

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:
**FORGED STEEL FITTINGS FROM
CHINA, ITALY, AND TAIWAN
(Final)**

) Investigation Nos.:
) 701-TA-589 and
) 731-TA-1394-1396

Pages: 1 – 202
Place: Washington, D.C.
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FORGED STEEL FITTINGS)	701-TA-589 and
FROM CHINA, ITALY,)	731-TA-1394-1396
AND TAIWAN)	(Final)

Thursday, August 2, 2018
 Main Hearing Room (Room 101)
 U.S. International Trade Commission
 500 E Street, S.W.
 Washington, D.C.

The meeting, commenced, pursuant to notice, at 9:30
 a.m., before the Commissioners of the United States
 International Trade Commission, Chairman David S. Johanson,
 presiding.

1 APPEARANCES:

2 On behalf of the International Trade Commission:

3 Commissioners:

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OPENING REMARKS:

Petitioner (Christopher T. Cloutier, Schagrin Associates)

Respondent (John M. Gurley, Arent Fox LLP)

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

Schagrin Associates

Washington, DC

on behalf of

Bonney Forge Corporation

United Steel, Paper and Forestry, Rubber, Manufacturing,

Energy, Allied Industrial and Service Workers International

Union ("USW")

John Leone, Chairman and CEO, Bonney Forge

Corporation

Chuck Almer, Vice President of Operations, Bonney

Forge Corporation

Heather McClure, Vice President, Corporate

Controller, and Assistant Treasurer, Bonney Forge Corporation

Ken O'Connell, Vice President and Regional Manager,

Bonney Forge Corporation

Susan Leone, Executive Vice President of WFI, a

subsidiary of Bonney Forge Corporation

1 In Support to the Imposition of Antidumping and
2 Countervailing Duty Orders (continued):

3 Roxanne Brown, Legislative Director, USW

4 Christopher T. Cloutier, Elizabeth J. Drake

5 -- of Counsel

6

7 In Opposition to the Imposition of Antidumping and
8 Countervailing Duty Orders:

9 Arent Fox LLP

10 Washington, DC

11 on behalf of

12 Industria Meccanica Ligure S.p.A.

13 and M.E.G.A. S.p.A. ("I.M.L. and M.E.G.A.")

14 Ronnie Weinstein, President, Itex Piping Products LLC

15 Mauro Angeretti, Vice President, M.E.G.A. S.p.A.

16 Andrew Szamosszegi, Principal, Capital Trade, Inc.

17 John M. Gurley, Nancy A. Noonan - Of Counsel

18

19 REBUTTAL/CLOSING REMARKS:

20 Petitioner (Elizabeth J. Drake, Schagrin Associates)

21 Respondent (John M. Gurley, Arent Fox LLP)

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P R O C E E D I N G S

(9:30 a.m.)

MR. BISHOP: Will the room please come to order?

CHAIRMAN JOHANSON: Good morning. On behalf of the U.S. International Trade Commission, I welcome you to this hearing on the final phase of Investigation Numbers 701-TA-589 and 731-TA-1394 to 1396 involving Steel Fittings from China, Italy and Taiwan.

The purpose of these final investigations is to determine whether an industry in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of the imports of Forged Steel Fittings from China, Italy and Taiwan.

Schedule setting forth the presentation of this hearing, notices of investigation and transcript order forms are available at the public distribution table. All prepared testimony should be given to the secretary. Please do not place testimony directly on the public distribution table. All witnesses must be sworn in by the secretary before presenting testimony.

I understand that parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the secretary. Speakers are reminded not to refer in their remarks or answers to questions to

1 business proprietary information. Please speak clearly into
2 the microphones and state your name for the record for the
3 benefit of the court reporter.

4 If you will be submitting documents that contain
5 information you wish classified as business confidential,
6 your request should comply with Commissioner Rule 201.6.

7 Mr. Secretary, are there any preliminary matters?

8 MR. BISHOP: Mr. Chairman, I would note that all
9 witnesses for today's hearing have been sworn in. There are
10 no other preliminary matters.

11 CHAIRMAN JOHANSON: Very well. Let us begin with
12 opening remarks.

13 MR. BISHOP: Opening remarks on behalf of
14 petitioners will be given by Christopher T. Cloutier of
15 Schagrin Associates. Mr. Cloutier, you have five minutes.

16 OPENING STATEMENT OF CHRISTOPHER T. CLOUTIER

17 MR. CLOUTIER: Good morning, Chairman Johanson
18 and members of the Commission. I'm Chris Cloutier of
19 Schagrin Associates, here today on behalf of petitioners
20 Bonney Forge and the USW. The forged steel fittings
21 industry is susceptible to business cycles and as such,
22 depends on economic peaks to generate good returns to keep
23 the company going and people working through economic
24 draughts.

25 This is important because during the period of

1 investigation, there were fluctuations in the price of oil
2 and gas, which drove fluctuations in demand for forged steel
3 fittings. As Congress recognized when passing the 88 Act,
4 cyclical upturns in industries like this one can mask
5 injury, because some economic indicators may be moving
6 upward, notwithstanding the negative impact of unfairly
7 traded imports.

8 The legislative history offers, as an example, an
9 industry making profits but not capital investments. In
10 such circumstances, Congress explained that rising shipments
11 and profitability alone did not foreclose the possibility
12 that an industry was being materially injured by subject
13 imports.

14 During cyclical upswings, industries like forged
15 steel fittings need to realize high sales and revenues or
16 they won't survive the coming downturn. If unfairly imports
17 rob them of the opportunity to fully participate in the
18 market at its peak, they have suffered material injury.

19 In this case, rising subject import volumes
20 undersold the domestic like product, causing injury during a
21 particularly disadvantageous portion of the period of
22 investigation. The domestic industry was already suffering
23 very low capacity utilization rates and was desperate to
24 make shipments to keep plants operating and absorb fixed
25 costs.

1 In order to maintain volume in market share, the
2 domestic industry was forced to cut prices. These lower
3 prices negatively affected the domestic industry's economic
4 performance. The domestic industry was forced to lay off
5 workers and employment was still down in 2017, even as
6 demand rebounded.

7 After the petitioners were filed, trends changed.
8 Subject import volumes fell in interim 2018, even as demand
9 continued to increase. And import average unit values
10 increased. For the first time during the period of
11 investigation, the performance of the domestic industry
12 improved dramatically in line with rising demand.

13 These interim improvements do not weaken the
14 injury case here. To the contrary, they underscore that
15 subject imports played a key role in causing the injury
16 suffered prior to the filing of the petitions. It appears
17 that today's hearing is going to focus on Italian issues, so
18 it's worth addressing a few of I.M.L. and M.E.G.A.'s
19 arguments right off the bat.

20 First, based on its brief, it appears that the
21 Italian respondents are focused on attenuated competition.
22 I quote from their brief at Page 5, "It is widely
23 acknowledged in the industry that there is insufficient
24 domestic capacity and expertise to produce the normalized
25 ASTM A105 FS fittings required by end users." In support of

1 this argument, they cite nothing.

2 I hope that someone asks them what record
3 evidence supports their contention because it's just not
4 true. Some 87% of firms reported that domestic and Italian
5 forged steel fittings are always or frequently
6 interchangeable and most rate them as comparable across the
7 vast majority of factors. The only factor where most rate
8 Italian product to be superior is price.

9 And as you will hear directly from Bonney Forge
10 executives in the next few minutes, under oath, the company
11 has: One, made normalized fittings for decades; Two,
12 under-utilized capacity for normalized fittings; Three,
13 stocks normalized fittings for rapid delivery; Four, is on
14 essentially all of the approved manufacturers' lists for
15 normalized fittings; and Five, competes with low-priced
16 Italian normalized fittings, not only in the U.S., but also
17 in foreign markets.

18 For what it's worth, BOTHWELL, the big producer
19 in China and Taiwan, not present today, also makes
20 normalized fittings. When the Commission cuts through the
21 noise of the unsubstantiated arguments, we believe you will
22 find the subject imports from all countries should be
23 cumulated, both for present material injury and for threat.

24 These imports undersold the domestic industry on
25 a volume basis throughout the POI and forced price

1 depression and resulting losses from 2015 through 2017.
2 American workers lost their jobs in this industry because of
3 the extremely high levels of unfairly traded imports.

4 Even with demand fluctuations over the period of
5 investigation, this still adds up to a case of material
6 injury caused by subject imports. We therefore request that
7 the Commission make an affirmative determination. Thank
8 you.

9 MR. BISHOP: Thank you, Mr. Cloutier. Opening
10 remarks on behalf of respondents will be given by John M.
11 Gurley of Arent Fox. Mr. Gurley, you have five minutes.

12 OPENING STATEMENT OF JOHN M. GURLEY

13 MR. GURLEY: Good morning. My name is John
14 Gurley, counsel with the Italian respondents I.M.L. and
15 M.E.G.A. This is an interesting case in several respects.

16 First, it is not often you see so few people at a
17 hearing, but I'm hoping we can keep you interested during
18 this period. Second, there is the very low tonnage of
19 subject merchandise that has been imported into the United
20 States, especially from Italy. Third, we have a case where
21 the performance of the domestic industry, and the U.S.
22 market, more generally, is largely driven by oil and gas
23 prices.

24 And as the Commission well knows, oil and gas
25 prices dropped between 2015 and 2016, and then rose in 2017

1 and have stayed strong in 2018. Petitioners freely
2 acknowledge this very important condition of competition in
3 their prehearing brief, but somehow draw the wrong
4 conclusion from this fact.

5 Looking at their brief, petitioners appear to
6 want the Commission to look at 2014 data, when oil prices
7 were really high. But 2014 is not part of the POI, which
8 suggests that they know that when the Commission looks at
9 POI data, such an analysis would not be good for them.

10 Indeed, since Bonney Forge and the domestic
11 producers performance is largely tied to demand in the oil
12 and gas sector, they have been doing very well over the last
13 eighteen months. Most financial indicia are quite positive.
14 Profits are up, shipments are up, production is up.

15 As demand increased, subject imports did increase
16 somewhat in response to that demand. But the domestic
17 industries' market share has gone up, not down, every year
18 of the POI. In fact, we do not see any negative impact on
19 the U.S. industry by this modest increase in imports. To
20 the contrary, the domestic industry has gotten steadily
21 healthier.

22 The future also looks very favorable.
23 Everybody--and I mean everybody--knows that the U.S. economy
24 grew 4.1% last quarter. For the record, that's not a
25 political comment, but this is a good time to be a U.S.

1 manufacturer. Most U.S. industries would not be filing
2 AD/CVD cases with these facts. And these petitioners
3 shouldn't have either.

4 The Italians will present a special case here
5 today. 100% of their product is normalized. We explained
6 in our brief why this matters. And we'll give more detail
7 today in Mr. Weinstein's testimony, as well as that of Mr.
8 Angeretti. But normalization is a huge factor that has been
9 entirely glossed over by petitioners.

10 To our knowledge, the U.S. industry sells very
11 little normalized product to U.S. customers. In contrast,
12 both M.E.G.A. and I.M.L., which account for the vast, vast
13 majority of Italian exports, sell normalized forged fittings
14 exclusively--not just in the U.S.--but throughout the world.
15 These normalized forged fittings go to large international
16 oil and gas companies such as Shell, Chevron and Exxon,
17 which to our knowledge, buy virtually no normalized fittings
18 from petitioner or the rest of the U.S. industry.

19 It is rare to have a case where there seems to be
20 so little competition between the domestic industry and a
21 named country, here Italy. We also think there's little
22 competition between imports from Italy and those from Taiwan
23 and China. For that and other reasons, we request that
24 Italy not be cumulated with either Taiwan or China in the
25 Commission's analysis of threat and material injury.

1 We really look forward to hearing the testimony
2 of petitioners today. We look forward to a lot of questions
3 on normalization, the special requirements of oil and gas
4 companies and why, with all the positive news and stable oil
5 prices, petitioners believe they have a credible threat
6 case. Thank you very much.

7 MR. BISHOP: Thank you, Mr. Gurley. Will the
8 panel in support of the imposition of the antidumping and
9 countervailing duty orders please come forward and be
10 seated? Mr. Chairman, this panel has sixty minutes for
11 their direct testimony.

12 MS. DRAKE: Good morning, Chairman Johanson and
13 members of the Commission. My name is Elizabeth Drake and
14 I'm here on behalf of the petitioners, Bonney Forge
15 Corporation and the United Steel Workers, with Schagrin
16 Associates. Mr. Cloutier's opening statement, I believe did
17 a fine job of giving the theory of our case.

18 Though there were obviously strong fluctuations
19 in demand over the period of investigation, the condition
20 was worsened in the downturn by the presence of low-priced
21 subject imports and the domestic industry was prevented from
22 fully recovering as demand recovered by that same presence
23 of low-priced imports that broadly undersold them, and it
24 was only after the petitions were filed and imports
25 retreated that the domestic industry was able to improve

1 its performance in line with demand.

2 In terms of normalization, we agree with Mr.
3 Gurley. We welcome lots of questions on normalization. We
4 think it would be very educational for the Commission and
5 make clear that the Italian arguments that this somehow
6 contributes to attenuated competition is simply without
7 merit.

8 And with that, I would like to turn to Mr. John
9 Leone, the Chairman and CEO of Bonney Forge Corporation.
10 Thank you.

11 STATEMENT OF JOHN LEONE

12 MR. LEONE: Good morning, Chairman Johanson and
13 members of the Commission. For the record, my name is John
14 Leone. I'm Chairman and CEO of Bonney Forge. Bonney Forge
15 was founded in Philadelphia in 1869 to make hardware for
16 horse-drawn carriages.

17 Over this company's history, the company's
18 products have changed. For example, during the two World
19 Wars, the company produced ordnance for the military. And
20 for a time, Bonney Forge made forged hand tools. However,
21 since World War II, the company has focused on Forged Steel
22 Fittings and forged steel valves.

23 Personally, I graduated from Penn State
24 University with a degree in petroleum and natural gas
25 engineering. Early in my career, I worked in drilling and

1 production operations for Gulf Oil on Lake Maracaibo in
2 Venezuela. After five years with Gulf Oil, I moved back to
3 the States and joined a company, Taylor Forge, a producer of
4 energy-related products.

5 I worked twenty years for Taylor Forge in
6 engineering, sales and general management. After my time
7 with Taylor Forge, I purchased Bonney Forge in 1984 from the
8 conglomerate Gulf & Western. Bonney Forge is located in
9 Mount Union, Pennsylvania, where we built a new plant in the
10 1990s, starting with 25,000 square feet under roof.

11 Today we have 300,000 square feet of
12 manufacturing and warehouse space. And we are the largest
13 manufacturing employer in Huntingdon County. In Huntingdon
14 County at our peak just a few years ago, we had 424
15 employees at our plant and at our corporate office. As you
16 will hear today from my colleagues, the vast majority of our
17 business is energy-related, either oil, gas or power
18 generation.

19 Given the energy nature of our business, it is
20 not surprising that we are subject to the cycles of the oil
21 and gas industry. I've seen many energy cycles throughout
22 my career. Relative to the recent cycle, I have two
23 comments.

24 First, it is clear that for the first time in
25 decades, United States has enough oil and gas to satisfy

1 domestic demand. Moreover, I believe along with energy
2 economists, that we will not experience any oil and gas
3 shortages in the foreseeable future. In the past, the
4 energy cycle was closely related to U.S. and worldwide
5 demand served by a somewhat limited energy supply. Now
6 that is no longer the case. Instead, there is enough energy
7 available worldwide to satisfy changes in demand.

8 The second point I would like to make is that we
9 have seen significant increase worldwide in the supply of
10 manufactured products serving the drilling and production
11 activities. During most of the 20th Century, the United
12 States dominated the manufactured products utilized in the
13 energy market. Our American energy market leadership traces
14 back to 1859 when the first successful oil well was drilled
15 in Titusville, Pennsylvania.

16 Today, however, there is excess capacity
17 worldwide for the products we manufacture. Recently, there
18 has been a drilling upcycle with a red count recovering from
19 the low 400s in early 2016 to the current level of about
20 1,050. However, our volume, our employment and our profits
21 have not fully realized this recovery.

22 Nationally and regionally our customer base is
23 comprised of large and smaller distributors, along with
24 engineering contractors. These customers serve the
25 upstream, midstream and downstream segments of the oil and

1 natural gas industry. During the last cycle, our customers
2 shifted much of their business to offshore suppliers like
3 the Chinese, the Italians and the Taiwanese.

4 Our customers have been buying fittings from
5 these countries at prices that are much lower than ours.
6 Over the past couple of years before we filed these cases,
7 we've had customer after customer tell us that they were
8 shifting their purchases to offshore companies. Faced with
9 this significant loss of market share, I decided it was time
10 for Bonney Forge to determine whether our offshore
11 competition was fair and if we indeed needed to take some
12 action.

13 As we prepared to file these cases, we reached
14 out to our major distributors and customers to give them a
15 heads-up of what we were doing. One major customer asked
16 us, "What took you so long? The flange and buttwelding guys
17 have already taken action."

18 My family which owns this business is totally
19 committed to Bonney Forge. Throughout the years we have
20 invested heavily in new equipment, including robotics, to
21 increase productivity and to make better-quality products.
22 We have also invested in improving our workforce through
23 inhouse and outside training programs.

24 Our annual investments have almost always been
25 higher than our depreciation, and at times, our investments

1 have been two or three times higher than our depreciation.
2 Among these investments were capital investments over a
3 decade ago for heat-treating equipment so that we could
4 produce normalized fittings inhouse. The largest North
5 American pipe valve and fitting distributor have been buying
6 normalized products, normalized fittings for the Canadian
7 market and non-normalized fittings for the U.S. market.

8 The Italians have come in a few years ago with
9 prices for normalized fittings less than our prices for
10 non-normalized. And they took share from our non-normalized
11 market. At Bonney Forge, we stock a large inventory of
12 fittings for next-day shipments. So any notion that the
13 U.S. industry cannot supply normalized fittings is nonsense.
14 Clearly our customers know that we have in stock normalized
15 and non-normalized product available. And we routinely ship
16 out-of-stock products on a routine basis.

