe the domestic industry wants you to ignore them because they go directly to the issue of substitutability between

conventional GOES and high-permeability GOES. And it's actually a little bit more complicated, and I'll let Ms. Chan discuss the technical issues of it.

But even within conventional GOES, there are certain products that simply cannot be substituted for each other. And for these reasons, Novolipetsk has stopped sales to the United States.

I will now turn it over to Ms. Chan to explain this issue for you. Thank you.

MS. CHAN: Good afternoon. My name is Connie Chan of Queen City Steel. I have been in the steel industry for over 25 years, and for the last 12 I've been involved in grain-oriented steel, and have been affiliated with NLMK since 2006.

I am familiar with the grain-oriented steel market in the United States, as well as the production capacities of Novolipetsk. My sales were much lower in the several years than previously from Novolipetsk into the United States. However, in 2013, even though these minimal sales have stopped, while there were entries in 2013, these sales were made in 2012.

To understand why you need to go back to 2006, when the Department of Energy proposed a series of energy efficiency standards, TSL-2 to TSL-6, for liquid immersed and dry-type distribution transformers

under 2,500 KBA. TSL-2 went into effect January 1st, 2010, and due to this higher efficiency mandate, distribution transformer manufacturers shifted purchases from grade M6, M4, to grades of M3, M2.

Demand for conventional grades decreased since then and have basically stopped in the second half of 2012. NLMK has stopped exporting into the United States because it does not have the grades capable of competing with or substitute for grades produced by domestic manufacturers of M3. More specifically, NLMK cannot produce M2, while the M3 produced by NLMK cannot be used as a substitute for M3 made by domestic suppliers.

The main reason for that is Novolipetsk does not have the technology to produce M3 with mill glass type of surface coating.

In the U.S., practically all M3 is used to make round cores where grain-oriented steel with no glass provides for a better technical performance at lower cost, which makes NLMK product incompatible with domestic core manufacturing, both technically and commercially.

In addition to these two key factors, M3 supplied by the U.S. mills have typical losses of .38 watts per pound at 1.5 Tessler, 60 hertz, versus .40

watts per pound for Novolipetsk's best M3.

Due to the fact that distribution transformers have round core designs with no load loss margin equal or less than 3 percent, the 5 percent high losses in Novolipetsk M3 makes it unusable in the U.S. transformers made with -- U.S. transformers with M3-made cores.

The efficiency standard continues to improve with new mandates that were passed this year in which it comes into effect in 2016. At this point, M3 being the lowest grade that can be used, moving up to high grades such as high permeability, high permeability domain-refined, and amorphous.

As the DOE efficiency standard continues to demand more efficiency, moving towards M3 and higher grades, looking into the future NLMK continues to lag behind and cannot compete to the U.S. mill due to these enhanced standards.

Thank you for your attention.

MR. ISOGREN: I am Alper Isogren. I am with the International Magnetic Solutions, an importing company, and also export company. I am specialized in electrical steel import and export, and I'm representing in terms of import Ashinsky Metallurgical Works, which is a thin-gauge electrical steel

producer. And for export, whenever there is an opportunity, a price opportunity -- but after hearing all the discussion today, it is a bit hopeless, the case of having a good price apparently exporting -- to export from the United States.

But I did in the past. I did try hard, and so it is hard to do good in my export business with the current prices. But I'm here just to make one -- because this investigation, it is for grain-oriented product, there is a distinction. I mean, I read the description of the grain-oriented. It is including also us, but in reality we shouldn't be included in this investigation because within the grain-oriented products, there is thin-gauge electrical steel. And thin-gauge electrical steel is produced by rerolling mills.

Thin-gauge electrical steel, it is the thickness of 4 mil or 2 mil, comparing to the products that we had in the questionnaire. In the questionnaire the lightest gauge was 9 mil, to the thickest gauge, 14 mil. And basically this thin gauge, it is produced by rerolling. So their rerolling mills, the Ashinsky Metallurgical Works, needs A.K. Steel, Allegheny Steel, Novolipetsk, or any other Nippon Steel in order to, how do you say, start

to get their own materia and start their production.

The production, it is -- so therefore the price range of this product, the thin-gauge electrical steel, is much more expensive. And the last point is, it is import -- in terms of import statistics, the maximum level -- I mean, the maximum level of the production -- this is a very, very tiny niche market. And I just want to make the statement of that. So if there is some sort of rolling, so it should be exempted. That's the reason why, I mean, I'm testifying.

The maximum production, it is 1,387 net ton in 2011, and the export coming to the United States or the import to the United States was 387 net ton in 2011, and that was the maximum.

So this is very, very tiny market. Although it is called grain-oriented electrical steel, you should make an exception. And I'm ready to take all your questions.

MR. HUANG: Good afternoon. My name is Yi Huang. I am the department manager of Baosteel America, Incorporated, who is the U.S. importer of Chinese GOES producer, Baoshan Steel Corporation in Shanghai. I've been here in this position for six years. Prior to this, I was working as an export and

sales manager at Baoshan for seven years.

Baoshan has sold a very small volume of GOES into the U.S. market since 2011, but it is the larger exporter of GOES into the United States. To my knowledge, there are virtually no imports of GOES into the United States from the other Chinese producers. Thus, Baosteel information and experience is representative of the Chinese GOES industry.

Baosteel does not sell GOES directly into the United States, but to processors located in Canada and Mexico. These processors split their coils into specific dimensions, and then resell into U.S. market. This is a long process. From the time the U.S. customer provides a purchase forecast, then Baosteel produce and ship GOES to the processors, and to the processors split and deliver the products. So the entire period can last as long as four to six months.