17 Our workers have been represented by the United
18 Steel Workers for decades. We have a great relationship
19 with our workforce. We are pleased that the union has
20 decided to join with us as a co-petitioner. In 2017 we
21 completed a new labor contract, and we made the difficult
22 change from a defined benefit program to a 401K retirement
23 plan. The company and workers agree that this change was
24 appropriate, considering competitive conditions.

25 When drilling and production activities dropped,

1 our business went down. Our prices went down and our
2 business followed. Our drop in business was also negatively
3 impacted due to competition from unfairly traded imports.
4 However, when prices and drilling went up, our business
5 didn't recover as expected due to these same dumped and
6 subsidized imports.

7 After the Department of Commerce imposed
8 provisional antidumping duties at the beginning of March, we
9 had a number of distributors, including our largest single
10 distributor, shift their purchases back to us. Your actions
11 had big benefits to our business. And as you will hear, it
12 allowed us to increase production and hire back a lot of our
13 laid-off workers.

14 I want to take this opportunity to thank you and
15 your staff and the Department of Commerce for your good
16 work. I trust that you can see clearly that my family and
17 our employees are committed to the growth of our company.
18 And as a company, we believe in fair trade, not free trade.

19 I promise you that if you agree with me, that
20 these dumped and subsidized imports from China, Italy and
21 Taiwan injured our industry, we will continue to reinvest in
22 having the best workforce in our industry if you see upon us
23 favorably, and continue to make here in the United States
24 the best forged steel fittings in the world. Thank you.

25 MS. DRAKE: Thank you, Mr. Leone. Next, we

1 will hear from Chuck Almer, the Vice President of Operations
2 of Bonney Forge.

3 STATEMENT OF CHUCK ALMER

4 MR. LEONE: Good morning Chairman Johanson and
5 members of the Commission. For the record, my name is Chuck
6 Almer and I am Vice President of Operations for Bonney Forge
7 at the Mount Union facilities. I've been with the company
8 for over 28 years. At our Mount Union plant, we purchase
9 steel bars from U.S. and Canadian producers.

10 Our suppliers have state-of-the-art equipment
11 and are extremely efficient bar producers, but I can tell
12 you honestly that our closest supplier freight-wise and
13 therefore our largest supplier, Arcelor Mittal and Bonney
14 Forge, have been hit hard by the 25 percent steel tariff
15 against Canada.

16 Our U.S. suppliers have also raised prices.
17 Without relief, we will not be able to pass on these
18 increased costs to our customers. After receipt and
19 inspection, we cut the bars into varied lengths, depending
20 on the fitting that we are going to manufacture. Common
21 steps in the production process for forgings include heating
22 the bars in an induction furnace to approximately 2,300
23 degrees, forging the product and then trimming the excess
24 material known as flashing.

25 We have a variety of forged press equipment to

1 accommodate the wide range of product configurations and
2 materials we produce. After the forgings are produced, they
3 are staged for production in the machine shop, where they
4 are manufactured into their finished product type. Common
5 steps included for this manufacture of the finished fittings
6 include blasting the rough forgings with steel shot,
7 drilling, boring, threading, socket boring and stamping the
8 finished product.

9 We have a variety of rotary transfer machines
10 to accommodate the different sizes and types of fittings we
11 produce. Due to the critical service application these
12 fittings could be exposed to, we inspect 100 percent of
13 every work order that goes to the floor, and we have roving
14 inspectors throughout the process, as our ISO 9001 quality
15 systems dictates.

16 Our product is marked with a unique lot number
17 which is fully traceable back to the original mill heat
18 number for the raw material produced by the steel mill.
19 Finally, we process the fittings through a state-of-the-art
20 wash and coating line where they are clean coated with a
21 zinc phosphate and lightly oiled for product preservation.

22 The finished product is then packaged and
23 placed in our finished goods warehouse, where it is
24 eventually assigned to a customer order pulled and shipped
25 to our distributors. For normalized fittings, we also heat

1 treat the fittings in our normalizing furnace at 1650
2 degrees for about three hours on average, depending on the
3 wall thickness.

4 Product certifications are also made available
5 as required by the order. These certifications depict the
6 full detail of all the chemical and physical properties of
7 every fitting we produce. Our fittings are all produced to
8 recognize industry standards and specifications, which
9 include ASME B-1611 and MSSP-83, to name a few.

10 Our carbon steel fittings are produced in
11 accordance with the ASTM-A105 specification, and our alloy
12 fittings are made in accordance with the ASTM-A182
13 specification. The vast majority of our fittings are
14 produced from rough forgings through the process I just
15 described.

16 A portion of our fittings are, however,
17 machined directly out of steel bar. These fittings are also
18 manufactured in accordance with the previously mentioned
19 industry standards and material specifications, although
20 they're not from a forging.

21 To the best of my knowledge, all domestic and
22 imported forged steel fittings are made to the same ASME and
23 ASTM specifications. As Mr. Leone has mentioned, Bonney
24 Forge has constantly reinvested in the plant during my 28
25 years with the company. We have excellent equipment in our

1 forging, normalizing and finishing operations.

2 We also have an excellent relationship with
3 all our associates in the plant and both USW members and
4 management treat the plant as one family, working towards
5 success of the company. Just a few years ago when the
6 energy market was booming and times were good, we were
7 operating at sustainable levels. We fell to one-third
8 capacity utilization due to the surge of imports. That was
9 tough for our workers because there are not a lot of similar
10 employment opportunities in rural Pennsylvania.

11 I told the Commission staff last October that
12 leveling the playing field against our foreign competitors
13 wasn't going to harm our customer base, because we had the
14 ability to greatly expand our production to meet increased
15 demand for domestically made fittings.

16 That has proved true. We are at 50 percent
17 utilization today and we rehired 65 workers in 2018. There
18 is significant room for further improvements. Our
19 normalizing equipment in particular is still at only 30
20 percent capacity utilization. Fortunately, the reduction in
21 unfairly traded imports, even with the relatively low rate
22 count in 2018, has allowed continuous improvements in our
23 production levels this year.

24 Thank you for the opportunity to testify
25 today. I look forward to answering your questions.

1 MS. DRAKE: Thank you, Chuck. Our next
2 witness is Ms. Susan Leone, the Executive Vice President of
3 WFI, a subsidiary of Bonney Forge.

4 STATEMENT OF SUSAN LEONE

5 MS. LEONE: Excuse me, I'm sorry. Good
6 morning Chairman Johanson and members of the Commission.
7 I'm Susan Leone, Executive Vice President of WFI Operations
8 in Houston, Texas, a subsidiary of Bonney Forge. After a 14
9 year career in nursing, I've been with Bonney Forge for 20
10 years, including the last 16 with WFI following its
11 acquisition.

12 As part of the family that owns and manages
13 Bonney Forge, I can easily testify to my father's and our
14 family's commitment to this company and our workers. We are
15 all part of a team and we strive to make sure that the team
16 members have the best equipment to do their jobs as
17 efficiently and safely as possible every day.

18 We think of our company as a fabric of the
19 American Energy Industry. Our distributor customers are
20 forced by their end user customers to buy dumped and
21 subsidized imports at prices much lower than ours. They
22 have to compete with other distributors that are purchasing
23 these unfairly traded products.

24 We are confident that when the playing field
25 is leveled, these customers who know that we get quality

1 products, fair prices and good service from our company will
2 return. We thank you for your effort to preserve our
3 company's future. Thank you.

4 MS. DRAKE: Thank you, Ms. Leone. Next we
5 will hear from Ms. Heather McClure, who's Vice President and
6 Corporate Controller and Assistant Treasurer for Bonney
7 Forge.

8 STATEMENT OF HEATHER McCLURE

9 MS. McCLURE: Good morning Chairman Johanson
10 and members of the Commission.

11 MR. BISHOP: Pull your mic closer.

12 MS. McCLURE: Sure. Good morning Chairman
13 Johanson and members of the Commission. I am Heather
14 McClure, the Vice President, Corporate Controller and
15 Assistant Treasurer of Bonney Forge Corporation. I've been
16 with Bonney Forge for 21 years. Bonney Forge has been a
17 largely self-financing corporation during most of my time at
18 the company. Although we have tapped the debt market with
19 private placements from banks, primarily related to an
20 acquisition in 2013, we have no publicly traded debt.

21 As Mr. Leone described, Bonney Forge basically
22 has two business lines, valved and forged steel fittings.
23 One thing I can tell you for sure, and as you see in the
24 questionnaire response I put together for the Commission,
25 our company could not exist on the base of our forged steel

1 fittings business alone, given the massive pressures on our
2 volume, prices and profits caused by the decline in oil
3 prices several years ago, and then made worse by these
4 unfairly traded imports.

5 In fact, despite a big rebound in demand in
6 2017, we lost money in our forged steel fittings business
7 all three years of the Period of Investigation, and only got
8 profitable in first quarter 2018, thanks to the filing of
9 these petitions and preliminary relief resulting from these
10 cases. Basically, our valve business has carried the forged
11 steel fittings business for the last few years. This is
12 amazing because valves are also used in the energy sector,
13 as they have had similar demand drivers.

14 The difference has been the presence of
15 unfairly traded imports of forged steel fittings. These
16 circumstances are extremely unfortunate, because as you just
17 heard, Bonney Forge is the industry leader in forged steel
18 fittings in the United States, and the company has
19 consistently reinvested in its fittings business with the
20 best equipment available.

21 Unfortunately as you can see, sustained losses
22 have forced us to reduce our capital expenditures. In a
23 heavy manufacturing operation like ours, the inability to
24 make continued robust investments will eventually catch up
25 with you and undermine your competitiveness over the long

1 term.

2 Therefore today, I join my colleagues in
3 asking the Commission to make an affirmative determination.
4 Thank you.

5 MS. DRAKE: Thank you, Ms. McClure. Our next
6 witness is Ken O'Connell, Vice President and Regional
7 Manager for Bonney Forge Corporation.

8 STATEMENT OF KENNETH O'CONNELL

9 MR. O'CONNELL: Good morning Chairman Johanson
10 and members of the Commission. For the record, my name is
11 Ken O'Connell, and I am the Vice President and Regional
12 Manager for Bonney Forge Corporation. I have been with the
13 company for 21 years, and have 41 years' experience in the
14 forged steel fitting business.

15 Our corporation is very flat. At Bonney
16 Forge, we have four regional sales and vice presidents who
17 work with one another as a total marketing team. We all
18 report to Mr. Leone. Each of us has various sales
19 assistants, and I am responsible for the Northeast and the
20 Southeast regions.

21 Forged steel fittings are sold almost
22 exclusively through distributors. I would like to explain a
23 little bit about those distribution networks. There are a
24 handful of national pipe valve and fitting distributors such
25 as MRC, Denow and Ferguson, who have literally hundreds of

1 branches throughout the United States.

2 In addition to these national distributors,
3 there are also regional distributors who have dozens of
4 branches in any particular region of the country. Then
5 there may be hundreds of independent distributors. They
6 generally just have one or two distribution warehouses, and
7 they will either buy directly from manufacturers or they
8 will buy from a handful of master distributors.

9 These master distributors serve only
10 independent distributors as regional and national
11 distributors always buy direct from the manufacturer. At
12 Bonney Forge, we generally ship forged steel fittings from
13 inventory. This is true for both normalized and
14 non-normalized fittings, and we only happen to have -- and
15 we also have normalized fittings in stock of the required
16 shape and size.

17 For some of those SKUs, we will ship that
18 customer normalized fittings for those SKUs to satisfy the
19 order. The fact is that normalized fittings can be
20 substituted for non-normalized fittings in any application
21 where they are used. U.S. producers and foreign producers
22 or trading companies sell basically in the same way.

23 At Bonney Forge, we have always sold off of a
24 published price sheet, and we use a multiplier to then
25 discount from that list price. Until these trade cases, the

1 last time we increased our published prices was in 2011.
2 But we've lowered actual prices through bigger discounts off
3 that list price repeatedly over the last few years.

4 This was because in spite of resurgence in
5 demand, I heard repeatedly from distributors that they were
6 getting better prices from foreign sources. We were
7 generally unable to meet the prices of imports from China,
8 Italy and Taiwan because we wouldn't be able to cover our
9 own cost at such low prices.

10 In 2016 and 2017, Bonney Forge lost more sales
11 to imports than at any other time in my career. It's been
12 like night and day since these cases were filed, and
13 preliminary duties from the trade cases went into effect.
14 Distributors are coming back to me and placing orders. If
15 final relief is imposed, I know we can thrive, flourish and
16 reinvest in our equipment and people to make sure that
17 Bonney Forge continues as the U.S. leader in the industry.
18 Thank you for your time today, and I'll be happy to answer
19 your questions. Thank you.

20 MS. DRAKE: Thank you, Mr. O'Connell. Our
21 final witness today, is Roxane Brown, the Legislative
22 Director of the United Steelworkers Union.

23 STATEMENT OF ROXANNE BROWN

24 MS. BROWN: Good morning Chairman Johanson and
25 members of the Commission. For the record, my name is

1 Roxanne Brown, and I'm the Legislative Director for one of
2 the Petitioners, the United Steel, Paper and Forestry,
3 Rubber, Manufacturing, Energy, Allied Industry and Service
4 Workers Industrial Union, as known as the USW.

5 We represent the production workers who make
6 forged steel fittings at the Mount Union facilities of the
7 other Petitioner, Bonney Forge. As Mr. Leone testified,
8 Bonney Forge just a few years ago employed nearly 300 of our
9 members in Mount Union. The number of workers fell to below
10 100 in 2017, because of unfairly traded imports.

11 This was devastating for our members and their
12 communities. Every single one of those lost jobs led to a
13 family facing a financial crisis, and while the facility
14 qualified for trade adjustment assistance after the
15 Department of Labor found that imports of merchandise
16 competing with Bonney Forge's products increased, illegal
17 trade practices should not force workers to have to seek out
18 new jobs, particularly jobs that lack family-sustaining
19 wages and benefits.

20 As I'm sure you've come to understand through
21 the waves of cases involving steel products in recent years,
22 there has been a decline in well-paying manufacturing jobs
23 in Western Pennsylvania. Additionally, for those of our
24 members who are fortunate enough to remain employed, many
25 worked fewer hours and brought home less money for their

1 families.

2 Our union was pleased to partner with Bonney
3 Forge in bringing this case. As Mr. Leone testified, we
4 recently created a new labor contract that involves moving
5 our members from a defined benefit plan to a 401(k)
6 retirement plan. We were certainly not eager about this
7 change, but the company and our workers are in a fight for
8 the company's survival, and we need to be a responsible
9 partner.

10 Now, as is appropriate, we are sharing in the
11 recovery of Bonney Forge's business, as their customers
12 switch back from unfairly traded imports to domestic made
13 product due to the imposition of preliminary duties. In
14 recent months, 48 USW members, about one-quarter of those on
15 layoff there, have been recalled to work at Bonney Forge,
16 and more recalls are expected.

17 This is all due to your work at the Commission
18 and at the Department of Commerce, and we appreciate it. On
19 behalf of our members in the industry, we ask the Commission
20 to reach an affirmative determination. I look forward to
21 answering any questions you may have. Thank you.

22 MS. DRAKE: Thank you, Ms. Brown. Mr.
23 Chairman, that concludes our direct presentation, and we'd
24 be happy to take your questions.

25 CHAIRMAN JOHANSON: I would like to begin by

1 thanking you all for being here this morning, and we will
2 now begin the Commissioners' questions beginning with me.
3 Respondents argue that this is the rare case in which
4 competition between the domestic industry and subject
5 imports from a subject country, in this case Italy, is not
6 only attenuated but is largely non-existent, and this is at
7 page two of their prehearing brief. How do you all respond
8 to this categorization by the Respondents?

9 MS. DRAKE: Thank you, Chairman. I'll let the
10 industry witnesses talk about the competition they've seen
11 from Italian imports. But I'd also just like to emphasize
12 that the record as a whole clearly shows there's no
13 attenuated competition. More than 80 percent of respondents
14 rate Italian and domestic product as always or frequently
15 interchangeable. They are rated as--most purchasers rate
16 them as comparable across the vast majority of factors,
17 except for price of course, where Italian product is rated
18 lower.

19 Every single purchaser rated U.S. and Italian
20 product as comparable with respect to meeting quality
21 standards, and most rated them as comparable with respect to
22 exceeding quality standards. And we also have purchasers
23 themselves stating that they have switched from domestic to
24 Italian product, confirming lost-sales allegations, and that
25 the reason for that was price, not any sort of product

1 differentiation that would attenuate competition.

2 So our testimony of course will provide more
3 color to that, but the Commission's record on its face
4 clearly confirms that there's direct head-to-head
5 competition between domestic and Italian product, and that
6 that competition is on the basis of price.

7 Did you like to add anything?

8 MR. LEONE: Speaking on behalf of our customers,
9 our customers clearly recognize what the competitive
10 environment is. We've lost this business because of import
11 product. There's no question about that. And our customers
12 could testify to that.

13 So we have seen some return in volume since the
14 March--when the countervailing tariffs were put in place.
15 And many of our customers have said that they were about to
16 even continue to move, and would continue to move, unless we
17 get some relief.

18 We have lost share to market share to the
19 Chinese, the Italians, and the Taiwanese. There's no
20 question about that. And I'm speaking on behalf of our
21 customers.

22 CHAIRMAN JOHANSON: Thank you, Mr. Leone.

23 Ms. Drake, do you have anything else to add?

24 MS. DRAKE: I would like to add on the issue of
25 normalization, as our witnesses testified a normalized

1 fitting can be used in any application where a
2 non-normalized fitting can be used. So even if all of the
3 Italian product is normalized, that still can compete
4 directly with non-normalized fittings. And in fact it does,
5 because the Italian prices are so low.

6 So though they are going through the extra
7 process of normalizing, they are pricing that normalized
8 product so low that it is below the price of non-normalized
9 product and can be used interchangeably in those
10 applications. So that fact alone doesn't attenuate
11 competition.

12 In addition, for applications that do require
13 normalization, Bonney Forge has that capacity, produces
14 those fittings, and has them stocked. So there's also not
15 attenuated competition within the application, but actually
16 require normalization, which I believe is a small portion of
17 the market in the United States.

18 CHAIRMAN JOHANSON: This might be proprietary,
19 and if it is feel free to respond in the posthearing brief,
20 but what percentage of fittings produced by Bonney Seal are
21 normalized?