GOES is sold through contract, not on a spot basis. Although Baosteel does not sell directly to the U.S. market, we know that these contracts are generally for three months or less with multiple deliveries during that period. The price is fixed for the duration of the contract, with no opportunity to renegotiation. So I believe that most of the GOES sold in the U.S. market is through contracts, which

require prequalification by the end user and lock the purchase of the GOES at a fixed price for that duration.

So the competition among the suppliers of GOES is limited to the extent that the U.S. customers cannot easily switch suppliers. All steel produced and the sales, both domain-refined and the non-domain-refined, high permeability GOES. This high-permeability GOES is produced through a process that was developed after years of the research and the development.

Commercial production of GOES at Baosteel was started in 2008. Baosteel uses a so-called low-slab reheating temperature process, unlike that used by A.K. Steel. So this technology is protected by the patents.

In these regards, Baosteel GOES compete in the high end of the U.S. market, with other high-permeability products from the U.S. and foreign suppliers. The U.S. GOES industry has alleged that the pricing of the imports has impacted their own price and led to a significant price decline during the period of the investigation. I agree that we have recently seen price decline for GOES in the United States, but I object to the U.S. industry's claim that

this is due to imports, and the Chinese imports in particular.

Our imports are so small, and they cannot have any impact on the pricing of the U.S. industry. In fact, we didn't import in 2010, and imported virtually nothing in 2011. Although imports can only increase from a zero basis, this increase was very small relative to the U.S. market in year 2012 and 2013.

I believe that the Chinese import represented today is around a half a percent of the share of the U.S. market. We are not the price leader in the U.S. market. We follow the pricing trend established by the U.S. producers. In particular, we have experienced firsthand the tremendous downward pricing pressure that Allegheny has put on the market in early 2013, so after it had lost key customers.

We did not initiate these price cuts. For many years, China was the larger net import of GOES because the domestic production was limited. For example, in year 2008, there were over 300,000 metric tons of GOES imported into China. In 2009, GOES production in China started to increase, and to replace imports as a source of GOES supply.

Today, China still import GOES. For

example, the import last year, in 2012, was 273,000 metric tons. I know that the U.S. GOES producer were among these importing into China until they were subject to antidumping duties in 2009, as well Russia.

To consider the Chinese GOES industry to be a threat is absurd. They were -- there are currently only two major Chinese producers, Baosteel and Wuhan, with an overall output of around 770,000 metric tons. The other two GOES producer, Angang and Shougang, they are still in the research and trial production stage. Their output in 2013 is estimated at less than 70,000 metric tons. And it took Baosteel four years from the trial production to reach the full commercial production.

So on the other hand, the Chinese GOES market is growing steadily for years at an average 10 percent. In 2013, apparent GOES consumption is estimated at over 1 million metric ton. So the larger the growing the percentage of the domestic production sold to the Chinese market is showing in Baosteel's questionnaire response.

Baosteel operated at a very high level of the capacity utilization. Furthermore, there are almost no exporter to the U.S. from the other Chinese GOES producers. This shows once again that the

Chinese GOES production is not destined for the U.S. market.

We also noted that starting GOES production require larger investment in equipment and the technology, as well as a very special know-how. So these are very significant barriers to the new Chinese producer of GOES. China is still currently the world's largest producer of the transformer, so this market is expected to continue to grow for years.

That's all my point. Thank you for listening. Thank you.

MR. HORGAN: Thank you. This is Kevin Horgan. I represent ThyssenKrupp Electrical Steel. And basically, I just wanted to bring to the Commission or the staff's attention the need for appropriate price comparisons.

I think you've heard some testimony already about how you can't group all these prices into a single unit and compare them to the various different products we have. And ThyssenKrupp is a good example of that because all ThyssenKrupp sells to the United States now is master coils, and they sell them to slitters and laminators.

As a result, these slitters and laminators have to add a lot of value, as some of the

Petitioner's witnesses testified this morning, before they resell to end users. So it's clearly inappropriate to compare prices for master coils that still need a lot of work to prices of GOES sold to end users, who are ready to incorporate the product already into transformers. And I think that's where you're going to run into some trouble because we've already seen this case is not about volume. We know that, because volumes are flat. They haven't changed at all.

And the Petitioners have testified it's all about price. So if price is what they're going to hang their hat on, then you have to have appropriate price comparisons. And I think they've misled the Commission by suggesting product categories which don't allow you to differentiate the prices to the extent you need to, to actually make them meaningful, because if you compare the price to an end user to a price like coming from ThyssenKrupp to a slitter or a laminator, basically a service center who has to do a lot of work to the product before it's suitable for an end user, you're just not going to get any meaningful information.

And I think that's really where you are right now. You've got this quarterly price comparison

across product categories that really doesn't tell you what prices or what products are competing with other products, and really, that's pretty much all I had to add, and I'll be happy to respond to any questions.

MR. BECKER: Good afternoon, my name is Philippe Bruno with Greenberg Traurig. We represent Baosteel, the Chinese Respondent. I would like to add a few comments to Mr. Huang's testimony. Although China is one of the targeted countries in this case, probably as payback for the Chinese antidumping duty investigation against U.S. goods in 2009, this case is not about China. Far from it. Unlike other investigations involving China, there is no surge of Chinese imports in this case.

Chinese imports are just slightly above the three percent negligible threshold. As you heard, Baosteel is the largest exporter from China. It did not export goods in 2010 and 2011. It is always dramatic obviously from the Petitioners' side to assert that Chinese imports have increased by triple digit percentages over the period of investigation, but starting from a zero baseline, every additional ton of GOES represent an increase of 100 percent. In reality, relative to U.S. apparent consumption, Chinese imports have a minuscule share of the U.S.

market and probably a de minimis share of U.S. market if we follow the old Commission practice.

Unlike other investigations involving China, there is no uncertainty about the number of Chinese GOES producers in this case. We clearly know who produces GOES in China. We know China's aggregate capacity. We also know that the additional two small producers of GOES are at the trial production stage and may not reach full production for another several years. Huang Wiling mentioned earlier is still at the wishful hope stage of their GOES production and are still trying to acquire the technology apparently from Brazilian sources. Any allegation that there is a huge idle GOES capacity in China would therefore be inaccurate.

Unlike other investigation involving China, the growing Chinese market for GOES is reflected by the growing volume of sales to the domestic market. It is also reflected by the large volume of GOES imports into China. China is still a net importer of GOES. With domestic supply still lower than Chinese demand, it is speculative at best to argue that new added capacity in China is destined for the U.S. market. Unlike other investigations involving China, the small volume of Chinese imports cannot have any

adverse on U.S. prices. Such a low volume can only mean that Chinese imports are followers, not price leaders. Arguing otherwise would be absurd.

In sum, the usual factors used by the Commission do not point to any threat by Chinese imports. There is no significant unused capacity. The great bulk of production is destined to the Chinese market. There is no imbalance between Chinese supply and demand. China is still a net importer of GOES, and Chinese exports to the United States remain an afterthought. This completes our presentation. Thank you.

MR. HUSISIAN: Okay. That completes the presentation for all Respondents. We're happy to answer any questions you might have subject to whatever issues you might want to raise. If it's confidential, we'll cover it in our post-conference briefs.

MS. DEFILIPPO: Thank you, and thank you very much to all the members for the panel for being here today. As I mentioned earlier today, there was a lot of uncertainty on when we would actually hold this conference, and so I appreciate your flexibility and having a nice large Respondent panel is always great in a prelim as we're really trying to learn as much as

we can in a short period of time. With that, I will go to Mr. Fetzer for question

MR. FETZER: Thank you for coming this morning, this afternoon, wherever we're at, and it's a new product for me, so I'm just trying to learn about it, so I appreciate all of your testimony. One thing I noticed is that compared to the discussion this morning where we heard about the substitutability between high permeability, GOES and conventional grades, there's a lot of examples given from this panel of where it's not substitutable, but I also heard the word niche, small market a lot, so I want to get a sense for the greater GOES market.

The substitutability that they talked about, does it hold, and to what extent may there be limitations because I think there were a lot of individual cases where you said okay, it can't be substituted here, it can't be substituted there, but how much of that is really the total market, and to the extent you know something about that, I'd appreciate responses from anyone on the panel. Mr. Becker?

MR. BECKER: I'll go first because I have the biggest mouth. I think in terms of substitutability, it's a matter of degree, and I think

primarily what we're looking is in the entire universe of distribution and small power transformers how much of that quantity of product available out there can be substituted or not based on the quantity or the quality of the material used in the core design.

I think most importantly for the high efficiency, higher-end products that are required now as a result of a 2006 Department of Energy efficiency standards and now the new efficiency standards that have just come out is that the lower grades are not applicable. Too, that the size of the transformer has to be reduced. Therefore, the temperature, the operating temperature of the core also has to be reduced.

As we were talking about this morning from our domestic counterparts, transformers last a good long time, some of them a great deal longer than 40, but some of them don't, and it means that they're manufactured improperly using inferior material, and they're used in a way that's not intended for them to be used or overloaded on a constant basis, so I think if you think in terms of wound cores versus stacked cores.

The use of domain-refined high permeability material to achieve these standards required by the

DOE, it creates stresses in the bending or shaping of these wound cores into the proper shapes before assembly. Those stresses make the performance of the grain-oriented electrical steel inferior. The stresses make heat spots in areas where there are eddy currents in the magnetic flux of the steel that occur.

In order to reduce those, you have to bake them or anneal them in an oven for a period of time at a certain temperature. That relieves the stresses and allows it to perform as normal. I think our point is that because of the advanced domain-refining technique developed by Japanese steel mills, that those domain-refining attributes of the steel remain after you anneal the core. That allows for the creation of a truly superior product that's not achievable by using domestically-available materia

MR. FETZER: Regarding these regulations, are they phased in? Is it something where I think the date 2016 or '17 was thrown out. Is it at that point that if you're making a transformer you can't use the lower grades, or is it something that's gradually being put in, or are the transformers themselves will have to be retired at some point if they're using inferior material? How exactly is that being implemented. Ms. Chan?

MS. CHAN: Hi. Connie Chan. Queen City Steel. Basically, the mandate that was implemented in 2010, there was a move to high efficiency. Therefore, the grades were moved up in terms of using steel, so it moved from M6 grade to M4, and as the TSL numbers were higher to TSL4 and 6, you were only able to use M3 or M2 to meet that efficiency, and then with the new mandate that just passed this Spring for 2016, the lowest grade that is allowable would be an M

MR. FETZER: Okay.

MR. BECKER: And I think to compound on what you had said, Connie, I think in terms of what you had asked in terms of the date of implementation, my understanding after a conversation with an electrical engineer yesterday was that it had to do with a manufacturing nameplate on the transformer itself, so the date of manufacturer was indeed the date of enforcement of those new standards. It didn't have anything to do with the date of installation or any kind of grandfathered dates involve

MR. FETZER: Okay. Thank you. That's very helpful.