22 MR. LEONE: Our normalized market is essentially
23 the foreign market, and domestic--

24 CHAIRMAN JOHANSON: And Canada--

25 MR. LEONE: And Canada, certainly.

1 CHAIRMAN JOHANSON: Is there a reason why Canada
2 would prefer normalized over-

3 MR. LEONE: Yes, because normalized is required
4 for low-temperature services.

5 CHAIRMAN JOHANSON: Okay--

6 MR. LEONE: So in low temperature--

7 CHAIRMAN JOHANSON: --is that like cold weather?
8 Is that what you're talking about?

9 MR. LEONE: I'm sorry, sir?

10 CHAIRMAN JOHANSON: Are you talking about cold
11 weather, then?

12 MR. LEONE: Cold weather.

13 CHAIRMAN JOHANSON: Okay.

14 MR. LEONE: And there's no question about that.
15 For extreme cold weather, there's yet an additional, another
16 ASTM spec, A350, which is a normalized with sharpie impact
17 tests to demonstrate notched toughness. And that is for
18 extreme temperature conditions. Temperatures that drop for
19 above-ground piping in Canada to 35 degrees below zero
20 certainly are required to A350, which is a normalized in a
21 sharpie impact.

22 Other requirements in Canada that with low
23 temperature and in general Canada has standardized on
24 normalized for all of its products, with the exception of
25 above-ground piping, which is low temperature.

1 Products we ship into New Mexico are
2 non-normalized because it's not required. Products we ship
3 into Mexico are not required, because normalizing is not
4 required, because they don't experience the low-temperature
5 environment.

6 MR. COUTIER: Chairman Johanson, if I could just
7 add a few things. Normalizing is a heat treatment process
8 where the product is heated up to a certain temperature, and
9 then it's allowed to cool off gradually. This realigns the
10 grains and makes it particularly suitable for low
11 temperature applications.

12 But so normalization would be required, for
13 example, for sales to Alaska and to Canada, but in the Lower
14 48 States it's not needed or even useful. And we will be
15 able to provide you in our posthearing brief with our
16 production and sales percentages in the United States.

17 CHAIRMAN JOHANSON: That would be helpful, Mr.
18 Cloutier.

19 And also, I believe other witnesses have stated
20 that normalized and, would you call it, regular? Regular
21 fittings are interchangeable in some circumstances? Do you
22 know how often that actually happens, though? Let's say if
23 you have a well, you're working on a well in New Mexico.
24 How often would someone actually use a normalized fitting
25 for those purposes?

1 MR. LEONE: They would use our--they would use
2 normalized fittings not by demand, but because we may not
3 have that product, non-normalized, in stock. In which case,
4 in order to serve that project and to serve that customer,
5 we would supply them a non-normalized product which could
6 serve in a--we would supply them a normalized product that
7 will serve in a non-normalized environment. And we do that
8 only for serviceability and to satisfy our customer.

9 MS. DRAKE: And, Chairman Johanson, I believe
10 normally it would be unusual to use a normalized product
11 that's gone through extra processing.

12 CHAIRMAN JOHANSON: They usually costs more,
13 correct?

14 MS. DRAKE: Exactly. But--and that's where the
15 unfair trade practices and underselling come in; that if
16 this normalized product were so superior, then why is it
17 being sold at so much lower prices. I mean, these are
18 Italian respondents that refuse to participate in Commerce's
19 verification, have 80 percent dumping margins, have broadly
20 undersold the domestic industry. So really the reason that
21 anyone would use a normalized fitting in an application
22 where it's not required is because the price is lower, and
23 that reflects the unfair trade practices that have been
24 distorting the market.

25 CHAIRMAN JOHANSON: Okay, thank you, Ms. Drake

1 and Mr. Leone, and Mr. Cloutier, as well.

2 Continuing on this issue, what is the share of
3 total forged steel fittings produced in the United States
4 that are normalized? Do you all know that number? And if
5 you don't, could you please get that to us in the
6 posthearing brief?

7 MS. DRAKE: We will do so.

8 CHAIRMAN JOHANSON: Okay, thank you.

9 Would you all agree with Respondents'
10 characterization of the supply conditions in the U.S. market
11 as being "tight," which they argue at page 6 of their
12 prehearing brief?

13 MS. DRAKE: I believe Mr. Almer testified to
14 their current capacity utilization. Do you want to talk
15 about the rates that you are operating at currently?

16 MR. ALMER: Yes. We're currently slightly below
17 50 percent capacity utilization. So we have plenty more--we
18 could take on plenty more normalized or
19 non-normalized fittings at this time.

20 MS. DRAKE: And, Chairman Johanson, we believe
21 the confidential record shows that that's true for the
22 industry as a whole. The industry has been operating far,
23 far below its capacity levels throughout the entire Period
24 of Investigation, and cut employment as well. And it was
25 only after the Petitions were filed that we saw the

1 production levels in capacity utilization start to recover.
2 But there's still more than sufficient capacity.

3 There were a few allegations in the prehearing
4 staff report about supply tightness. A number of those
5 actually had to do with the inability to source imports
6 after the Petitions were filed, and did not refer to the
7 inability of the domestic industry to supply. And certainly
8 Bonney Forge and we believe other domestic producers would
9 be more than happy to ramp up production and shipments
10 further to take advantage of that underutilized capacity
11 that they're still saddled with, even as demand has
12 increased.

13 CHAIRMAN JOHANSON: Would you say there's
14 underutilized capacity for both normalized and regular
15 fittings?

16 MR. ALMER: Yes. We have--we're less than a
17 third capacity in our heat-treating facility right now.

18 CHAIRMAN JOHANSON: Okay, thank you, Mr. Almer.
19 My time has expired, so we will now turn to Commissioner
20 Williamson.

21 COMMISSIONER WILLIAMSON: Thank you, Mr.
22 Chairman. I too want to express my appreciation to all the
23 witnesses for coming and presenting their testimony this
24 morning.

25 Just continuing on the normalization, I think

1 you're already going to provide some additional information
2 posthearing. If you do, include in that I guess the
3 capacity and the production of normalized product that the
4 other U.S. producers--is the picture any different from them
5 and the way that it works? Or if it's not--

6 MS. DRAKE: Thank you, Commissioner Williamson.
7 I don't believe that we have a lot of transparency into
8 that, but we will do what we can to gather that information
9 and provide what's available posthearing.

10 COMMISSIONER WILLIAMSON: Okay. And is there a
11 sort of a standard estimate of how much more a normalized
12 product costs? And if it's proprietary, you can do it
13 posthearing.

14 MR. ALMER: It's roughly \$120, \$140 a ton.

15 COMMISSIONER WILLIAMSON: Versus?

16 MR. ALMER: More than a non-normalized part.

17 COMMISSIONER WILLIAMSON: Okay. Okay, so it is
18 a significant cost.

19 MR. ALMER: It's an impact.

20 COMMISSIONER WILLIAMSON: Okay.

21 MR. ALMER: Our largest portion of our cost is
22 steel and, as mentioned, that's the huge impact in the--
23 especially with the 25 percent tariff that was imposed on
24 Canada.

25 COMMISSIONER WILLIAMSON: Okay, thank you. Why

1 are none of the other U.S. producers here?

2 MS. DRAKE: So, Commissioner Williamson, there's
3 two other domestic producers. The other one that's similar
4 in size to Bonney, they did work with us to submit a
5 declaration. That was included in our pre-hearing brief,
6 stating that they've supported these Petitions, and then
7 provided some confidential information. But of course I
8 cannot answer on their behalf as to why they chose not to
9 participate in the hearing. But they do support the
10 Petitions. And I think when you look at the record of the
11 industry as a whole, you will see similar experiences to
12 what Bonney has experienced.

13 COMMISSIONER WILLIAMSON: Okay, fine. I was
14 just curious, given the fact that the support is there.
15 What about the other subject producers? I know it's
16 speculation as to why they didn't show up, but I was just
17 curious. And I particularly was curious, if you look at
18 page 5-17 on the underselling and overselling, and in
19 particular China, it raises the question why they didn't
20 show up. And can you explain this number?

21 MS. DRAKE: Thank you, Commissioner Williamson.
22 We included at Exhibit 4 to our prehearing brief
23 identification of what we believe was some anomalous pricing
24 data reported by some of the importers. And we focused on
25 China and Taiwan in that exhibit.

1 We understand, you know, staff is doing an
2 excellent job, as they always do, in terms of following up
3 with all parties where data appears to be anomalous, and so
4 we hope that if corrections are merited those will be
5 reflected in the final report.

6 With respect--the Taiwanese complete refused to
7 participate at Commerce at all, which is why we're here
8 today with the non-fully extended final results for Taiwan.
9 And the Chinese industry, Bothwell, did participate at
10 Commerce, and I can't speak for why they're not here. I do
11 think that Bothwell is an important player for the
12 Commission to consider, because they are in both Taiwan and
13 China. So they chose not to participate in the Taiwan
14 investigation at Commerce. So far they've been
15 participating in the Commerce proceeding on China, and of
16 course they're not here, and they refused to submit any
17 responses in this final phase. And I know the Commission is
18 hesitant to apply adverse effects available to Respondents
19 in these situations, but I do think it should come into the
20 Commission's consideration, especially when considering
21 threat and how probative or complete its data is, the fact
22 that this major producer and two of the subject countries
23 has not shown up. Why they haven't? I can't explain it,
24 but that leaves us with the record that we have.

25 COMMISSIONER WILLIAMSON: Okay. But it's

1 helpful to know the full picture of what's going on. Thank
2 you.

3 Ms. Brown, are the other U.S. manufacturers
4 unionized at other plants in the U.S.?

5 MS. BROWN: You know, I--and we can certainly
6 address that in the post-hearing brief, because I'm not sure
7 of the full scope, if they're all unionized, but we
8 certainly do have members at other forge facilities, yes.

9 COMMISSIONER WILLIAMSON: Okay. I was
10 particularly struck by both I think yours and Mr. Leone's
11 statement about having to go through a 401K, you said,
12 because of competitive conditions. And I was wondering if
13 you could expand on that?

14 MS. BROWN: Sure. And, you know, I appreciate
15 that question, Commissioner Williamson, because that was a
16 really hard change for our members to accept in their CVAs.
17 Defined benefit pensions really don't exist in the United
18 States anymore outside of, you know, manufacturing
19 collective bargaining agreements and other labor collective
20 bargaining agreements. And it's a deferred wages benefit.

21 You work for 25-plus years, and at the end of
22 that time you expect to have X amount of money that you
23 receive for your retirement security each month. That's
24 something that is highly valued by the workers and their
25 families.

1 Shifting to a 401K completely changes that,
2 because whereas you have a secure, known benefit, the 401K
3 is subject to the market. So at the end of your working
4 career, you really don't have a firm understanding for what
5 your retirement security is going to look like.

6 That was a very hard decision for our members to
7 make. But for them, the critical decision was making sure
8 that Bonney Forge remains strong and competitive, because
9 they need jobs in their communities.

10 And so, you know, I think it expresses a
11 commitment on the part of our workforce and our Union to
12 work with Bonney Forge to make sure that they are viable and
13 vital going into the future. And, taking tough concessions
14 sometimes is the way to get there.

15 COMMISSIONER WILLIAMSON: Mr. Leone?

16 MR. LEONE: Commission, I just would like to add
17 to that. And that is, traditionally we had traditionally an
18 excellent relationship, and continue to have an excellent
19 relationship with our Union.

20 Historically over the years it's a matter of
21 record that our negotiations would last a week, 10 days
22 maximum. The negotiations in 2017 lasted for over three
23 weeks, and it was really the difficulty of understanding,
24 having the Union understanding that we needed to continue to
25 reduce costs and they cooperate in that regard.

1 COMMISSIONER WILLIAMSON: Okay, thank you for
2 those answers. Switching to a different topic, you talked
3 about the capacity that you have--

4 MR. BISHOP: Commissioner, could you pull your
5 mike a little closer, please? Thank you.

6 COMMISSIONER WILLIAMSON: Sure. How long would
7 it take--how long does it generally take to ramp up to that
8 capacity--I mean to increase--you have the capacity, the
9 ability to increase, but how long does it take to get there?

10 MR. ALMER: We had a--as mentioned earlier, we
11 laid off quite a few people. And we were fortunate enough
12 to get them back. So, yes, we had the machine capacity; it
13 was the labor strength. But we were very fortunate when we
14 were able to start bringing people back. A lot of them were
15 displaced, and they came back and were able to get right
16 back in--they don't require as much training, since they're
17 already knowledgeable with a lot of the equipment and
18 processes. So it was pretty quick for the most part.

19 MR. COUTIER: Commissioner Williamson, I would
20 just like to clarify. Not all of the laid-off workers--oh,
21 Mr. Coutier, excuse me--not all of the laid-off workers have
22 been recalled. There are still some who would be available
23 to come back to work and, within a matter of days, be
24 working at their full capacity, again because they're
25 already trained. From my discussions with Mr. Almer

1 yesterday, to hire new individuals takes obviously more time
2 because they are not familiar with the machinery or
3 processes. Thank you.

4 COMMISSIONER WILLIAMSON: Actually, where is the
5 plant in Pennsylvania, exactly? This is one of those
6 projects in which we didn't get a chance--or at least I
7 didn't get a chance to do a plant tour.

8 MR. ALMER: If you're familiar where Penn State
9 is, we're about an hour south of Penn State.

10 COMMISSIONER WILLIAMSON: Okay, thank you.
11 What's the difference--the operation in Houston, how is that
12 different from--

13 MS. DRAKE: The plant in Houston makes mostly
14 nonsubject butt-weld fittings. But we wanted to have Ms.
15 Leone here today just to talk about the commitment to the
16 family to the company overall.

17 COMMISSIONER WILLIAMSON: Okay, thank you for
18 those answers.

19 MR. LEONE: Commissioner, they're complementary
20 products and we sell to essentially the same customer base,
21 distributors and engineering contractors. Most of that
22 product usually is going to projects. So the cycles in that
23 business is significant, depending upon the activity, the
24 project activity.

25 COMMISSIONER WILLIAMSON: I assume they're

1 energy-related products?

2 MR. LEONE: Pardon me?

3 COMMISSIONER WILLIAMSON: Energy? It's Houston,
4 so energy-related products?

5 MR. LEONE: They're all energy-related products,
6 yes.

7 COMMISSIONER WILLIAMSON: Good. Thank you.
8 Thank you for those answers.

9 CHAIRMAN JOHANSON: Commissioner Broadbent?

10 COMMISSIONER BROADBENT: Welcome to the
11 witnesses. We really appreciate having you here. This is
12 the second father-daughter team we've seen in the last two
13 weeks, I think, so it's fun to see you guys working
14 together.

15 Mr. Leone, we allow U.S. shipments from
16 integrated producers are finished. Is it more
17 cost-effective for a U.S. producer to forge a rough forging
18 itself, rather than sell it to finish a rough forging itself
19 rather than sell it to a finisher.

20 MR. LEONE: Now we -- we're back integrated,
21 and we're more cost-effective because we are back integrated
22 into the forgings. There have been some suppliers worldwide
23 that subcontract the forgings and then machine them, and
24 then supply them under their name. However, we are fully
25 back integrated to a forge shop to the finished product.

1 COMMISSIONER BROADBENT: Okay, and then do you
2 ever sell to finishers? Do you sell unfinished forgings to
3 finishers?

4 MR. LEONE: No, we do not.

5 COMMISSIONER BROADBENT: You don't. Okay, all
6 right. Ms. Drake or Mr. Cloutier, can you provide an
7 example of a final investigation in which the Commission
8 found material injury, despite the domestic industry
9 experiencing improvements in both cost-price ratios and its
10 market share? You provide examples where one of these
11 improvements occurred, and yet the Commission voted
12 affirmative, but not examples where both of these
13 improvements occurred. Having an example would be helpful.

14 MS. DRAKE: Commissioner Broadbent, we'd be
15 happy to do that, and we'll do that post-hearing. I just
16 would like to note, in response to Mr. Gurley's comments
17 about our reference to 2014, and obviously 2014 is outside
18 of the Period of Investigation. But we do think it's an
19 important context in terms of the conditions of competition
20 that the industry was facing. Two of the cases that we
21 cited with regard to market share, one on rubber and
22 another on OCTG, there the Commission did look at the year
23 prior to the POI, to understand that there was a huge drop
24 in market share from the year prior to the POI to the
25 beginning of the POI.

1 So even if domestic market share didn't
2 decline within the POI, it was still important to look at
3 that context. So we hope the Commission will do that here
4 as well.

5 COMMISSIONER BROADBENT: What was that
6 precedent? I'm sorry, I didn't hear what you said.

7 MS. DRAKE: It was rubber emulsion. They're
8 in our briefs in the volume section --

9 COMMISSIONER BROADBENT: Okay.

10 MS. DRAKE: And the other case was on OCTG
11 from multiple countries. Not the China case, but that other
12 one. They're both cited in our brief.

13 COMMISSIONER BROADBENT: Okay. So you're
14 still referring to the pre-POI period as part of the picture
15 then?

16 MS. DRAKE: We believe it provides important
17 context for the conditions that were in existence during the
18 POI.

19 COMMISSIONER BROADBENT: Okay. Ms. Drake, on
20 page 18 of your prehearing brief, you state that 70 percent
21 of purchasers reported switching from domestic product to
22 subject imports, primarily because of price. However,
23 comparing the responses on Table V-10 to those on Table V-9
24 or to the broader market shares on Table C-1, what evidence
25 is there that firms that purchased imports instead of

1 domestic product actually switched, given that both tables
2 indicate higher domestic shares in 2017 and 2015?

3 MS. DRAKE: So we'd be happy to go through
4 some of that confidential information and do the analysis
5 post-hearing. But I think that switching or moving from
6 domestic to subject imports would be evident not only in an
7 apparent loss of market share, but also in what I think of
8 as suppressed market share.

9 So that if demand was growing in 2017, and
10 they were increasing their purchases but they didn't
11 increase as much as they otherwise would have from domestics
12 because of lower-priced product, I think that while that's
13 not a loss of market share per se, it is a volume effect and
14 it does show that there was direct competition between
15 subject and imported product at the same purchasers, and
16 that those purchasers were making the decision about who to
17 purchase from, based primarily on the lower price of the
18 subject imports.