MR. LUNN: Excuse me. Ms. Chan would like to elaborate on one last point

MR. FETZER: Sure.

MS. CHAN: In terms of these iron losses, even for an M3 product, there is a range within iron losses. For instance, what I had specified before, the domestic mill, the typical is what they call .38, and your end user, your transformer manufacturers, are so geared in designing their units towards that loss where other losses, what they would have to do is redesign, redesign meaning engineering gets involved whether it needs more winding, more copper, more aluminum.

It's a mix, and also now, you have all these constraints by weight and size, so it makes it very -- for engineers, if it's not broken, don't fix it. so they continue to use the same design patterns if need to be.

MR. LUNN: Thanks.

MR. FETZER: Thanks for your response. Mr. Horgan, you were talking about the price data and some of the comparability problems because of slitters and what is it?

MR. HORGAN: Right. Right. Laminators.

MR. FETZER: Laminators. Sorry. Is there any way to look a the data? Is it something that's broken down by company, or is it where we could just move data or exclude data from particular companies,

or is it something within a different company they're going to mix together those? To your knowledge.

MR. HORGAN: Well, my knowledge is limited, but I tell you, for instance, TKES, as I've indicated, in 2012 and '13, they've only sold these master coils to slitters, and so there you have a sort of clean example of what the prices are for those kinds of products, but when you picked your five products and described them, you didn't make that distinction between coils and plates and different forms of the same grade product.

As a result, you're going to get a jumble of price data compiled into this corridor, and maybe there are some other companies out there who would only have one product that they're selling, and you would get a different example of a clean product, but I don't know if the Petitioners are going to have supplied that kind of data.

MR. HUSISIAN: Pardon me, Mr. Fetzer. A similar issue actually comes up with regard to products that Japan makes, too, which in some cases a very important attribute is the heat proofing of the product because some manufacturers make specialty transformers that after you've created the core need to be heated, and if you do that, for example, with

the laser-etched domain-refined steel, it doesn't work. You lose the grain orientation, so it becomes unusable data to combine those two things, and that's another example where the broad Petitioner categories, just as Mr. Horgan was stating, which ignore relevant differences lead to kind of gibberish price comparisons, and we'll be submitted more about that when we put in as well, but it's an issue that transcends companies and products. It's a general issue.

MR. BRUNO: I'd like to add to that as well. This is an issue for the Chinese as well. If you look at the questionnaire responses from the importers, you will see that there are some products that are put in certain categories but do not really fit in that category.

MR. FETZER: Well, to the extent you can in your post-hearing submissions, can disentangle -- if there's issues in the data that we can, just from what we have, deal with because I believe we do ask for at least -- we know who are doing the slitting/laminating overall, so obviously if they're not sending any shipments, we should be able to identify that, but if there's a better way to look at the price data you think's appropriate, if you could do that analysis and

see how it affects the results. At the extent we can't, just identify that and try to interpret the data the best that you can.

MR. BRUNO: We will.

MR. FETZER: Unfortunately, I have to leave due to a previous commitment, but I really appreciate your questions, and thanks for all the information. It will be very helpful in us doing our report.

MS. DEFILIPPO: Thank you, Mr. Fetzer. Mr. St. Charles, questions for this panel?

MR. ST. CHARLES: I spoke during the Petitioners' presentation about Mr. Wood's introductory promises of what will be told. I've heard what was promised, and I don't have any questions. Thank you.

MS. DEFILIPPO: Thank you, Mr. St. Charles. Mr. Houck, questions for this panel?

MR. HOUCK: No.

MS. DEFILIPPO: Thank you. Mr. Corkran, we'll turn to you now.

MR. CORKRAN: Well, thank you very much. I appreciate the time and effort and the travel to get here, particularly since we had to reschedule. My questions will probably bounce a round a little bit. The first question I had, I'd like to start with Mr.

Saito. You presented testimony today regarding contracts that were in effect, longer-term contracts that have subsequently lapsed, and I was trying to tie that testimony to the import data we see.

Is the point that you are driving at, the larger volume of imports from Japan that are present in the U.S. market in 2010 and the smaller volumes that were present later? Is that the effect of those lapsed contracts you were referring to?

MR. SAITO: Yes. I'm Takahiro Saito from Sumitomo Corporation of America. I think to your questions, I don't think so, so it's no.

MR. CORKRAN: Can you elaborate a little bit then on the long-term contracts that you were referring to? You contend that domestic producers set the overall price environment, and then you discussed a series of long-term contracts that expired over time. Can you provide a little more detail on that and what the effect on the market was of that?

MR. SAITO: I think I talked about two different issues. One is in the past, up until probably 2012, there was a long-term fixed contract between domestic purchasers and the U.S. producers, and that expired, and that kind of opened the opportunity for purchasers to decide a new supplier.

That's what I referred to.

MR. CORKRAN: Thank you for clarifying that for me. It was my fault. I missed the point of the testimony. The next question I had would also go to representatives of Japanese suppliers for this market. I've been curious. I've heard a lot about the increasing need for more and more efficient forms of GOES, higher grades of grain-oriented electrical steel, if you will, and the one thing that sort of surprises me is that the Japanese import volume is actually declining when that's one of the reputations of the Japanese product is that it tends to be in the high permeability and the more efficient forms of goes. Can you explain a little bit about that?