19 But we'd be happy to try to tie together the
20 data. Obviously, the purchaser responses don't cover the
21 whole market and there is diversity in terms of who they
22 source from or don't.

23 COMMISSIONER BROADBENT: Okay. Ms. Drake, the
24 industry prices do not increase in 2017. The industry
25 prices did not increase in 2017 despite an improvement in

1 demand that year. However, the industry's cost-price
2 squeeze substantially alleviated in 2017, and the industry
3 was most profitable in that year. How can the Commission
4 find that there were price effects in 2017 if the industry's
5 prices improved substantially relative to its costs that
6 year?

7 MS. DRAKE: Thank you, Commissioner Broadbent.
8 That's a very important question, and one of the reasons
9 that this industry in particular should not be expected or
10 would not be expected in an environment of rising demand to
11 pass on all of its cost decreases is because there are no
12 substitutes for forged steel fittings.

13 They have to be used in a piping system, and
14 they make up a very low cost share of the final and
15 application. That's why we believe the staff correctly
16 found that demand for forged steel fittings is inelastic to
17 price. So in a market of rising demand, domestic producers
18 could have expected to increase their prices without
19 sacrificing volume, regardless of what their raw material
20 costs are.

21 All of these sales or the vast majority are on
22 the spot market. They're not under contracts where raw
23 material prices are automatically flow through into the
24 prices to customers. As we were discussing yesterday,
25 prices for forged steel fittings really are set based on

1 supply and demand and other market dynamics and the end use
2 market, rather than fluctuations in raw material prices,
3 unlike some other products that the Commission is familiar
4 with.

5 I think that if the Commission looks at what
6 happened in the interim period, when demand continued to
7 rise and costs continued to fall, the domestic producers did
8 not pass on any of those declines. In fact, they increased
9 prices.

10 The only difference between 2017 and 2018 is
11 that the petitions were filed, subject imports started to
12 exit the market, import prices started to improve, and that
13 allowed the domestic industry to take advantage of the
14 inelasticity of demand in terms of its responsiveness to
15 price, in a market where demand was increasing regardless of
16 what was happening with their raw material costs.

17 COMMISSIONER BROADBENT: Okay. Mr. O'Connell,
18 you've addressed this somewhat, but how are prices normally
19 set in the U.S. market? Are there fixed price lists or are
20 prices negotiated per transaction or contract?

21 MR. O'CONNELL: Ken O'Connell. Thank you.
22 Historically, our industry has worked off of published price
23 sheets, and those price sheets have discounts, also known as
24 multipliers. So in the past few years we have actually had
25 to make adjustments to those discounts in order to

1 compensate for the unfair trade. Thank you.

2 COMMISSIONER BROADBENT: Ms. Brown, thank you
3 for appearing. It's good to have you here today. It's
4 important to have the unions represented I believe. How are
5 the workers in this industry reacting to the Section 232
6 tariffs? I think they're 25 percent on the steel input, and
7 I know Mr. Almer indicated that there's a problem for him
8 there.

9 Can you tell me how the union is reacting to
10 the effects of these tariffs?

11 MS. BROWN: Thank you so much for that
12 question, Commissioner Broadbent. I would say overall for
13 our members and the steel sector, we have seen a positive
14 benefit of the tariffs. We have about 6,800 members in both
15 the steel and the aluminum sectors that have been called
16 back to work since the remedy was announced in March.

17 So you know, there's been a very clear, direct
18 impact. We have, however, seen that there have been some
19 negative impacts. The example that was raised here by Mr.
20 Almer is one such example in terms of increased cost for
21 some of the downstream folks.

22 We have always said that we do not believe
23 Canada should be subject to the tariffs. We have a very
24 unique, the United States has a very unique trading
25 relationship with Canada, and we the steelworkers also

1 represent workers in the steel and aluminum industries in
2 Canada, and it certainly creates a problem when their
3 products are being levied against with tariffs.

4 So there have been benefits, but we recognize
5 that it's not a perfect policy, that there still need to be
6 some adjustments made. But we're grateful for what we've
7 seen so far overall in the steel sector.

8 COMMISSIONER BROADBENT: Okay, thank you very
9 much.

10 MS. BROWN: Uh-huh.

11 CHAIRMAN JOHANSON: Commissioner Kearns.

12 COMMISSIONER KEARNS: Thank you. Thank you to
13 all the witnesses again for appearing before us today. It's
14 very helpful. I guess I'll want to start by going back to
15 the issue of normalized product. Do any of your purchasers
16 require that all product that you sell to them be
17 normalized?

18 MR. O'CONNELL: Ken O'Connell. Generally it's
19 not a requirement in the United States. Most of our
20 normalized product is for the Canada market. So in the
21 U.S., no sir.

22 COMMISSIONER KEARNS: Okay. In Respondent's
23 prehearing brief, they emphasize a particular customer of
24 theirs, which I can't name because it's confidential. In
25 your post-hearing brief, can you address competition for

1 sales of fittings to that purchaser? This is on page eight
2 to nine of their brief, for example.

3 MS. DRAKE: Excuse me. This is Elizabeth
4 Drake. Thank you Commissioner Kearns. Yes, we will attempt
5 to do so. We played a fun guessing game with the public
6 version of the Respondent's brief yesterday, and so
7 hopefully we will be able to provide some responsive
8 information based on the public version and our
9 conversations.

10 COMMISSIONER KEARNS: Okay, thank you. Going
11 back to price, and I'll try not to repeat too much of some
12 of the questions that Commissioner Broadbent asked, this one
13 might be a little bit different I suppose. To what extent
14 are raw material prices discussed in your negotiations with
15 purchasers?

16 MR. O'CONNELL: Ken O'Connell. I would say to
17 a very low degree.

18 COMMISSIONER KEARNS: Okay. What kinds of
19 things are discussed then I guess in those negotiations?

20 MR. O'CONNELL: At the root of pricing is
21 general energy demand. It ebbs and flows, and prices are
22 subject to that. So it is a general negotiation over
23 volume, and a general agreement between two parties, and
24 it's subject to change.

25 COMMISSIONER KEARNS: Okay. This is probably

1 more overlap, but I want to get a better understanding. You
2 know, I think our data suggests there has been quite a bit
3 of under-selling the market. But what impact did that
4 under-selling have on the U.S. industry. It doesn't seem
5 like it resulted in much lost market share, and it's also
6 not that clear that it resulted in lower prices.

7 So could you, I think Ms. Drake you had
8 mentioned before, I can't remember how you described it,
9 market share suppression or something. Can you just explain
10 that further and also help us understand how we can trace
11 the under-selling into any price impact you all have
12 experienced?

13 MS. DRAKE: Thank you, Commissioner Kearns.
14 This is Elizabeth Drake. In terms of market share, if you
15 look at the -- what was in our prehearing brief based on the
16 confidential data, is there is at least a correlation
17 between market share and the degree of under-selling.

18 The only way that the domestic industry was
19 able to maintain or increase market share, both overall and
20 in individual pricing products, was by lowering their own
21 prices to try to narrow those margins of under-selling. And
22 so unlike in a normal case or, you know, the classic case
23 where you would see under-selling margins increase as the
24 domestic industry loses market share, this domestic industry
25 chose to fight back on price.

1 That came at a cost to their operations. That
2 decision was completely understandable, given the fact that
3 from 2014 to 2015, demand had collapsed, import market share
4 surged incredibly; the margins of under-selling in 2015 were
5 at their highest, and the domestic industry's capacity
6 utilization rate was abysmal.

7 So in order to keep their operations running
8 to keep as many employees as they can, they chose to fight
9 back on price. In 2016 as demand declined, that meant they
10 weren't able to cover rising costs. In 2017 as demand
11 increased, that meant they weren't able to take advantage of
12 rising demand to increase their prices. So that's how we
13 see both the adverse volume effect and the adverse price
14 effects that make under-selling significant.

15 If they were not forced to try to meet these
16 undersold imports, they wouldn't have had to lower prices in
17 order to maintain our increased market share in an
18 environment where they were suffering from very low capacity
19 utilization, and we think what really ties this analysis all
20 together is what we see in the interim period.

21 Once the petitions were filed and imports
22 declined and import unit values increased, was the first
23 time the domestic industry was able to substantially
24 increase its shipments, capacity utilization and market
25 share without lower prices, in fact even by raising prices

1 even though their costs were declining.

2 We think that interim period is also where you
3 will see a flip from under-selling to over-selling, again
4 reinforcing the correlation between under-selling and the
5 impacts on volume and price of domestic producers. That
6 makes that under-selling that occurred significant in the
7 market.

8 COMMISSIONER KEARNS: Switching topics here,
9 what share of demand in the U.S. market is from the oil and
10 gas sector would you estimate?

11 MR. O'CONNELL: Ken O'Connell. I'd say it's
12 the majority of our target market is energy. I don't have a
13 specific percentage, but an overwhelming majority.

14 COMMISSIONER KEARNS: How about the second
15 largest segment?

16 MR. O'CONNELL: Second largest would probably
17 fall into a commercial category, which would mean less
18 industrial and more commercial side. Typically, our target
19 markets are the energy sector, and that breaks down into oil
20 and gas, power, chemical, petrochemical, what we would refer
21 to as the harder industries.

22 That generally is grouped into one market
23 category, and from there it sort of falls down into less
24 critical applications. Thank you.

25 COMMISSIONER KEARNS: And I remember seeing in

1 our staff report charts on natural gas and oil pricing, and
2 it seemed that their -- that they were moving in opposite
3 directions. So it made me think to what extent is this
4 really more -- is your demand more dependent upon crude oil
5 demand and to what extent it's more about natural gas?

6 MR. O'CONNELL: A difficult question to
7 answer. Those relationships do change. Quite frankly I
8 don't know the answer to that.

9 COMMISSIONER KEARNS: Okay, and are the -- is
10 the subject product for steel fittings used by the oil and
11 gas industry different than that used in other industries,
12 or is the exact same product?

13 MR. O'CONNELL: It's the same product.

14 COMMISSIONER KEARNS: Okay.

15 MR. LEONE: Commissioner Kearns, just to add
16 to it, this is John Leone. To add to that secondary market,
17 it's a very small market. It's usually sold through smaller
18 distributors that serve mechanical contractors and typically
19 applications would be boiler shops or boiler rooms in high
20 rise buildings, school houses and university property. But
21 that is -- that market is not significant compared to the
22 energy markets that we serve.

23 COMMISSIONER KEARNS: Okay, that's helpful.
24 Thank you. What are your expectations for demand in the
25 U.S. and important third country markets over the next

1 couple of years?

2 MR. O'CONNELL: Our expectations are for
3 modest growth.

4 COMMISSIONER KEARNS: Okay.

5 MR. LEONE: Our expectations are depending
6 upon the decisions that you make, as far as we're concerned.
7 But we see that there's going to be continuing -- as I
8 indicated, the United States is fully self-sufficient in
9 energy, oil and gas product.

10 In fact, we're going to be exporters. We are
11 in fact exporters of oil now and will continue to be
12 exporters, and natural gas will, upon reversing the LNG
13 plants that were built to accept natural gas rather than to
14 ship natural gas, as that continues to grow, the production
15 particularly out of natural gas, particularly out of the
16 Middle Atlantic States namely Pennsylvania, is significant.

17 The formations have not been fully developed,
18 and I don't believe, however, that in our lifetime we will
19 see oil being \$100 a barrel again.

20 COMMISSIONER KEARNS: Okay. I guess turning
21 back to pricing real quickly, I don't have the data in front
22 of me. But I thought that we saw raw material costs fell in
23 2016, although I think Ms. Drake you just suggested
24 otherwise. But so it looked to me like demand fell sharply
25 in 2016. Raw material costs I thought fell. Why do those

1 factors not explain the decline in prices in 2016?

2 MS. DRAKE: Thank you, Commissioner Kearns. I
3 misspoke by saying that raw material costs fell in 2016. I
4 meant to say overall cost of goods sold. I misspoke saying
5 that raw material costs rose in 2016. Overall unit cost of
6 goods sold rose in 2016, and that was due to the very low
7 volume of production, which meant that fixed costs, unit
8 fixed costs were very, very high in 2016, because they were
9 at a very low production level.

10 So the overall unit cost of goods sold did
11 rise in 2016. The prices did not rise as much, and there
12 was a cost-price squeeze in 2016 due to the increased in
13 overall costs, not raw material costs, but overall unit cost
14 that could not be passed on in prices.

15 COMMISSIONER KEARNS: Okay, thank you. I'm
16 out of time. Thank you.

17 CHAIRMAN JOHANSON: Yes Mr. Leone, you're
18 correct. I was in Colorado last week and saw oil and gas
19 work all over the place. So I know that the industry's
20 actually doing quite well right now, the oil and gas
21 industry that is. So it was kind of exciting to see that.

22 Respondents contend that the Commission
23 should give reduced weight to the under-selling comparisons
24 on this record due to low coverage and other factors, and we
25 have spoken a bit about under-selling today, but I wanted to

1 get your response to this contention of the Respondents.

2 MS. DRAKE: Thank you Commissioner Johanson.
3 We were discussing yesterday that I think Bonney Forge has
4 4,800 SKUs, is that correct? So this is an industry with
5 literally thousands of different product shape and dimension
6 combinations. So it would be expected that any four pricing
7 products wouldn't be able to provide coverage over a large
8 portion of the market, but these are common products that we
9 were able to get pricing data from every source for every
10 quarter for these products.

11 Generally if I recall correctly, and they're
12 representative of the market as a whole. So we do think
13 that the under-selling data is representative and should be
14 relied upon by the Commission, corrected as needed for any
15 anomalies individual responses.

16 MR. LEONE: Simply to add to that Commissioner
17 is that 4,800 units of what we manufacture, it's a real
18 challenge but we met that challenge of supplying 85 to 95
19 percent of the stock order that we received one day will be
20 shipped the next day, and the order will be completed in 30
21 days.

22 CHAIRMAN JOHANSON: So Mr. Leone, when you
23 talked about units, is that just different types of product
24 that you produce?

25 MR. LEONE: They're different, they're

1 different -- 4,800 different units, different products.

2 CHAIRMAN JOHANSON: Okay.

3 MR. LEONE: Different dimensions and different
4 sizes, different shapes.

5 CHAIRMAN JOHANSON: So no. In our pre -- in
6 the staff report, they had a number of pictures there, and I
7 thought this seems like a lot of product. But that's only
8 like maybe a dozen.

9 MR. LEONE: Or you can multiply each one of
10 those by 1,000 or 100 anyway.

11 CHAIRMAN JOHANSON: Okay, thanks for your
12 response. Is there insufficient domestic capacity and
13 expertise to meet the demand for normalized ASTM A-105
14 forged steel fittings? Respondents contend at page five of
15 their brief that such an inefficiency is widely acknowledged
16 in the industry.

17 MR. ALMER: I don't believe so. Thank you for
18 the question. Chuck Almer. I don't believe so. Like I
19 mentioned, we are less than a third capacity utilization.
20 So you know, bring it on.

21 MS. DRAKE: And Chairman Johanson, there's no
22 expertise issue either. Bonney Forge has been producing
23 normalized fittings for decades. It used to outsource the
24 normalizing process, but brought that in-house more than a
25 decade ago with its own dedicated equipment, and has the

1 expertise, the training to fully operate that equipment.
2 It's simply that there's not that much demand for normalized
3 in the U.S., due to the fact that it's a low temperature
4 product.

5 But when it's demanded by their customers in
6 Canada, there's absolutely no barrier to them providing all
7 the product that's demanded.

8 CHAIRMAN JOHANSON: And specifically talking
9 about normalized ASTM A-105 forged steel fittings, what
10 percentage of the market would that be? Do you have any
11 idea?

12 MS. DRAKE: In the U.S. market, the portion
13 that's normalized? Because that ASTM A-150 standard I think
14 only with the N after it refers to normalized; correct? So
15 I don't know if we have any way to estimate that. But we
16 can work on it --

17 CHAIRMAN JOHANSON: Do you have a ballpark
18 figure? Then maybe you can zero in on the actual number in
19 your post-hearing brief. I'm just curious as to what
20 percentage of the market this particular category would be.
21 If you don't know, that's fine.

22 MR. LEONE: It's a guess, and the guess would
23 be it's a very -- in the U.S. market the -- aside from
24 Canada and aside from Alaska, the normalized market in the
25 United States, in the contiguous United States, is nominal.

1 There's only one manufacturer, one user now that is moving
2 toward standardizing on their AML requiring normalized, and
3 we're supplying that user and that's Shell Oil.

4 All the other oil companies that we have, we
5 supply by far non-normalized product.

6 CHAIRMAN JOHANSON: How about in a place --

7 MR. LEONE: And we are on their AML.

8 CHAIRMAN JOHANSON: Okay. How about in a
9 place like North Dakota, where I know there's a lot of oil
10 and gas activity right now? I mean that's similar to Canada
11 as far as climate goes.

12 MR. LEONE: That's interesting. There is some
13 North Dakota LF-2 and normalized is required. But it's not
14 universal throughout North Dakota.

15 CHAIRMAN JOHANSON: Okay.

16 MR. LEONE: And when that customer requires
17 normalized, they will specify it on their purchase order.
18 They don't need, even need to come to us and ask us do you
19 manufacture it. They know we manufacture it. They know we
20 stock it and will supply it the next day.

21 CHAIRMAN JOHANSON: All right, thank you Mr.
22 Leone. Why is there such variation in the financial
23 performance of the domestic producers, as seen at Table VI-3
24 of the staff report? Please feel free to answer this
25 question in your post-hearing brief if it is proprietary.

1 MS. DRAKE: Thank you, Chairman Johanson. I
2 think that would be best answered post-hearing, based on the
3 confidential information.

4 CHAIRMAN JOHANSON: All right, I understand.
5 Petitioner states in its brief that public information shows
6 that Bothwell, which has factories in China and Taiwan, has
7 been actively seeking to pursue Chinese government
8 industrial policies, get itself on approved manufacture
9 lists and develop more relations with foreign master
10 distributors, and you discuss this at page 50 of your brief.

11 What is your citation for this information,
12 and in your view what is the best available information
13 Bothwell's operations?

14 MS. DRAKE: Thank you, Chairman Johanson.
15 That was referring to excerpts from Bothwell's website that
16 were attached at Exhibits 8 through 11 of the prehearing
17 brief, where they make those statements regarding pursuing
18 Government of China industrial policies, pursuing being
19 listed on AMLs, and developing relations with master
20 distributors around the world.

21 I believe earlier in our discussion, we cited
22 to the exhibits and later we just kind of summarized what we
23 had said earlier.

24 CHAIRMAN JOHANSON: Okay. I will look at
25 that. Thank you. Table II-5 of the prehearing staff report

1 suggests that purchasers make decisions based on the
2 producer of forged steel fittings, and this is at page II-15
3 of the staff report. Given the ASTM specifications, why
4 would the producer be an important factor in a purchasing
5 decision? Is this due to certification requirements, AMLs
6 or normalizing standards?

7 MS. DRAKE: Chairman Johanson, I'll let the
8 domestic industry witnesses respond. There's a notable
9 difference between the purchaser making a decision based on
10 a producer, and those purchasers' customers making decisions
11 based on the producer.

12 So a lot of your purchaser responses were
13 distributors that may have long-standing relationships with
14 particular producers. But those distributors' customers,
15 the vast majority only sometimes never make decisions based
16 on the producer.

17 So I think that may be a difference between
18 different levels of trade in terms of the distributor, you
19 know, has that direct relationship, whereas their customer
20 sees all of these products as being interchangeable, because
21 they all meet the same specifications and they all meet
22 minimum quality requirements. So they're not as interested
23 in the individual producer.

24 CHAIRMAN JOHANSON: Okay, thanks for your
25 response. Yeah, it is curious because it is, from what I can

1 tell, a commodity product.

2 MR. LEONE: Oftentimes it's -- more often than
3 not, our distributors establish a relationship with the oil
4 company to supply an MRO contract. So they will supply a
5 contract for maintenance repair, not repair operations. In
6 which case, that distributor is already -- has developed a
7 relationship with that end user and then we supply that
8 distributor because we are on that end users' AML.

9 CHAIRMAN JOHANSON: All right, thank you Mr.
10 Leone. The yellow light is on, so I will stop my questions
11 there. Commissioner Williamson.

12 COMMISSIONER WILLIAMSON: Thank you. Ms.
13 Drake, I know you've addressed it in your brief and
14 elsewhere, but could you just tell me exactly what happened
15 in 2014, and I think -- since it's not part of the POI, that
16 suggests to you that should be a condition of competition.
17 But could you summarize it for me, because I'm not sure I
18 got it.

19 MS. DRAKE: Thank you, Commissioner
20 Williamson. So from 2014 to 2015 is when you saw the
21 sharpest contraction in demand, and that was also the period
22 where you saw the largest increase in subject import market
23 share, almost all directly at the expense of domestic
24 producers.

25 So 2014 to 2015 is really when you saw this

1 massive shift as demand was cratering, and as importers were
2 able to use under-selling to gain market share at the direct
3 expense of domestic producers. And you'd also see, we
4 believe, that 2015 was the time during the POI when the
5 margins of under-selling were greatest, reflecting the fact
6 that subject imports were able to gain all that market share
7 in that year, as demand was cratering, by broadly and deeply
8 under-selling the domestic industry.

9 And so really what happened, and driving the
10 domestic industry's capacity utilization to abysmal levels.
11 2015 was when layoffs were announced, as workers, USW
12 members, were certified for trade adjustment assistance, and
13 really the rest of the period is the domestic industry
14 struggling to recover from that massive shift that happened
15 from 2014 to 2015, and struggling to regain market share.

16 Of course, they were able to increase market
17 share somewhat, but certainly not close to back to 2014
18 levels, despite selling at prices that were insufficient to
19 cover their costs in 2016 and despite being unable to raise
20 prices in 2017, even as demand was finally rebounding and
21 increasing. Not yet back up to the 2014 levels, but still
22 finally back on the upswing.

23 So that's why we think that's an important
24 context, as that's really when a massive shift happened, and
25 it was by the time, I think, Petitioners got to 2017 and saw

1 demand rebounding and they still weren't able to recover to
2 the extent that they had hoped, that the decision was made
3 to file these petitions.

4 COMMISSIONER WILLIAMSON: So did the foreign
5 suppliers not get the message that the market had crashed?
6 Did they sort of see that and just drop their prices? So
7 how did they respond?

8 MS. DRAKE: So I think -- so how they
9 responded? Well, the domestic industry basically tried to
10 stem the tide of subject imports by lowering their own
11 prices, and that worked, because this is a very
12 price-sensitive market. These are commodity products, and
13 so that did help stem the tide of subject imports, after '15
14 stemmed their ability to --

15 COMMISSIONER WILLIAMSON: Well let's talk
16 about 2014.

17 MS. DRAKE: Oh, 2014 to 2015?

18 COMMISSIONER WILLIAMSON: Yeah, yeah.

19 MS. DRAKE: I guess we would need to maybe
20 spend a little bit more time with the prelim record, and see
21 if we could come up with some explanation for that. I mean
22 obviously they -- as their questionnaire responses show,
23 they had significant excess capacity. The U.S. market is an
24 attractive one and they used aggressive under-selling to
25 gain market share and the domestic industry at that point in

1 2015 wasn't responding by cutting its prices.

2 So that enabled the strategy of the importers
3 to work, as a way to seize market share. But maybe I'd like
4 to look at the confidential data a little bit more, to see
5 if we can provide a better answer on exactly what was going
6 on in the '14 to '15 period in terms of their strategy.

7 COMMISSIONER WILLIAMSON: Okay. It would be
8 helpful, because sometimes in order to understand what
9 happened during the POI, you have to understand what
10 happened before. What is your response to the argument that
11 subject import volume trends followed apparent use
12 consumption trends until 2018?

13 MS. DRAKE: Thank you, Commissioner
14 Williamson. So my response would be similar to what we've
15 discussed, is that the domestic industry cut prices to try
16 to narrow the margins of under-selling in effort to maintain
17 and grow their market share, because their capacity
18 utilization was so incredibly low at the beginning of the
19 Period of Investigation.

20 So that kept subject imports from gaining
21 market share, and that was really the only explanation,
22 because once you got to -- but they did maintain a very
23 significant presence in the market, and they did continue to
24 undersell domestic producers throughout the Period of
25 Investigation.

1 In fact, the domestic industry could have
2 expected that by lowering prices, not only would they kind
3 of bump along at a certain level of market share, but their
4 market share would have greatly increased back to what they
5 had seen in a period like 2014. But that only happened once
6 these petitions were filed, and they were able to raise
7 prices as imports exited the market, raised their own prices
8 and ceased under-selling.

9 COMMISSIONER WILLIAMSON: Okay. Is there any
10 sort of like contemporary evidence or anecdotes that sort of
11 -- it wasn't just the imports were following demand, but the
12 imports were actually trying to, you know, increase their
13 share and maintain it.

14 MS. DRAKE: So I think the -- a lot of the
15 lost sales responses are helpful on that. There's also
16 portions of the staff report where the shifts in purchasing
17 patterns, where purchasers say yeah, we did shift our
18 purchases to subject imports for reasons like to stay
19 competitive because customers are demanding lower prices,
20 because of exchange rates.

21 So it's not just in the lost sales reporting
22 of the purchasers, but also in other parts of the
23 questionnaires, where they confirm that the lower prices of
24 imports was a factor in what volume of imports was there in
25 the market. And but for those lost sales, but for those

1 decisions to source lower-priced imports, domestic producers
2 could have expected their market share to increase much more
3 rapidly, as they either kept prices below the increase in
4 cost or actually dropped those prices, even though demand
5 was rising. So we think those purchaser responses are a
6 good corroboration that there were -- that this was actually
7 what was occurring in the market.

8 COMMISSIONER WILLIAMSON: You mentioned
9 exchange rates. What happened during the period in the
10 dollar and the Euro? Is it relevant here in the imports
11 pricing?

12 MS. DRAKE: It may be, and we'd be happy to
13 look at that post-hearing. But I think that the level of
14 dumping that the Italians were engaged in also needs to be
15 taken into account. Again, after cooperating with Commerce
16 for some time, they refused to have their responses be
17 verified and ended up with 80 percent dumping margins. So
18 while everyone can expect exchange rates to impact trade
19 flows, there was also the distortions that were introduced
20 due to the high level of dumping that was going on.

21 COMMISSIONER WILLIAMSON: Okay, thank you. In
22 talking about this issue of normalization, what's happening
23 in Alaska? Has basically the big investment in offshore
24 production, that's all happened? And is the demand for
25 normalized in Alaska, would that be just repair and replace?

1 What is expanding there?

2 MR. LEONE: Commissioner thank you. That
3 market has traditionally been normalized for a low temp
4 A-350 market, because of its -- it had been -- the demand
5 there had been down in the last couple of years relative to
6 what we expect to see in the future.

7 With the leasing of the Northwest Territory
8 properties, the demand in Alaska could grow considerably,
9 and the demand for normalized and low temp product is going
10 to grow considerably.

11 But to make a comment regarding the cycles
12 that I had mentioned in my comments, these cycles affect
13 worldwide. The United States becomes the largest single
14 target in a down market because we represent the largest
15 demand in the world for energy-related products,
16 particularly now with the fracking and the growth in the
17 natural gas and oil industry.

18 So we have been a large target in a down
19 market, in a down market worldwide, and there's been an
20 excess of capacity of manufacturers that we produce
21 worldwide.

22 COMMISSIONER WILLIAMSON: Okay, thank you for
23 that answer. Okay. That's all the questions I have for
24 now. Thank you.

25 CHAIRMAN JOHANSON: Commissioner Broadbent.

1 COMMISSIONER BROADBENT: Okay. I was just
2 looking at this graph of crude oil prices, which just
3 plummets between 2014 and 2015, and just trying to figure
4 out why that's not what's the problem, the industry's
5 problem here. I mean this is -- it's not even getting close
6 to recovering from where it was in 2014.

7 MS. DRAKE: Absolutely, Commissioner
8 Broadbent. We are not arguing that the decline or trends in
9 oil prices or the oil market had no impact on the domestic
10 industry. It's undeniable that those dramatic fluctuations
11 had an impact on the domestic industry. But as you note,
12 the greatest, the steepest decline is from 2014 to 2015.
13 That's also the period where if you -- where if we compare
14 the preliminary record to the final record, subject imports
15 had their greatest increase in market share at the direct
16 expense of the domestic industry.

17 So it's not only that the domestic industry
18 was suffering this massive decrease in decline from 2014 to
19 2015, but also at the exact same time a big increase in
20 subject import market share at their expense.

21 So I believe in our prehearing report we said
22 even if, even with that cratering of decline from 2014 to
23 2015, if the domestic industry had only been able to hold on
24 to its 2014 market share in 2015, they would have had
25 substantially more sales than they had, and that's a

1 confidential number, but we'd be happy to elaborate upon
2 that further.

3 So that delta between what they would have had
4 even in a declining market if they had retained market
5 share, and what they actually experienced was due to massive
6 underselling by subject imports, again which was at its
7 greatest in 2015, that allowed them to take market share
8 even as demand was declining, because as Mr. Leone said, the
9 U.S. market is a very attractive one for foreign producers
10 suffering from over-capacity in markets where world prices
11 are declining.

12 COMMISSIONER BROADBENT: Yeah. But the
13 problem you've got is the market share, the grab of market
14 share occurs before the Period of Investigation; correct?

15 MS. DRAKE: And the only reason -- excuse me,
16 Ms. Drake. The only reason that didn't continue at that
17 same pace is because the domestic industry fought back on
18 price. With the level of capacity utilization they were at,
19 they simply could not afford to continue to lose market
20 share at that rate.

21 And so that is why they lowered prices below
22 cost in 2016. That's at least one of the factors why they
23 lowered prices below cost in 2016, and it's a very important
24 factor in their decision not to raise prices in 2017, even
25 as demand was increasing, and that only changed -- the

1 domestic industry was only able to raise prices greater than
2 cost after the petitions were filed and subject imports left
3 the market.

4 So we think all of those data points support
5 the conclusion that subject imports were a cause of material
6 injury during the POI. There certainly were many other
7 factors that were impacting the domestic industry, but
8 subject imports were not an insignificant cause that
9 contributed to that injury.

10 COMMISSIONER BROADBENT: But to find the
11 injury, I mean we have to find the price story here. You
12 know, you're contending both price suppression and price
13 depression, and I think the Respondents are saying that
14 really neither occurred. During the preliminary phase, the
15 Commission didn't find any price depression or price
16 suppression.

17 Just kind of go over the price effects story
18 again and how your argument that the other party, the
19 argument the other party's making is not supported by
20 evidence on the record.

21 MS. DRAKE: Certainly, Commissioner Broadbent.
22 First of all of course, either significant under-selling or
23 significant price suppression is sufficient to find
24 significant adverse price effects. But we believe there is
25 evidence of both on this record.

1 While it's true that in 2017, when the
2 domestic industry lowered prices, their costs also declined,
3 as we discussed this is a market where prices are not driven
4 by raw material costs. There is not contracts that
5 automatically pass along raw material costs.

6 To the contrary, prices are set by supply and
7 demand and market conditions. An oil and gas company, in a
8 market where demand is rising, would be very likely to pay
9 more for forged steel fittings. There's absolutely no
10 substitute for them, and they're certainly not going to
11 decide not to build a new piping system because a component
12 that comprises five percent of their cost goes up in price.

13 So that, that is our price depression story,
14 that prices did go down and I think you can see that in the
15 AUVs in 2017. But I think the individual pricing products
16 are perhaps even more striking in terms of the continued
17 declines in 2017, as subject imports continued to undersell
18 the domestic like product, even as demand was increasing,
19 even as oil and gas prices were increasing.

20 And I think also the interim period shows that
21 once those distortions were removed from the market, you saw
22 what the domestic industry should have been able to do in
23 2017. They should have been able to raise prices as demand
24 was increasing, even as their costs were declining.

25 That's exactly what they did in 2018, and the

1 only reason they were able to do that was because the
2 petitions were filed, subject imports declined,
3 under-selling ceased.

4 COMMISSIONER BROADBENT: So the best evidence
5 is what?

6 MS. DRAKE: For price depression? The best
7 evidence for price depression is a continued decline in
8 prices, despite the fact that demand was increasing and the
9 staff's assessment, which we agree with, that demand is
10 inelastic to changes in price. Such that domestic producers
11 should have been able to increase prices as demand was
12 increasing, regardless of their cost.

13 That, paired with what happened in 2018, where
14 that's exactly what they did, only because subject imports
15 left the market and stopped under-selling them, we think
16 shows that or confirms that there was significant price
17 depression by subject imports during the Period of
18 Investigation.

19 COMMISSIONER BROADBENT: Okay. You've
20 pointed the industry's -- this will be for Mr. O'Connell and
21 Ms. McClure. You pointed to the industry's financial
22 performance in 2017 and state that it should have been
23 better within the context of demand trends in that year.
24 However, I note that oil and gas prices in 2017 are only a
25 fraction of what they were in 2014 and before.

1 Is it realistic that the industry's condition
2 should have resembled what it did in 2014, given the
3 still-depressed nature of the oil and gas market in 2017?

4 MR. O'CONNELL: Ken O'Connell. If I
5 understand the question correctly, should there have been a
6 reciprocal increase in our volume relative to the increase
7 in demand? It would have been, had there not been other
8 constraints involved, which is the under-selling of import
9 fittings. So we did not realize an increase relative to the
10 increase in demand due to pricing.

11 MS. DRAKE: Commissioner Broadbent, part of
12 the difficulty we have here is obviously our witnesses
13 represent one member of the domestic industry, and are not
14 privy to the confidential information in the prehearing
15 staff report.

16 So certainly you do have loss of market shares
17 as sales are lost for some participants, and I don't think
18 even if -- I don't think we -- by saying that 2017 results
19 were not as good as they should have been doesn't
20 necessarily assume they should have been as good as 2014.
21 2014 was very healthy. But even comparing 2017 to 2018,
22 the increase in demand in 2017 was much higher than the
23 increase in demand in 2018, and yet the industry's
24 financial performance in 2018 was significantly better than
25 what it was in 2017, because they were able to increase

1 prices as imports retreated. So we think that supports the
2 conclusion that the performance should have been better in
3 2017, and I think we tried to quantify in our brief what the
4 impact was of the 2017 price decline on the industry's
5 operating performance.

6 And again, that's just holding prices flat.
7 Even though demand was really rebounding in 2017, you can
8 see a big impact on their operating and financial
9 performance in 2017.

10 COMMISSIONER BROADBENT: Okay. This is
11 question on threat, Ms. Drake. But just you emphasized the
12 importance of the company Bothwell within your discussion on
13 threat posed by subject imports. Since Bothwell produces
14 forged steel fittings in both China and Taiwan but not
15 Italy, should the Commission decline to exercise its
16 discretion to cumulate subject imports from Italy from
17 those in China and Taiwan for purposes of its threat
18 analysis?

19 MS. DRAKE: We believe that the Commission
20 should cumulate subject imports from all countries. We
21 emphasized the Bothwell example is explaining why China and
22 Taiwan need to be included. But in terms of the
23 Commission's discretionary cumulation analysis, we believe
24 the record shows that subject imports from Italy are highly
25 interchangeable with imports from other countries as well as

1 the domestic like product.

2 They're comparable across most factors. These
3 are still commodity products made by all of these producers.
4 Bothwell advertises on its website that it also makes
5 normalized fittings, just like the Italians do and the
6 domestic industry does, and they're in the same channels.

7 They're simultaneously present. They're in
8 the same geographic markets, and we don't see any likelihood
9 that those conditions will change significantly in the near
10 future. So we believe imports from all three countries
11 should be cumulated for threat.

12 COMMISSIONER BROADBENT: Okay, thank you.

13 CHAIRMAN JOHANSON: Commissioner Kearns.

14 COMMISSIONER KEARNS: Thank you. I just
15 wanted to return to the discussion of the 2014-2015 period,
16 the discussion you had with Commissioner Williamson. And
17 before that, in our earlier round of questions, we had
18 talked about market share suppression.