MR. SUZUKI: I'm Suzuki from JFE Steel Corporation. Maybe I can support that question. First of all, our capacity is fully utilized in this current situation, and we are contracting with all over the world customers with long-term basis, and this efficiency trend, it's not only occurs in U.S.A., in everywhere. Like, Japan, we have a couple on our protocol, and there's a new regulation for E.U. standards and Australia and everywhere, so all over our customer requires the higher grade, so if U.S. customer requires such a higher grade, we have to

answer like we will try our best, but as long as we have a long-term contract, right now, we have no chance to expand our capacity to the U.S. right now. That's our answer.

MR. CORKRAN: Thank you. I appreciate that. I've got another question that I believe also goes to Mr. Saito, who's probably feeling a little picked on right now, and I'm sorry. Mr. Saito, you had made reference to a Sumitomo joint venture Vicks Metal. Can you just provide a little bit of a description of what that operation is in the United States and what role it plays?

MR. SAITO: Yes. My name is Takahiro Saito of Sumitomo Corporation of America. Yes, we have joint venture with AK Steel for slitting of master coils of electrical steel. We can process both grain-oriented electrical steel as well as no grain-oriented electrical steel. We have two facilities in the U.S., Indiana and Mississippi, both very identical operations. Again, what they do is we bring the master coil in the wide width, and we slit into the specific width as customer required.

MR. CORKRAN: Okay. Now I'm going to open the questions up a little bit more. We have heard a little bit about the role of slitter and laminators in

the U.S. market and even outside the U.S. market, but from some of the concerns raised on this panel, I was hearing a little bit of a disconnect between what I heard this morning and what I've heard this afternoon. What is the role of slitters and laminators in the U.S. market, and what is the degree of value-added, at least in a general sense in their operations in the U.S. market?

MR. BECKER: Well, I have to fill the vacuum because there's a vacuum, so Bruce Becker with Toyota Tsusho America, Inc. They provide a number of different services, especially in consideration of, as was mentioned before, the long lead times associated with international transport of steel. Customers require the steel to be brought in in specific slit widths so that they can feed them into their manufacturing machines, whatever they may be.

For those that are making stacked cores, they have them cut to length, so there's a specific machine that cuts the slit widths to length, so that's the second process to that. For those that do wound cores, they come in in a variety of different forms, either stacked where the inner dimensional eye is horizontal or on a pallet straight up, and they're delivered by truck or whatever means to the end user

who then processes them into wound cores.

Their added value is not only in the process of slitting or preparing the steel, but part of the quality requirements for a transformer manufacturer require different kinds of physical properties as well, so flatness, camber, burr edge, these type of wavy edge, for example, these are death knells to a manufacturing operation. A quality slitter is incredibly important, and this is regardless of whether it's domestic or international steel. That's just a couple of my views. Thank you.

MR. CORKRAN: One of the points that's been raised this afternoon has been the price trends that are visible worldwide. Can you provide, from your perspective, the factors that are driving some of these worldwide prices downward? This morning we did hear the contention that capacity in the global market was one of the trends driving that down, but I'd be curious to hear what your perspective is on price trends globally.

MR. HUSISIAN: We believe that we have some information about that back in Tokyo, and we can provide some information about that in our post-hearing statements.

MR. WOOD: This is Chris Wood. I mean, one

thing I will mention to you, I think you heard in the testimony today, we'll do the best we can, but the Japanese producers at least, the levels of capacity utilization have remained very high as you'll see from the data throughout the period, so we may have to speculate on that excess capacity.

MR. CORKRAN: Okay. No. I appreciate that. The last question that I would have is essentially what has been the impact of the antidumping duty investigation that occurred in China, it also not only covered U.S. producers, it also covered Russian producers. What has been that impact on sales of grain-oriented electrical steel into China during the years that we're looking at?

MS. CHAN: Unfortunately, I do not have that information, and we can probably do it at the post-briefing.

MR. HUSISIAN: One thing we'd point out, that investigation predated the period of investigation here, and again we have a situation where in 2010 and 2011, the U.S. industry was performing very, very well. We think that's the reason why they don't really discuss it in the petition because it would have the obvious disconnect of it wasn't having an impact on them right after that

case, why would it suddenly be kicking in in 2012 and 2013?

MR. CORKRAN: Okay. Thank you very much. Once again, I really do appreciate all the time that you all have spent with us, and we certainly value your testimony, and with that, I have no further questions.

MS. DEFILIPPO: Thank you, Mr. Corkran. I do have just a few areas to question on, some specific and some for the sort of entire panel, so I'll start specific. Mr. Huang, in your testimony, you talk about it's the time it took Baosteel to go from production trials to reach full commercial production, and I believe you indicated it was four years. Would you say that's an average sort of timeframe that a new producer trying to get into the market would experience, or did Baosteel have any particular problems during that period, that length, and what would normally be an average time period to come to market?

MR. HUANG: Okay. I'll try to answer this question. So GOES is a very unique product unlike other flat products. They need a lot of tremendous investment on technology and equipment. In particular, they have a special know-how to control

the internal process, so it takes a long time and a very lot of uncertainty to figure out what's the right setting to the equipment, to Bao is, just, for example, we take four to five years to figure out our own parameters to handle the process.

Far from that, we start R&D research even 10 years ago, so under the laboratory level department, we also spend another maybe five or four years, so it's just a reference sample so explain how miserable or how uncertainty for the GOES production.

MS. DEFILIPPO: Thank you.

MR. HUANG: Thank you.

MS. DEFILIPPO: Mr. Becker, in your testimony, you talked about Japanese GOES being of uniquely high quality, and you indicated that a customer told you JFE was the only steel supplier that they have used that never had a product rejected for quality reasons, and I just didn't know if you or other members of the panel had any information on any sort of industry-wide rejections rates? Are there any average sort of rejection rates, or do you have any information on suppliers that may be known to be higher than average or lower? I mean, obviously you've mentioned JFE, but are rejects common in this industry? Maybe that's the best way to start.

MR. BECKER: No. I guess the best way for me to answer that would unfortunately be rather subjective and not very data driven. I don't have access to industry, you know, that would be -- it's very small industry, and nobody really likes to bad mouth anybody in that industry because it comes back, and so there would be, I don't know, some very hurt feelings, I think, if I would bad mouth one production chain's successes or failures in that regard, but subjectively speaking, those transformer manufacturers that have demanding customers, especially those that provide custom or made-to-order transformers are making batches of transformers to order for utilities and other applications.

Some of those applications are solar or wind farm developers or other kinds of specific real estate developments that have engineering spec, et cetera, that calls for a specific type of transformer to be used in a specific location for a specific function. Those type of transformers have a huge demand for very succinct and quality tolerance manufacturing standards, and they won't use substandard material. It just costs them way too much, so, for example, one of my customers built a number of transformers.

They had to completely change their quality

unit because they were finding that some transformers were failing. They would build this transformer over the course of weeks, whatever it took to build one unit. They would test it, and it would blow up. Well, that means they have to disassemble it and spend all that staff time to trace back what went wrong, and if they find that it's a material defect, well they're not going to be too terribly ready to go back to that supply chain again for their source of material, so I'm sorry for all the subjective information to respond, but that's the best I can do. Sorry.

MR. HUSISIAN: If I could add one point there, this morning, what they were focusing on was the efficiency Petitioners, but that's actually only one of the attributes that's important. You have to look at transformer manufacturers have to meet size, efficiency, noise and increasingly regulation requirements, so this kind of mix and match approach where they are saying like these are batteries, and you can maybe take a couple of dollar-store batteries or maybe use one battery from Eveready or hey, you need a 12-volt battery, let's just put a bunch of 1.5-volt batteries together, we can mix and match like they're legos, that isn't true.

It might be true for some forms of steel,

particularly in the conventional grades, but as you move up, what you find is, for examp0le, if you go to a lower efficiency, the size of the transformer gets bigger, sometimes dramatically bigger. They were talking about in some cases a manageable-sized transformer with a lower efficiency might become more like that size of a room, and you can imagine that's problematic if you're trying to put it on top of a pole or something like that.

Then, you also have the specialty situations where you might need to anneal a wound core and heat it up to where certain kinds of steel are not going to work even though it's grain-oriented steel because you have that annealing issue, so it's our view that you need to look at it based on sort of each country and each company and see how its products are competing, because the answer that you might get for say conventional grain-oriented electrical steel in terms of interchangeability may be quite different for another company or another country where they are hitting these specialty things.

But this is kind of mix and match, hey, everything's good, we can just do whatever we want and, you know, put it together, what you want, and it's like having three pieces of steel versus one

strong piece of steel is incredibly simplistic and just is not going to work at all for certain types of products.

MS. DEFILIPPO: Thank you for that additional information. In Mr. Becker's testimony, he also talked about, and we've talked a lot about it today, the new Department of Energy efficiency standards that go in effect in 2016 will mandate the use of heat proof DR GOES from any transformers.

To the extent that anyone has any estimates on, to try and quantify how much of the market will be affected by those, how much of the market will those new requirements affect? Is it a large portion that's going to be only able to use certain types of GOES? Is it a small portion of the market? I'm just trying to get an idea of what the impact would be.

MR. BECKER: In the limited portion, where JFE Steel is competitive, the desire is for, you know, smaller-sized, lower temperature, highly efficient transformers to meet those needs of the marketplace, you know, for the regulatory requirements for the 2016 roll out of the Department of Energy efficiency standards.

I think the point for the material being used in that or in terms of the extent to which that

is, the standards come out per size, or per grade, or performance characteristic in a chart, and the efficiency standards come from, they have increased from, you know, negligible percentages of efficiency.

When we talk efficiency, we talk how many watts are being pumped through that transformer and how many watts are lost versus the weight of that core. So if you have a thousand pound core and you're pumping, I'm just pulling figures out of my ear right now, but if you're pumping 10,000 watts into a thousand pound core you have so many watts per pound that should be going through that transformer.

If you're using substandard material in that transformer, you're losing so many of those watts per pound. That's, when you hear Connie talk about watts per pound, that's the measurement standard by which everybody is looking at. So the DOE, the Department of Energy efficiency standards are dealing in percentages, 100 percent being maximum.

If they increase any one of those ranks of efficiency standards for transformers by .3 percent, when we're talking about transformers that have a 40 to 50 year life span for so many pounds and so many thousands of applications, you can see what we're talking about in terms of extent of requirement of

material. The electricity losses over the entire U.S. grid, for example, if you measure it in that way, over 50 years are extensive.

So I guess the point is that if you use a substandard material to try and fill that bracket in the DOE's standards, let's say you try, if the standard says this transformer for this particular size has to be 97.5 percent or it will be substandard and slapped, that means that you have to, the engineer then has to meet that standard by using the appropriate material.

The appropriate material has to have core loss standards that allow them to build a smaller core that can be used, for example, for a pole mount usage that will maintain the heat and size requirements, but also have the lower core loss requirements for that application. If they don't do that, they would have to use a substandard material and add more weight or more volume to that core.