19 Am I to understand that I guess the 2014-2015
20 period would be very helpful to make that argument clear?
21 In other words, you lost a great deal of market share from
22 2014 to 2015, and then you were unable to recover it over,
23 throughout the POI; is that right?

24 MS. DRAKE: That's exactly right, Commissioner
25 Kearns. That's our argument, that even though the domestic

1 industry either sold at prices that were below cost or
2 lowered their prices despite increasing demand, they were
3 still bumping along at a market share level that was far
4 below what they had enjoyed in 2014.

5 And then you do see, once subject imports
6 retreat, once the petitions are filed in 2018, a very large
7 gain in market share, even though domestic prices increased.
8 So that was the kind of performance they should have been
9 able to expect as demand increased in 2017, and they were
10 not able to achieve because of the continued significant
11 presence of low-priced imports.

12 COMMISSIONER KEARNS: Okay. I understand that
13 answer, I heard it. But I'm guessing that the Respondents
14 would say well, 2014-2015, any harm you experienced then
15 just can't be treated as injury that you're suffering today
16 by reason of the subject imports. How would you respond to
17 that?

18 MS. DRAKE: I would respond that the 2014
19 provides important context for the conditions of competition
20 in the business cycle that was affecting the domestic
21 industry in the Period of Investigation, and again the
22 Commission has in prior cases, where subject imports have
23 gained market share, excuse me, subject imports have lost
24 market share or domestic industry has gained market share,
25 but the Commission reached an affirmative determination, in

1 some cases said hey, we need to look at this in the broader
2 context.

3 The year prior to the POI, there was some huge
4 shift that happened, and the inability of the domestic
5 industry to try to get closer back to where they had been is
6 evidence of injury, evidence of significant volume effects.
7 So we're not asking the Commission to extend its POI or to
8 restrict its analysis to 2014-2015. We simply think it's an
9 important context in terms of the conditions of competition
10 in the business cycle.

11 COMMISSIONER KEARNS: Okay, thank you. And
12 can you in your post-hearing brief, you mentioned that
13 there's -- there have been other cases where we've done what
14 you're suggesting we do here. Could you cite to those cases
15 in your post-hearing brief?

16 MS. DRAKE: We will. Thank you.

17 COMMISSIONER KEARNS: Oh. I wanted to ask
18 about competition among U.S. producers of forged steel
19 fittings. I know that to some extent, the industry
20 witnesses can't really speak to how the other producers in
21 the industry are doing. But you probably have some sense of
22 the extent to which you may be losing sales to others, other
23 U.S. producers.

24 And then of course counsel may be able to fill
25 into now and then obviously in the post-hearing brief, to

1 the extent we're talking about confidential information.
2 But can you speak a bit to what you're seeing in terms of
3 your other competitors, and how you're faring? Are you
4 losing sales to them as well or not?

5 MR. O'CONNELL: To a much lesser degree than the
6 imports. I think the traditional domestic manufacturers
7 find their market shares and relationships, and they
8 differentiate themselves among serviceability, primarily.
9 So do I think that domestic manufacturers have been impacted
10 by one another? No. But to a much greater degree, due to
11 the import underselling.

12 MR. LEONE: I think we're confident that the
13 other domestic manufacturers are aware of what the pricing,
14 the import pricing is. The difference that we have among
15 domestic manufacturers, oftentimes because of the package of
16 products that we manufacture--we manufacture valves we
17 package with our fittings. Some of our competition, like
18 Capital Manufacturers, nipples, pull plugs, reducers that we
19 do not manufacture. So it depends upon what the volume of
20 that distributor and the mix of product that he's going to
21 be buying. Oftentimes there's a pull-through of the
22 secondary complementary products that makes the day for us
23 and for our competition.

24 COMMISSIONER KEARNS: Okay. The last question I
25 have: Vacuum degassing. What is--to start, what is vacuum

1 degassing?

2 MR. ALMER: Vacuum degassing--thank you for the
3 question--Chuck Almer--vacuum degassing is in the
4 steel-making process. And I understand the steel-making
5 process, but I'm not an expert in it. But it's a process to
6 get a clean--cleaner steel concerning residual elements that
7 are in the steel.

8 COMMISSIONER KEARNS: Okay. And does it matter
9 whether or not you use vacuum-degassed steel or not?

10 MR. ALMER: There's other ways to get very clean
11 steel, and it depends what their input is. A lot of steel
12 mills use scrap, 100 percent scrap. Some steel mills use
13 DRI. It's a Direct Reduced Iron Ore, which is cleaner.
14 Some use a combination of each.

15 We make sure--we have a material spec that when
16 we get the steel it meets all our customer requirements, and
17 we've been very successful with it.

18 COMMISSIONER KEARNS: And do a lot of your
19 customers require cleaner steel, however the steel-makers
20 get there?

21 MR. ALMER: They have requirements for the
22 elements. There's between 11 and 13 elements reported in
23 steel, and we make sure all their requirements are met when
24 they place their orders.

25 COMMISSIONER KEARNS: Okay. Is there a reason

1 they need the cleaner steel for this product?

2 MR. ALMER: More than likely, the application
3 it's going in, but I can't speak intelligently on that.

4 COMMISSIONER KEARNS: Okay. I have no further
5 questions. Thank you.

6 CHAIRMAN JOHANSON: Commissioner Kearns touched
7 upon the issue of price suppression, but I wanted to return
8 to it.

9 Are you making any claim that there is price
10 suppression evidence on the record? I don't see any such
11 claim in the Petitioner's brief, and Respondents flatly deny
12 that the record would supply a finding of price suppression,
13 as they argue at pages 16 to 17 of their brief.

14 MS. DRAKE: We focused more on price depression,
15 due to the decline in prices in 2017. There could be an
16 element of price suppression that occurred in 2016, as costs
17 increased further than prices.

18 I believe Respondents' argument was that an
19 increase in fixed costs that can't be covered by an increase
20 in prices does not constitute price suppression. I haven't
21 seen the Commission look at it that way. It seems to look
22 just at total COGs and price and whether there's a squeeze
23 between them, but we'd be happy to address that further
24 post-hearing.

25 CHAIRMAN JOHANSON: I would appreciate it if you

1 would. Thank you, Ms. Drake.

2 Your arguments are largely based upon the
3 post-hearing--pardon me, the post-Petition effect in this
4 investigation. But the interim data in this investigation
5 covers only three months, from January to March of 2018.
6 How useful is such a short period?

7 MS. DRAKE: Thank you, Mr. Chairman. I'm very
8 glad that you asked that question because I think often the
9 Commission, when it looks at post-petition effects, is also
10 thinking about post-preliminary effects. And here we didn't
11 have preliminary countervailing duties imposed until March,
12 which would be the end of the Interim Period, which would
13 make the Interim Period not that helpful if we were only
14 looking at the preliminary determination.

15 But here, this investigation I think uniquely has
16 a very strong record that it was the pendency of the
17 investigations themselves and not the imposition of
18 preliminary relief that changed dynamics in the market. And
19 that's not just the experience of Bonney Forge, but you have
20 purchasers and importers saying that they could not get
21 imported product because the Petitions were pending. And
22 there are numerous statements to that effect.

23 You also have statements that supply of imports
24 became constrained once the Petitions were filed. So you
25 have an October to, you know, October 2017 after the filing

1 to the end of 2017. Then you have January-March, which is
2 really where you see the decline in imports.

3 Unfortunately, because public import data are
4 basket categories we can't do a nice, you know, monthly
5 graph. But we do think the dramatic change in all of the
6 trends that happens in Interim 2018 can really only be
7 attributed to the pendency of the investigations. And we
8 think the record supports that from importers and purchasers
9 themselves.

10 CHAIRMAN JOHANSON: And how was this information
11 transmitted to the industry? Was this a widely discussed
12 action? For example, was it discussed in articles in the
13 trade press?

14 MR. O'CONNELL: Ken O'Connell. Yes, sir. Like
15 myself and my peers, we have very close-knit relationships
16 with our distributors. That information flows fairly freely,
17 in addition to the public information. So it's easily
18 accessible.

19 CHAIRMAN JOHANSON: Okay. And forgive me if I
20 didn't see this, but is such material included in the
21 exhibits?

22 MS. DRAKE: Excuse me?

23 CHAIRMAN JOHANSON: Is material indicating that
24 the industry reacted to the pendency of this investigation
25 included in the exhibits?

1 MS. DRAKE: There were cites to the examples
2 from the staff report that show that. We'd be happy--

3 CHAIRMAN JOHANSON: This is in the staff report?

4 MS. DRAKE: Statements from purchasers and
5 importers about the effect of the filing of the Petitions
6 themselves.

7 CHAIRMAN JOHANSON: Okay. I read the staff
8 report, but there's a lot of material there.

9 MS. DRAKE: We would be happy to add to that.

10 CHAIRMAN JOHANSON: If you could highlight this
11 in your posthearing brief, I'd appreciate it.

12 MS. DRAKE: Absolutely.

13 CHAIRMAN JOHANSON: What role should the
14 addition of certain HTS tariff lines for Ferris fittings,
15 including forged seal fittings, among the additional
16 products from China, that were identified by USTR on July
17 10th, 2018, for a proposed additional 10 percent ad valorem
18 duty under Section 301 play in our consideration of
19 competitive conditions in the U.S. industry? What effect
20 are these proposed tariffs having on the market, or will
21 they have in the market?

22 MS. DRAKE: This is Ms. Drake, and I'd welcome
23 others to chime in, but I think at this point because it is
24 simply a proposal, that comments are still being received
25 through August, I believe, and the proposal, if it were to

1 go into effect, wouldn't go into effect until September, and
2 certainly with a lot of these actions there would be
3 uncertainty throughout the process, to say the least, about
4 whether the list will change, whether the tariff rate will
5 change, or whether they will in fact be imposed at all, I
6 think it's somewhat premature to speculate as to what the
7 impact may be.

8 We did discuss somewhat in our threat section
9 that even the imposition of a 10 percent tariff, in light of
10 the combined level of dumping and subsidies that we've seen
11 for Bothwell based on preliminaries 21 percent, but for all
12 others much, much higher, that that would not fully alter
13 the dynamics.

14 And of course Italy and Taiwan would not be
15 affected at all. But we would be happy to elaborate on that
16 further. Of course now there's also the additional proposal
17 that maybe it'll be 25 percent instead of 10 percent. So we
18 can look at that.

19 CHAIRMAN JOHANSON: Have you seen any impact in
20 the market?

21 MS. DRAKE: The question is whether the recent
22 announcement that the fittings themselves from China may be
23 subject to additional duties, whether that is having an
24 impact on the market?

25 MR. O'CONNELL: Ken O'Connell. Yes, definitely

1 we've seen an impact, a positive impact.

2 CHAIRMAN JOHANSON: Okay. Thanks for your
3 response there.

4 Do you agree with Respondents' contentions at
5 page 16 of their brief that the decline in the variable cost
6 alone, among other things being equal, would have caused a
7 decline in the domestic price?

8 MS. DRAKE: No, we do not. And that is because
9 this is a market where prices are not simply a lockstep
10 reflection of costs. And that's because there are no
11 substitutes for forged steel fittings, and because they are
12 a very low-share cost share of their end-use application.

13 So domestic producers of forged steel fittings
14 can increase their prices even as costs are declining, if
15 demand is increasing and if the market is functioning as it
16 normally should. And that's what we saw in 2018.

17 So this is not the kind of market where you have
18 contracts that pass on your costs, you know, one for one, in
19 your prices. This is a very different types of market where
20 a demand is inelastic, and so we do not agree with that
21 statement.

22 CHAIRMAN JOHANSON: Thank you, Ms. Drake. That
23 concludes my questions.

24 Do any other Commissioners have questions for
25 this panel? Commissioner Broadbent.

1 COMMISSIONER BROADBENT: Mr. Almer and Mr.
2 O'Connell, to what extent have you discussed the 232 steel
3 tariffs with your customers?

4 MR. O'CONNELL: Ken O'Connell. I would say
5 discussions among our distributors have been limited.

6 MR. ALMER: No addition--Ken deals with our
7 distribution base.

8 MR. O'CONNELL: The 232 would be a fairly
9 complicated subject to go into too much detail with our
10 distributors, specifically.

11 COMMISSIONER BROADBENT: Okay. One more
12 question--actually, I think I'm done. I appreciate you all
13 coming today, and thank you very much.

14 CHAIRMAN JOHANSON: Do any other Commissioners
15 have questions? Commissioner Kearns.

16 COMMISSIONER KEARNS: Just one more quick
17 question here. I guess this is probably for Ms. Drake. You
18 argue that in the absence of subject import competition you
19 would have been able to increase your prices in a rising
20 market, despite a sharp drop in raw material costs.

21 Can you elaborate on this and point us to
22 Commission decisions that accepted such an argument?

23 MS. DRAKE: Thank you, Commissioner Kearns.
24 Yes, we will look for decisions that have looked at the
25 market that way for products that are similar to this

1 product in terms of how demand is structured and how it
2 responds to price increases.

3 COMMISSIONER KEARNS: Okay. Thank you. I have
4 no further questions.

5 CHAIRMAN JOHANSON: Alright, do any other
6 Commissioners have questions?

7 (No response.)

8 CHAIRMAN JOHANSON: Okay, there are no more
9 questions here.

10 Do staff have questions for this panel?

11 MR. CORKRAN: Douglas Corkran, Office of
12 Investigations. Thank you, Mr. Chairman, staff has two
13 brief questions.

14 MR. TSUJI: I'm Karl Tsuji, the Commodity
15 Industry Analyst. I have one question.

16 To what extent do the other two domestic
17 producers also produce and hold in inventory normalized
18 forged steel fittings, as does Bonney Forge?

19 MR. O'CONNELL: Thank you. Ken O'Connell. It
20 would be our determination that it's to a much lesser
21 degree.

22 MR. TSUJI: Thank you very much.

23 MR. CORKRAN: Douglas Corkran, Office of
24 Investigations. This question is probably for Ms. Drake.

25 Data for 2014 are a matter of record based on

1 data collection in the preliminary phase of these
2 investigations. Trade and financial data for 2014 are
3 referenced in the prehearing report. Import and market
4 share data, however, are not referenced because of both
5 broader coverage and the impact of scope provisions.

6 Do you have concerns with respect to the
7 comparability of import data from the preliminary phase?

8 MS. DRAKE: Thank you, Mr. Corkran. Yes, there
9 were some changes to the scope that changed the coverage in
10 the preliminary period to the final period.

11 We did two comparisons. We did one that looked
12 at just the preliminary record, adding the final 2017, and
13 then looking just at the final record and adding the
14 preliminary 2014. And the trends are remarkably similar.
15 So we'd be happy to walk through that based on the
16 confidential data at post-hearing.

17 MR. CORKRAN: Thank you, Ms. Drake.

18 Thank you, Mr. Chairman, staff has no additional
19 questions.

20 CHAIRMAN JOHANSON: Thank you, Mr. Corkran.

21 Do Respondents have any questions for this panel?

22 MR. GURLEY: No, we do not.

23 CHAIRMAN JOHANSON: Okay. With that, why don't
24 we go ahead and break for lunch now. I know it's not quite
25 noon yet, but let's break for lunch and--let's recess for

1 lunch, rather, and come back at 12:40. And I would like to
2 remind parties that this room is not secure, so if you have
3 any proprietary information, please be sure to take it with
4 you. And we'll see you all at 12:40.

5 (Whereupon, the hearing was recessed for lunch,
6 to reconvene at 12:40 p.m., this same day.)

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

2 MR. BISHOP: Would the room please come to
3 order?

4 CHAIRMAN JOHANSON: Mr. Secretary, are there
5 any preliminary matters?

6 MR. BISHOP: Mr. Chairman, I would note that
7 the panel in opposition to the imposition of the
8 anti-dumping and countervailing duty orders been seated.
9 This panel has 60 minutes for their direct testimony.

10 CHAIRMAN JOHANSON: You may begin.

11 STATEMENT OF JOHN GURLEY

12 MR. GURLEY: Good afternoon. Again for the
13 record, my name is John Gurley. I'm counsel for I.M.L. and
14 M.E.G.A. Well, we heard an interesting presentation from
15 Petitioners today. We hope to provide some valuable
16 context, which I think will make the Commission view more
17 closely some of the Petitioner's more ill-advised and I
18 think confusing claims.

19 Today, we'll be providing information from
20 Ronnie Weinstein, who is the importer product from I.M.L..
21 You'll also have available for questions Mauro Angeretti,
22 who can talk about the experience of M.E.G.A., and also
23 issues related to demand and other conditions in the Italian
24 and foreign markets.

25

1 You will also be hearing from Andrew
2 Szamoszegi of Capital Trade. He will discuss the economic
3 and financial indicators which vividly show that the U.S.
4 industry is not being materially injured or threatened with
5 material injury. Finally, Nancy Noonan of Arent Fox will
6 provide a quick summary of issues related to decumulation
7 for purposes of threat. Ronnie?

8 STATEMENT OF RONNIE WEINSTEIN

9 MR. WEINSTEIN: Thank you Mr. Chairman,
10 Commissioners. Good afternoon. My name is Ronnie Weinstein.
11 I am the president of Itex Piping Products located in
12 Houston, Texas.

13 MR. BISHOP: Pull your mic a little closer
14 Ronnie please.

15 MR. WEINSTEIN: Is that better? I've been in
16 the forged steel fittings product industry for over 30
17 years, as I've been involved with the steel industry for the
18 same period of time. I am not new to this type of trade
19 litigation. This is my second time to appear in Washington,
20 the last time being such 16 years ago.

21 Today my hair is a little thinner. I now wear
22 reading glasses, but the facts here I am about to testify to
23 are exactly the same. In fact, as part of the Section 201
24 steel investigation over 16 years ago, working with my
25 Italian supplier, we received an exclusion from the USTR for

1 precisely the same product that we will be discussing today,
2 normalized forged fittings produced to ASTM A-105N.

3 The N stands for normalized. In 2001, we
4 successfully argued that normalized forged fittings were not
5 manufactured or sold by the domestic industry in any
6 significant quantity, and that virtually all of our sales
7 ultimately went to end users such as large oil and gas
8 companies, which cannot and do not buy normalized forge
9 fittings from Bonney Forge or other U.S. producers.

10 In other words, we rarely compete with Bonney
11 Forge in the U.S. industry back in 2001. The same facts
12 exist today. The forge fitting market is not real large. I
13 do not have exact confidential data, but I would be
14 surprised if it was more than 30,000 metric tons. I know
15 how much IML exports and have a pretty good idea of what
16 M.E.G.A. exports.

17 The amounts are pretty paltry, less than 2,000
18 tons per year. But I understand that even small amounts of
19 imports could negative impact the U.S. industry if we were
20 fighting tooth and nail for business. We do not. My
21 biggest competitor in the U.S. market is sitting right next
22 to me, M.E.G.A.

23 I really don't focus on what Bonney Forge or
24 Capital Manufacturing are doing, nor do I really care about
25 imports from the Chinese or the Taiwanese. Let me explain

1 why. I.M.L., as well as M.E.G.A., sell only normalized
2 forge fittings. Normalized fittings are important to
3 certain U.S. end users. Normalizing involves a reheating to
4 steel uniformly above its critical temperature and air
5 cooling at room temperature.

6 Basically, this is what is called heat
7 treatment. Normalizing imparts hardness and strength to the
8 fittings, reduces internal stress and helps control
9 dimensional variations that could result from machining a
10 standard A-105 fitting. These fittings are widely
11 considered a superior product, particularly for more
12 demanding applications.

13 Big oil companies such as Shell, Chevron,
14 Exxon and Marathon, as well as companies in other
15 industries, require normalized fittings for many critical
16 applications. That means distributors which sell to big oil
17 and gas companies require normalized forge fittings when
18 their customers do.

19 Every PO we receive at Itex from a
20 distributor, and I mean 100 percent, request A-105 in
21 normalized fittings. So this is obviously a very important
22 factor for purchasers when they decide whom to purchase
23 forged fittings from. I read the Petitioners' pre-brief
24 hearing, and was struck by a few of their comments.

25 On page ten they say "There are no factors

1 that significantly distinguish domestic imported forged
2 steel in the market." Second, on page 11 they say "Because
3 of the high degree of interchangeability, decisions on
4 whether to purchase imported or domestic forged steel
5 fittings come down to price." Really? These statements do
6 not seem even remotely accurate. Bonney knows they are not
7 interchangeable, and price is not the only factor.

8 In fact, when asked at a preliminary
9 conference if distributors commingled domestic product
10 inventory with imports, Mr. O'Connell of Bonney Forge
11 correctly answered, please see page 71, that they're
12 segregated. They're not intermingled. Why? Distributors
13 have customers that take the generic our commodity, A-105
14 fittings, which are not normalized, such as those products
15 produced by Bonney Forge and Capital.

16 And they have customers like major oil
17 companies Chevron, Shell, Exxon and Marathon, that require
18 A-105N. This is precisely the reason that distributors
19 carry dual inventories, and they are segregated. Let's be
20 clear. We know that certain end users absolutely require
21 normalized forge fittings, and to our knowledge Bonney Forge
22 does not supply normalized forge fittings to big energy
23 companies in the U.S.

24 So normalization obviously is a very critical
25 factor which distinguishes domestics from the Italian

1 imports. Again, Bonney Forge knows this very well. Now
2 Bonney Forge can state that sometimes they sell to the same
3 distributors as we sell, which is probably true. But as I
4 just discussed, what they have not been particularly candid
5 about is that a distributor will buy normalized fittings for
6 some of its customers, and not normalized for others.

7 In other words, even if we sell to the same
8 distributor, it does not mean we're competing. Look. Is it
9 possible there are some customers which may buy normalized
10 fittings from a distributor, even if they do not require
11 them? Yes, it's possible, and I am not going to say there is
12 zero competition with the domestic industry.

13 I emphatically say that what competition there
14 is, is not significant. It could not have a material impact
15 on the domestic industry. For the same reason, we do not
16 compete with imports from China or Taiwan. Our product is
17 generally a higher quality than that from the Chinese and
18 the Taiwanese, and when an AML exists, Italy is rarely
19 interchangeable with China and Taiwan, as noted in the
20 prehearing report at II-21.

21 As I mentioned earlier, the Italian companies
22 heat treat. That is normalized, 100 percent of their
23 product. To my knowledge, the USA is the only significant
24 market in the world that does not require normalized
25 product. Virtually all of European and end users require

1 normalization, and so do those in Canada and the Middle
2 East. This standard is normal for most purchasers around
3 the world.

4 From a manufacturing point of view, it is
5 easier to heat treat everything or heat treat almost
6 nothing, because IML sells into markets that require
7 normalized forge fittings as a matter of course, it simply
8 heat treats or normalizes 100 percent of its production. I
9 think the opposite is probably true of Bonney. They are
10 selling commodity forged fittings to distributors who
11 customers largely do not require heat treatment.

12 Therefore, why would they go through the
13 bother and expense of heat treating the production of a
14 commodity A-105 fitting? Now we heard Bonney Forge mention
15 that they can produce normalized fittings. Okay. But don't
16 you think that it's a little odd they failed to mention the
17 issue of normalized fittings in their petition some ten
18 months ago, or even their prehearing brief that they filed
19 last week.

20 Now only after we filed our legal brief, and
21 only then does Bonney Forge mention this important fact in
22 detail. I think we can figure that one out. I understand
23 Bonney Forge produces mostly to inventory. They want to
24 sell commodity grade products that they can put into the
25 inventory and sell into truckloads. This is a valid

1 business model.

2 However, using this business model, it does
3 not make sense for them to inventory heat treated product.
4 Moreover, if they get an order for heat treated product,
5 they would have to undertake a special process to produce
6 it. This would cause additional expense. Based on what
7 they said in the preliminary phase, it appears they may very
8 well sell some heat treated or normalized product into
9 Canada.

10 I will quote you exactly what they said on
11 page 55. The Commission staff question: What about the
12 difference between the heat treated and non-heat treated
13 fittings? Are there different applications for non-heat
14 treated fittings versus heat treated specifically
15 normalized?"

16 The response from Mr. Chuck Almer from Bonney
17 Forge. "The heat treat or normalizing is a form of heat
18 treating, provides a little toughness for the material,
19 refines the grain structure and is normally used in colder
20 applications," Canada so to speak, as I mentioned today.

21 I'm not so sure what he means by colder
22 application. I know I.M.L. sells a lot of forged normalized
23 fittings to the Middle East, and normalized fittings are
24 sold in the U.S. including Texas, where I can attest the
25 weather's pretty hot in Texas right now. But like I just

1 mentioned, until today I have not heard them talking about
2 selling normalized product in the United States. That's
3 because they really don't.

4 One other issue I want to raise relates to the
5 drop in steel prices in 2015 and most of 2016. As the
6 Commissioner staff report mentions on page V-18 in the
7 preliminary phase, the U.S. producers could not substantiate
8 one lost sale. In the final phase, the U.S. producers
9 stated they had to reduce prices at certain times in the
10 point of investigation.

11 That's pretty obvious. The price of steel
12 dropped a significant amount at certain times. Customers,
13 they're not stupid. They track the price of steel and
14 expect the prices of goods made from steel to decrease. As
15 you know, the majority of the product cost to manufacture a
16 forged steel fitting is the steel.

17 Price is affected by the price of the steel
18 used to produce the fittings. Customers expect forged
19 fittings produced to pass on the cost savings of lower steel
20 prices through lower forged fittings prices. Pretty normal.
21 So Petitioners are incorrect when they allege that the
22 imports caused their price to decline in 2015 and 2016.

23 I want to speak now a bit about conditions in
24 the U.S. market. As everyone in the industry knows, we are
25 tied at the hip to the petroleum industry. When petroleum

1 prices are high, demand for forged fittings rises. But when
2 petroleum prices fall, demand contracts. The decline in oil
3 and natural gas prices that began in 2014 slowed down all
4 related activities, and that is what has originally weakened
5 the demand for fittings.

6 Petroleum prices have been increasing for the
7 last year and a half, and the market for fittings has picked
8 up. The market today is much better than it was in 2015 and
9 2016. It is no secret that the U.S. industry has been
10 struggling to keep up with demand. Given Bonney Forge's
11 business model, it takes a while for them to build up
12 inventories to adequately supply the market, just like it
13 took them time to adjust when the oil prices declined.

14 Based on market indicators, oil prices are
15 likely to remain stable in the near future. If that is
16 true, Bonney Forge and the other U.S. companies should have
17 clear sailing for the foreseeable future. Finally, I want
18 to address the comments I heard this morning about a concern
19 that the Italians might increase their shipments to the
20 United States if there is no anti-dumping duty, and that
21 would threaten the U.S. industry.

22 Again, our normalized product generally does
23 not compete with the U.S. industry's product, and there is
24 no indication whatsoever that would happen. The Italians
25 have been present in this market for many, many years, and

1 have always behaved responsibly.

2 During the Section 201 steel proceeding over
3 16 years ago, when we received our exclusion, up to 3,000
4 metric tons for normalized forge fittings, we never came
5 close to shipping that amount and even for the periods
6 looked at in this proceeding going back to 2014, when oil
7 prices were higher.

8 We have never shipped anywhere near that
9 amount. IML has stable customers in its home market and
10 other export markets, and it has no intention of shifting
11 those sales to the United States. In conclusion, I really
12 don't understand why I'm here. We're no threat to Bonney
13 Forge. They admitted they're the leaders.

14 As stated in the prelim, they are the leaders
15 in the marketplace. We're not going to deny that the U.S.
16 market is of some importance to I.M.L. and to Itex, but our
17 imports have always been small and will remain small.
18 Please look at the Itex and I.M.L. questionnaire responses
19 for our volumes.

20 The same is true from all the Italian
21 producers. We have consistently been present in the U.S.
22 market at low volumes. The U.S. market changes every year
23 based on demand. For the last two years, demand has been
24 increasing. Prices are rising and my guess, Bonney Forge,
25 they're doing just fine.

1 What has not changed is the fact that Bonney
2 Forge or any other U.S. producer does not really compete for
3 the same end users we do. Even if they are selling to the
4 same distributor, they're selling a totally different
5 product, a product that is not normalized. Thank you for
6 your time today, and I'm here to answer your questions.

7 STATEMENT OF ANDREW SZAMOSSZEGI

8 MR. SZAMOSSZEGI: Good afternoon. I'm Andrew
9 Szamoszszegi, a Principal at Capital Trade, Incorporated. I
10 am testifying on behalf of the Italian respondents. Slide 2
11 summarizes the main themes of my testimony. During the
12 third quarter of 2014, the forged steel fittings industry
13 must have been flying high. Oil rig counts were at record
14 levels and demand was strong.

15 However, oil prices collapsed during the
16 second half of 2014. By early 2015, rig counts followed
17 suit. The high times were over; demand for forged steel
18 fittings collapsed. For the next 17 months, the situation
19 continued to deteriorate, and the fittings market continued
20 to contract.

21 Then the cycle reversed. Oil prices rose, rig
22 counts increased, and demand for forged steel fittings
23 expanded. This collapse and then partial recovery of oil
24 prices and oil sector activity explain what happened to the
25 domestic fittings industry during the Period of

1 Investigation. Changes in the quantity of subject imports,
2 economically speaking, behaved as one would expect. They
3 declined when demand declined, and then increased when
4 demand recovered. The record shows no adverse volume
5 effects during the POI.

6 Similarly, the record does not demonstrate
7 that the subject imports materially harmed the domestic
8 industry's operational and financial performance. Trends in
9 shipments, production, capacity utilization, net sales and
10 profitability have all improved with increased demand.

11 Further, there's been no cost-price squeeze.
12 So whatever under-selling existed was certainly not the kind
13 that causes margin erosion. The absence of current injury
14 and threat of injury is even more obvious if the subject
15 imports from Italy are considered in isolation. The Italian
16 fittings largely serve a different market segment than the
17 domestic fittings.

18 The vast majority of Italian fittings serve
19 end users who require a normalized product. Neither
20 domestic producers nor other subject sources are major
21 suppliers of the normalized fittings to these users.

22 I now turn to the key conditions of
23 competition, before moving on to current injury and threat.
24 Confidential slides will only be visible on your BPI deck.
25 Slide 3 presents key conditions of competition. Derived

1 demand, POI demand trends, market segmentation, current
2 tightness in the market and the limited substitutability of
3 the Italian fittings.

4 Demand for fittings is derived from demand for
5 piping systems that use these fittings. Based on the
6 questionnaire responses, the oil and gas is the major driver
7 of fitting demand, and I think you heard that attested to
8 this morning as well. The change in oil prices and
9 subsequent contraction in rig count was the critical
10 condition of competition during the Period of
11 Investigation.

12 Slide 4 shows trends in the monthly prices of
13 light, sweet crude oil since 2010. The point just before
14 the steep decline is June 2014. You can see that there were
15 other periods with fairly significant declines, that were
16 followed by reversals. It was not until after September '14
17 when the downward trend in oil prices was firmly
18 established. The trough was not reached until January 2016.

19 From June 2014 to January 2016, the crude oil
20 price declined by approximately 68 percent. Slide 5 shows
21 the oil rotary rig count from Baker Hughes. It was almost
22 six months before the initial decline in the oil futures
23 price was reflected in the declining rig count. The decline
24 from December 5, 2014 to the trough of May 27, 2016 was
25 approximately 80 percent.

1 Another important demand condition is market
2 segmentation based on country and the identity of the
3 producers, described in Slide 6. The questionnaires clearly
4 indicate the existence of an anything but China segment, and
5 a distinct segment for Italian fittings that does not
6 overlap with the other subject imports.

7 Purchasers who buy large quantities of Italian
8 fittings do not purchase any Chinese fittings, and they
9 purchase only a smattering of Taiwanese fittings.

10 On the supply side, the market for fittings
11 perceived a shortage at the end of the POI, as described in
12 Slide 7. This is mentioned in the prehearing report at page
13 II-8. The Supply House Times, an industry publication,
14 characterized domestic manufacturers as "operating near full
15 capacity" in January 2018. So there's a disconnect here
16 that provides important context to reported capacity
17 utilization rates.

18 Limits on substitutability, outlined in Slide
19 8, are also critical for understanding this industry. As
20 you have heard, both major Italian suppliers normalize all
21 their fittings. A large percentage of the fittings they
22 sell in the United States are sold to purchasers who require
23 normalized fittings.

24 At least one end user has detailed supplements
25 to ASTM grades that require normalization on all their

1 fittings purchased here and abroad. The major end users in
2 the U.S. market for normalized fittings perceive that the
3 Italian producers are the only potential large scale
4 suppliers in this market, of this product. The Italians
5 perceive themselves as not competing with either the
6 domestic producers or producers from the other subject
7 countries for sales to these major end users.

8 This market segment, as you heard this morning
9 if you can read between the lines, is not a primary focus of
10 the domestic industry historically. For end users that are
11 indifferent to normalization, there is perhaps some overlap.
12 But the Italian respondents believe that a significant
13 majority of the fittings they sell are used by consumers
14 that demand a normalized product, and not by end users who
15 are indifferent to normalized fittings.

16 With these conditions of competition and this
17 background, I now turn to the volume effects. There have
18 been no significant volume effects during the Period of
19 Investigation, either cumulatively or by imports from Italy
20 looked at in isolation. The massive decline in oil sector
21 activity was manifest in large declines in fittings
22 consumption from 2015 to 2016 to an uncanny degree, and you
23 can see that by looking in the columns at the extent to
24 which the numbers match.

25 To an uncanny degree, subject imports tracked

1 this decline. In 2017, the recovery in consumption was
2 matched by a proportional increase in the subject imports.
3 These trends are showing in Confidential Slide 9, along with
4 domestic production.

5 Slide 10 places these trends in the
6 Commission's statutory framework, which does not include
7 market share suppression. The domestic industry did not
8 lose market share. The subject imports decreased and then
9 increased in concert with demand, did not increase relative
10 to consumption, and did not increase relative to production.

11 The absence of adverse volume effects is more
12 glaring if Italy is viewed in isolation, which you can see
13 in the bottom two rows of the table.

14 Moving to impact. The preponderance of
15 indicators relied on by the Commission do not show adverse
16 impacts by reason of the cumulated subject imports. Slide
17 11 shows production declined in 2016, an increase in 2017
18 and over the POI. Slide 12 shows capacity utilization
19 declined in 2016 and then rose in 2017, and over the POI.

20 Slides 13 and 14 show U.S. shipment volume and
21 value following the same pattern. Employment indicators
22 declined in 2016 and increased in 2017. They did not all
23 increase over the POI due to rising productivity. Slide 15
24 shows employment indicators really improved across the board
25 in 2017.

1 Slide 16. Profitability improved over the
2 POI. As the slide shows, the extent to which gross profits
3 -- Slide 16 shows the extent to which gross profits,
4 operating income and net income rose over the Period of
5 Investigation in absolute terms. Slide 17 illustrates this
6 improvement in gross margin, operating margin and net income
7 margin, and this also -- these also improved over the POI.

8 The domestic industry's cash flow and return
9 on assets followed the same pattern. As with volume, the
10 large decline in U.S. consumption and subsequent recovery
11 drove these results. There's no indication that the
12 cumulated subject imports harmed the domestic industry's
13 operational or financial performance, and the subject
14 imports from Italy had no adverse effects either.

15 The absolute volume and trends of imports from
16 Italy did not keep up with trends in demand. They declined
17 relative to consumption and relative to production. Given
18 that the domestic market share increased, Italy's market
19 share declined and the domestic profits increased. There is
20 no causal link between the subject imports from Italy and
21 the domestic industry's performance.

22 Slide 18 summarizes the pricing analysis. On
23 the one hand the pre-hearing report shows predominantly
24 under-selling, albeit for a very small percentage of
25 domestic industry sales. On the other hand, there was no

1 price depression or price suppression, and therefore no
2 cost-price squeeze over the POI. Indeed, as I said, the
3 gross margin expanded over the POI.

4 I anticipated being asked about 2016, so I'm
5 going to be proactive and address that now. The decline in
6 demand caused a reduction in sales in 2016, so the domestic
7 industry's fixed cost per unit increased. This had nothing
8 to do with the cumulated subject imports or the subject
9 imports from Italy, because they did not cause any decline
10 in the domestic industry's market share. The prehearing
11 report addresses this on pages VI-8 and VI-9.