So if you can imagine looking at your normal telephone pole and you see those tanks that are up there channeling electricity along the lines, if they had to meet that transformer using say an M4 or an M3 and they weren't, didn't have access to higher grade material, that tank may be twice or three times the

size.

Well, there's not a pole out there that would be able to hold that kind of weight and not topple over, kill a bunch of people, and take a bunch of power lines down.

So I guess that's what we're talking about when we talk about efficiency standards driving designs and about the need for more advanced material in creating those transformer cores. I'm sorry for the long response.

MS. DEFILIPPO: That's okay. It was very helpful, although my economics degree is not very helpful in understanding some of this stuff, so I will switch to some economics concepts and maybe I'll feel a little more comfortable in that zone.

Earlier this morning Mr. Fetzer had asked some questions about factors affecting U.S. demand, and indicators to look at, and ways to sort of project or evaluate where demand might, estimate where demand might be going. I think we talked about housing starts.

I just wanted to throw that question out to the panel and ask sort of, you know, what indicators do you look to to gauge how demand is going to be, and, you know, what has been your impression of where

demand in the U.S. has been, and where is it likely to go in the next year or two? Any thoughts would be helpful.

MR. SUZUKI: Okay. This is Suzuki from JFE Steel. Last three years, housing starts, I also agree to, with the indicator, as for the good indicator for the GOES demand for this market. I mean the U.S. market is housing starts and like last three years the housing starts are gradually covered. Now reached around one million units right now.

It was once dropped less than 0.5 million units and, after the Lehman shock. So we believe it's gradually recovered, and we prospect that this gradual growing will continue for next several years. Okay.

MS. DEFILIPPO: Anyone else? No?

(No response.)

MS. DEFILIPPO: The other area of questions that Mr. Fetzer had asked were concerning raw materials in terms of what has been sort of trends in costs of major raw materials to produce GOES over the period, and any information on potentially where those costs might be going, if you have any thoughts now or any thoughts to include in a postconference brief, that would be helpful.

MR. SUZUKI: Okay. Again, Suzuki from JFE

Steel. Our raw material for GOES is a little bit different from the producers in the United States because most of our companies are integrated steel producers and we are producing from the iron ore and the coking coal, so these, you know, raw material cost, it's fractuated during the period of investigation. So we believe the market, GOES market price moves differently compared with, you know, the fractuation of our raw material.

MS. DEFILIPPO: Any other comments from other witnesses?

MR. HUANG: Steven from Baosteel. I agree the comments that Suzuki San has mentioned. So we are the same, integrated steel mill. We have totally different process compared with the U.S. producers. So we start from the iron ore to steel making and the core drills finishing line. So our raw material is mostly related to the iron ore, and coking coal, and the natural gas, the other raw material effects.

On top of that, there's another uncertainties for the year of the production because if we can have a better control of the cost production, we can have a higher year of the output. So that also count a great percentage of the whole production cost.

MS. DEFILIPPO: Thank you. Just a couple last things that can be included in postconference briefs.

Mr. Huang, you touched on this in your testimony, and we talked about it a little bit this morning, on contracts and the ability or not to renegotiate prices during the term of a specific contract. Mr. Huang, I believe you talked about your knowledge, not your experience, but your knowledge that price is fixed for the duration of contracts for no opportunity for renegotiation.

Some of this may be in the questionnaire responses. If it's an importer questionnaire, I know we asked that question. To the extent that you can provide any information on knowledge of how the imported products are sold, whether they are sold under contract, short, long, and the degree to which they may be renegotiated on the basis of the price, and, if so, has that occurred during the period of investigation, that information would be helpful.

The last request I have is for Ms. Chan, and again, this may be probably something you might want to put into your postconference brief. In your testimony you talked about the fact that, and I believe I heard this right, NLMK does not produce the

grades that meet these increased requirements. That the Russian product does not.

To the extent that you could provide any information on whether or not there are any plans to change production or move into those grades that would meet those requirements, that would be helpful.

MS. CHAN: Sorry.

MS. DEFILIPPO: Sure. Go ahead if you have any comments that you would like to make.

MS. CHAN: On behalf of Novolipetsk, in terms of what I talked about, the M3, going back to the data of .38 which is the typical for the U.S. mills, at Novolipetsk, at this point we have tried for several years now to try to meet that law. So in other words, try to get down to that standard. As of right now, the best we can do is .40.

Of course we continue to try, and like I said, it has taken several years to even reach this point, so it could be another several more years ahead.

MS. DEFILIPPO: Thank you. That's very helpful. Let me just look around my table and see if anyone has any other additional questions. I'm not seeing any, so I will again thank you very much for all being here to provide us with both direct

testimony and to answer our questions. It has been extremely helpful.

We are done with direct testimony for both sides, and the last thing on the agenda are closing statements. I will kind of look to both panels and say five minute break or so to kind of confer with your clients and get ready for that. Does that sound good? I'm looking around and seeing nods of yes. All right. Well, we'll give like five minutes.

(Whereupon, a short recess was taken.)

MS. DEFILIPPO: Welcome back, and please proceed when you're ready.

MR. HARTQUIST: Thank you, Ms. DeFilippo. I won't take much time here. I'm going to deal with about four specific issues and the rest we'll deal with in the postconference brief. I do want to address a little bit further, and we'll do this in the brief also, the Respondents' arguments about U.S. exports and the impact on this case.

First of all, just a general observation that if you take the issue of U.S. exports out of the mix completely, just subtract it from the case, we believe you still show, we still show significant injury with the remainder.

Secondly, the Respondents' arguments appear

to be that AK and Allegheny are essentially the price leaders in the U.S. market and basically have been beating each other up to try to keep market share and that the Respondents are basically innocent bystanders reacting to U.S. price leadership. That's simply not the case.

We think that the evidence that has been provided thus far to the Commission shows that, and we'll deal further with that in our postconference brief.

Also, the graphs that were submitted, the charts that were submitted by the Respondents show a significant decline in U.S. exports. The Respondents assert that tonnage has been diverted to the U.S. market because of the decline in exports, but U.S. shipments were relatively flat over the period when you take everything into consideration, and so really what's going on is reflective of the price competition with the Respondents that the domestic producers were reacting to in order to try to keep market share and essentially stay in this business and try to serve customers under very difficult circumstances.

A couple of comments about the Chinese imports and whether they're a threat or not, the impact of their tonnage. I would just note some

statistics. I think they're quite clear. Between the two interim periods, 2012 and 2013, the volume increased of Chinese imports from five short tons in 2012 to 1,118 tons in 2013. That's a significant amount in this market.

Secondly, if you look over the period of investigation at the performance of the Chinese, their imports quintupled from 2010 to 2011, quintupled again from 2011 to 2012, and increased 200 fold in the interim periods. So I don't know how you define surge, but that looks like a lot of growth to me.

A brief comment about DOE standards. I think there's been some confusion about how these standards work and both AK and ATI were very deeply involved in working with DOE on these new standards.

The standards define an efficiency requirement. They do not define the grades or the products that are required to meet the standard. Our testimony is that a variety of grades of electrical steel can be adapted to meet the efficiency standard.

So, you know, whether you're dealing with an M3, for example, or other grades, the standard can be met in a variety of different ways, and price is a very significant determinant of how you comply with the standard and, you know, purchase the products that

a transformer manufacturer needs in a cost-efficient way.

Ms. DeFilippo, you also asked a very good question of Respondents about the portion of the market that is served by specialty products, and you didn't really get a very comprehensive answer to that. Our answer is that it's really a very small part, a tiny part, of the market, and we will provide further evidence of that in our brief.

That concludes my remarks. Thank you. We've enjoyed being with you today.

MS. DEFILIPPO: Thank you, Mr. Hartquist. We will now move to the closing statements for Respondents.

Mr. Husisian, are you doing the honors today?

MR. HUSISIAN: I am.

MS. DEFILIPPO: Excellent.

MR. HUSISIAN: Everyone will associate me with going to lunch.

MS. DEFILIPPO: Thank you. Please proceed when you are ready.

MR. HUSISIAN: Thank you once again for the opportunity to address you one last time. As was discussed during the presentation today, we think that

there's numerous places where additional data is needed to fully understand this industry and what's going on over the period of investigation, including more data on what's going on with the dramatically falling exports, better price data, more information on lost sales and lost revenue not with regard to the subject producers, but with regard to the dog fight that's going on between these two dominant producers which are the overwhelming sellers into this U.S. market.

We also think there's more information to go into the issue of the unique products that are sold by certain countries and by certain companies because everything's not kind of this mix and match solution that was presented today.

So we think that if you go on to a final phase investigation there's more information that you need. Nonetheless, we don't actually think that you need to move on to that stage.

We recognize, as people who have done lots of these cases, that the standard is extremely difficult at the preliminary stage. Under the American Lamb case, it's only the rare situation. I would suggest that maybe this, the American Lamb case should be renamed the where's the beef case standard

because that is what we see going on in this case.

This is a situation again where you have small and stable imports, small and stable market share, you've got a U.S. industry that's driving down the prices. If this is attack of the subject imports, it's attack of the small and stable pipsqueaks. We don't see this as being a situation where there is anything at all to be attributed to the subject imports.

One of the key issues before the Commission is not only whether the U.S. industry is materially injured, it's whether the cause of that material injury is by reason of the subject imports. Make no mistake, the U.S. industry has a problem, and its problem is its falling capacity utilization. Something has happened over the period of investigation and that goes directly to causation, but you can't attribute that to the small and stable subject imports.

So we would suggest to you that you look at the charts that we're going to be submitting, that you look at the data very carefully, and then you think about the kinds of cases that you normally see, because despite all the attempts to shoehorn this into the normal type of antidumping case that is brought

before the Commission, this just doesn't fit. It is a case where the U.S. industry has inflicted its own injury in one way or the other and which is looking for a scapegoat.

The role of this Commission is not to facilitate that. It's to decide whether there is a true causation case there. We submit that the data that's in the record does not support that. Thank you.

MS. DEFILIPPO: Thank you very much. On behalf of the Commission and the staff, I would like to thank the witnesses who came here today, as well as counsel, for helping us gain a better understanding of the product and the conditions of competition in the GOES industry.

Before concluding, please let me mention a few dates to keep in mind. The deadline for submission of corrections to the transcript and for submission of postconference briefs is Wednesday, October 30. If briefs contain business proprietary information, a public version is due on Thursday, October 31.

The Commission has tentatively scheduled its vote on these investigations for Tuesday, November 19, and it will report its determinations to the Secretary

of the Department of Commerce on Wednesday, November 20. Commissioners' opinions will be issued on Wednesday, November 27.

Thank you all for coming. This conference is adjourned.

(Whereupon, at 1:23 p.m., the hearing in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Grain-Oriented Electrical Steel

INVESTIGATION NO.: 701-TA-505 and 731-TA-1231-1237

HEARING DATE: October 25, 2013

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary Conference

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

DATE: October 25, 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: Rebecca McCrary
Signature of Proofreader

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

SIGNED: Edwin Wesley
Signature of Court Reporter