12 The raw materials cost to sales price ratio,
13 shown on Confidential Slide 19, offers a cleaner view of
14 whether the cumulated or decumulated subject imports caused
15 a cost-price squeeze. The cost of raw materials declined in
16 each year of the POI. However, the cost to sales ratio also
17 declined. This means that the subject imports did not force
18 the domestic producers to reduce prices by an injurious
19 amount. There was no cost-price squeeze.

20 So was there under-selling for the limits
21 volumes covered by the pricing products? Yes. But there
22 was some over-selling as well. Were there significant price
23 effects on the domestic industry by reason of the subject
24 imports? Well no. Otherwise, gross margin would have
25 declined over the POI, and the raw materials ratio would

1 have increased, not declined, and market share for the
2 domestic industry would have declined, but none of those
3 things happened.

4 Further, there's no causal link between the
5 subject imports from Italy and domestic prices. Quite
6 simply, the majority of the subject imports from Italy does
7 not compete with the non-normalized products, and therefore
8 does not affect domestic prices in any meaningful way.

9 So to summarize on current injury, the
10 cumulated subject imports and the subject imports from Italy
11 caused no adverse volume effects or material adverse impacts
12 over the Period of Investigation, and despite some
13 under-selling, there have been no demonstrable adverse price
14 effects either. This record supports a finding of no
15 current injury.

16 I'll conclude with threat, summarized on Slide
17 20. My analysis assumes the Commission will find no current
18 injury and exercise its discretion to decumulate.
19 Therefore, I focus on fittings imports from Italy. The
20 volume trends of the subject imports from Italy during the
21 POI provide no indication that adverse effects are imminent.

22 First, the fittings imports from Italy are not
23 significant in isolation, and did not increase over the POI.
24 As shown earlier in Confidential Slide 10, they did not
25 increase relative to production or consumption.

1 Second, there's limited substitutability
2 between the normalized fittings imported from Italy for use
3 by the major oil producers, and the non-normalized fittings
4 produced by the domestic industry. M.E.G.A. has a sole
5 source enterprise frame agreement with a company during the
6 POI. These volumes could not be served by any domestic
7 producers in large quantities.

8 This fundamental condition of competition
9 continues to limit the extent to which Italian imports can
10 have adverse volume effects on the domestic industry.

11 Third, there's a limited ability for Italy to
12 substantially increase its exports to the United States.
13 Capacity utilization of Italy is relatively high. Italy
14 also sells the vast majority of fittings it produces to
15 countries other than the United States. The U.S. share of
16 Italian shipments was fairly stable over the POI, as was the
17 share of forged fittings in Italy's production mix. This
18 stability is likely to continue.

19 Fourth, Italian fittings production is not
20 subsidized. Fifth, as I mentioned earlier, the market was
21 tight in the first quarter of 2018. This was reflected by
22 the low levels of inventory being held by subject and
23 non-subject importers, and by the domestic industry, and by
24 the market analysis you heard earlier.

25 The fittings imports from Italy are also

1 unlikely to cause adverse price effects in the imminent
2 future. The main reason is that the bulk of fittings
3 imported from Italy primarily serve a separate market
4 segment, and have only limited effects on domestic prices.

5 The proven ability of the domestic industry to
6 increase its margin over the POI despite the existence of
7 under-selling also suggests adverse price effects are
8 unlikely in the future. The Euro has also strengthened
9 against the dollar, making the dollar price of Italian
10 fittings more expensive.

11 Italian fittings are also unlikely to harm the
12 domestic industry for the same reason I discussed with
13 respect to current injury. Given that neither the cumulated
14 subject nor the decumulated Italian imports caused adverse
15 price or volume effects during the Period of Investigation,
16 there's no reason to expect that the decumulated imports
17 would have material negative effects on the domestic
18 industry's operational and financial performance in the
19 imminent future. Moreover, the domestic industry is
20 profitable and not vulnerable to injury at present.

21 With that, I conclude my testimony. I look
22 forward to answering questions.

23 STATEMENT OF NANCY A. NOONAN

24 MS. NOONAN: Good afternoon. I'm Nancy Noonan
25 from Arent Fox on behalf of I.M.L. and M.E.G.A.

1 We are asking the Commission to exercise its
2 discretion to decumulate imports from Italy from the other
3 subject imports for purposes of its threat determination.

4 Imports from the Italian Respondents are
5 decreasing, and their market share is decreasing. This is
6 true even in the face of increases in U.S. apparent
7 consumption.

8 One hundred percent of the forged fittings
9 produced by I.M.L. and M.E.G.A. are normalized. Forged
10 fittings manufactured by U.S. producers or other subject
11 foreign producers that do not meet customer specifications
12 for normalized product cannot compete in market segments
13 that demand this higher quality product.

14 The low volume of imports from Italy to U.S.
15 customers requiring normalized forged fittings where the
16 U.S. industry and other subject imports do not compete means
17 that it is not probable that imports from Italy will enter
18 the U.S. at prices that would have a depressing or
19 suppressing effect on domestic prices of forged fittings.

20 Decumulated subject imports from Italy do not
21 threaten the U.S. industry with material injury, as you just
22 heard from Andrew--and please let us know if you have any
23 questions.

24 MR. GURLEY: That concludes our presentation,
25 and we look forward to any questions you might have.

1 CHAIRMAN JOHANSON: Thanks to all of you for
2 appearing here today. We will begin Commissioner questions
3 with Commission Williamson.

4 COMMISSIONER WILLIAMSON: Thank you, Mr.
5 Chairman. I do want to express an appreciation to the
6 witnesses for coming today.

7 Let me begin with a couple of questions on the
8 normalized product. The Petitioners this morning made the
9 point that you would only need normalized products to be
10 used in cold climates, I believe. That was the primary area
11 where it was used.

12 Looking at where the exports do, why do you only
13 make normalized? Or why do your customers in non-cold
14 climates want the normalized product?

15 MR. GURLEY: Ronnie, do you want to take that?

16 MR. WEINSTEIN: Yes, well that's--actually, the
17 United States is the only country in the world that does not
18 require normalized. And I think they were half correct when
19 they said it's cold countries, but that's a very small.
20 What they missed was, it's in cold applications. And so if
21 somebody's in Houston, Texas, or in Saudi Arabia, running
22 cold fluids through a unit, that's why they need
23 normalization.

24 And the major oil companies, especially since the
25 BP disaster in the Gulf of Mexico, have really increased

1 their quality control and are all moving towards a
2 normalized product. I mean, I had conversations with the
3 quality people at Exxon this week, and Chevron, and the
4 Chevron quality people said that is their standard. Exxon
5 people, the quality control people said we use it
6 frequently. They didn't say 100 percent, but frequently.

7 And so just to assume that it's just because of a
8 cold market is actually wrong. It's the application that
9 the normalization is used for.

10 COMMISSIONER WILLIAMSON: So in energy, would
11 LNG be the primary use?

12 MR. WEINSTEIN: You know, I'm not an engineer
13 but I understand LNG gets pretty cold in that process when
14 they liquify it. And, yes, that would be a process that
15 they would probably use--the engineers would spec in a
16 normalized fitting.

17 COMMISSIONER WILLIAMSON: Go ahead.

18 MR. ANGERETTI: Good morning. And I do
19 apologize if my English is not perfect. If you don't
20 understand what I'm saying, please ask.

21 COMMISSIONER WILLIAMSON: Okay.

22 MR. ANGERETTI: You know, I'm the only one not
23 from U.S. in this hearing, and I'm trying to do my best.
24 It's true, the normalized product for Italy, for us in
25 general is a generic industry. We are selling this product

1 because all the world where we are selling is asking for
2 normalized component.

3 It's not only the normalization. Today we've
4 been extensively talking about normalization. In reality,
5 there are more behind that. I've been hearing about the
6 vacuum degassed. I've not been hearing about the, let's
7 say, the many other aspect that we are continuously
8 discussing with end user.

9 One of the, I would say, privilege that we
10 probably have in Europe is that in spite of passing through
11 only the distribution system, we are talking directly with
12 the end user. This doesn't mean that we sell directly to
13 the end user. But we are talking with end user because
14 whenever the end user has a question in respect of
15 technology, a new requirement of materials, and in
16 particular when they have injurious or accident into the
17 plant, they always try to get an answer to that.

18 So it's always a lesson learned that they have
19 when they have problems into the plant. And they always try
20 to share this information with manufacturer. Luckily for
21 us, we are always in contact with the end user, and most of
22 the time we are participating to that to try to find
23 solution to that.

24 So that is why let's say for us the normalization
25 process is an integrated process into all our system.

1 COMMISSIONER WILLIAMSON: Now the oil companies
2 are really global companies. Do they have published
3 national standards on normalization of this product?

4 MR. WEINSTEIN: Yes, they do. They each have
5 their standards on what they require for ASTM, A105
6 normalized.

7 MR. GURLEY: Commissioner, I think in the--in
8 our brief, the confidential part, but I think Mauro will
9 talk a little bit about it today, it involved Shell, that we
10 provided very detailed specifications which outlined what
11 Shell is requesting of its suppliers. And I think it
12 dovetails exactly what Mauro was saying, that there's a
13 movement toward normalization among all the major oil
14 companies, and specifically Shell is very particular in that
15 regard.

16 MR. ANGERETTI: Right. If you--we have given
17 documentation about the latest, I would say the last five
18 years, specification, Shell has come out with five different
19 specification; every year, more demanding. And obviously we
20 are committed to that. As we have declared, we have a
21 world-wide what we call enterprise--world-wide frame
22 agreement with Shell, and we are committed to that.

23 And so we follow their requirement whenever they
24 are doing the plants. It could be United States. It could
25 be Middle East. It could be Far East. It could be Europe.

1 Whatever. And have committed to that.

2 It's more important for us to standardize that
3 product. It's less costly for us to standardize that
4 product. So that's why for us quality means not only for
5 one market, for every market.

6 MR. SZAMOSSZEGI: This is Andrew Szamosszegi.
7 Just to make this one point, this agreement that Mauro
8 mentioned with Shell was in place during the entire POI, and
9 in fact predated the POI.

10 COMMISSIONER WILLIAMSON: Okay. Okay, I'll come
11 back on that.

12 Mr. Szamosszegi, I noticed in your presentation
13 you kept talking about Italy, the Italian imports not
14 causing injury. And yet I guess that only becomes relevant
15 if we decide to decumulate. And I'm not sure I heard very
16 much about why. And given, you know, the normal conditions
17 of cumulation are satisfied, so if we don't decumulate what
18 would you say about injury then?

19 MR. SZAMOSSZEGI: If you don't decumulate for
20 either current injury or threat, I think the record here
21 speaks for itself. By all the statutory indicators, it
22 shows a lack of injury from the subject imports, either
23 cumulated or from Italy alone. And for threat, the same
24 conclusion holds.

25 COMMISSIONER WILLIAMSON: Okay. I have no

1 further questions. I'll come back with some more about
2 this. Thank you.

3 CHAIRMAN JOHANSON: Commissioner Broadbent?

4 COMMISSIONER BROADBENT: Okay, I want to welcome
5 the witnesses and thank you for making the trip to the U.S.,
6 and for everyone else coming.

7 The Petitioner--Mr. Gurley, the Petitioner
8 asserts that the industry experienced significant
9 improvements after the Petition was filed in 2017. Do you
10 agree that the industry's improvements in early 2018
11 resulted from the Petition filing? And if so, does this
12 support the Petitioners' causation argument?

13 MR. GURLEY: Well I don't think it does. I
14 think what we've tried to display in our brief, and with
15 Andrew's presentation today, is that the improvement in the
16 domestic industry largely followed an improvement in demand
17 and an improvement in oil prices.

18 And as someone who traffics in rumors of
19 antidumping cases and CVD cases being filed--

20 COMMISSIONER BROADBENT: You're a trafficker,
21 huh?

22 (Laughter.)

23 MR. GURLEY: You hear about them all of the
24 time. And I don't know any rational business person who at
25 the first sign of a rumor decides he's going to change his

1 sourcing. And so we would disagree with them, and just look
2 at the demand trend to show why they're making more money
3 now.

4 MR. SZAMOSSZEGI: Andrew Szamosszegi, Capital
5 Trade. I would also say that they've manufactured a
6 shortage in the market. And so what you're seeing is a
7 shortage. You can look at the questionnaires. We can
8 detail that. Some of it's in the staff report. But there
9 are long lead times. People are having--companies are
10 having trouble getting, obtaining the product they need on a
11 timely basis.

12 The inability of the domestic parties to take on
13 new customers, things like that, are in the questionnaires.
14 And I think that--and in the staff report--and I think that
15 they've manufactured a shortage. So you've manufactured a
16 shortage at a period of increasing demand.

17 So of course the results are going to show that
18 for a quarter.

19 COMMISSIONER BROADBENT: But how is supply so
20 tight, given the domestic industry's low capacity
21 utilization rates?

22 MR. SZAMOSSZEGI: Andrew Szamosszegi, Capital
23 Trade. That's a good question. I think--which I can't
24 answer, because what they report is different than what you
25 hear and what I would say Ronnie hears with the customers he

1 speaks with and what the press is reporting.

2 I can only speculate that it takes some time to
3 adjust to a new situation because there's demand out there,
4 and why would you turn away customers if you had all this
5 excess capacity? It doesn't make sense.

6 COMMISSIONER BROADBENT: Does anybody else have
7 an explanation?

8 MR. WEINSTEIN: I can only attest to what I hear
9 in the marketplace. And I think I even read it into the
10 report, that the Petitioner--there were some people claiming
11 the Petitioner was not even--there were some people saying
12 they were not accepting new customers. I can tell you the--

13

14 MR. BISHOP: I need you closer to your mike,
15 please.

16 MR. WEINSTEIN: I'm sorry. That Petitioner is
17 not accepting any new customers. The volumes are long,
18 long, long lead times. I heard them say they were at 50
19 percent capacity. I'm unclear. Was that their total
20 capacity? Or the capacity of their employees that they have
21 right now? My guess is they're at full capacity for the
22 staff that they have right now. That's my guess.

23 COMMISSIONER BROADBENT: Okay.

24 Mr. Angeretti, what's your level of capacity
25 utilization in Italy?

1 MR. GURLEY: He's an adult and he can answer,
2 but I do--but I think it's in the questionnaire responses,
3 and I think that information is confidential. But if you
4 can characterize it, that would be good, Mauro.

5 MR. ANGERETTI: Mauro speaking. As he said,
6 it's obviously confidential information. We have
7 extensively responded to the questionnaire, the preliminary
8 questionnaire and the latest questionnaire. So all the
9 indications are there.

10 COMMISSIONER BROADBENT: Okay. If you would put
11 it in the posthearing, that would be great.

12 How do you--Mr. Szamosszegi, how do you respond
13 to Petitioners' argument that the domestic industry
14 attempted to hold market share by lowering its prices?

15 MR. SZAMOSSZEGI: Andrew Szamosszegi, Capital
16 Trade. There was a lot said about how prices are set in
17 the market. I think in the Commission's preliminary
18 determination it noted that it was not surprised that prices
19 declined because demand was declining. And I think that is
20 some of what you saw here.

21 Demand declined. Prices declined. Prices of
22 the domestic parties and the imports also declined to meet
23 those changes in demand.

24 One thing that I heard this morning that was kind
25 of like nails on a blackboard was that prices in the market

1 are determined based on supply and demand and have nothing
2 to do with raw materials' prices.

3 In fact, the supply curve in this instance is
4 determined by variable cost. Raw materials are a variable
5 cost. And raw materials account for a very high share of
6 the cost of production.

7 So this was a well-functioning market. Prices in
8 the market were declining for all parties because demand was
9 declining, and raw materials prices were declining. And so
10 prices declined.

11 And so did the domestic industry maintain its
12 market share? Yes. And that's why they're not injured in
13 this case and why there's no adverse--one of the reasons why
14 they're not injured in this case.

15 MR. GURLEY: This is John Gurley. Just to add
16 one point, the Commission has extensive experience in OCTG
17 and line pipe cases. And I don't believe we've ever heard
18 in one of those cases that the end users--in this case, the
19 petroleum and oil and gas companies--were--they could care
20 less about the underlying price of the hot-rolled steel or
21 the billets that goes into making pipe and tube. I think
22 they follow them quite carefully, and I would be shocked--
23 this would be the one industry in the history of the world,
24 who are the oil and gas guys, that don't really care about
25 the underlying costs.

1 And maybe, Ronnie, you can follow up on that.

2 MR. WEINSTEIN: Yes. Frequently when the price
3 of steel, back in 2015 and 2016, I believe it dropped 40
4 percent or so. I don't have the confidential data, but this
5 is just from my market knowledge because I buy steel myself.
6 You know, when you have the cost of the raw forging, the
7 steel costs probably 60 percent of the total cost to make
8 it. You do the math, the steel is 25 percent of the cost.
9 And the major oil companies, they're not stupid. They have
10 economists. They have people tracking all the costs. And
11 they're ringing your phone and saying, I know the price has
12 dropped. How come my prices have not dropped?

13 And the fact that I heard this morning that it's
14 a very small market and people don't follow it? That's
15 absolutely not true.

16 COMMISSIONER BROADBENT: Mr. Szamosszegi, demand
17 did increase significantly in 2017, and we still had the
18 negative price trends.

19 MR. SZAMOSSZEGI: Also raw materials prices
20 declined, and so the price setting is kind of the
21 interaction of those supply and demand factors. So that
22 makes sense. But what I think everything shows is that,
23 despite all those changes, the imports that were in the
24 market did not cause margin compression in 2017, or over the
25 POI, in total. And to me, when you have a lack of a

1 significant volume effect, and you have no cost/price
2 squeeze, and in fact I would say over the POI quite a robust
3 increase in the domestic industry's gross margin, that the
4 domestic industry did okay on pricing.

5 COMMISSIONER BROADBENT: Okay. Could we talk a
6 little bit about your view of how prices are normally set in
7 the U.S. market? Are there fixed price lists, or are prices
8 negotiated per transaction or contract? Maybe, Mr.
9 Weinstein or Mr. Angeretti?

10 MR. WEINSTEIN: Yes, this is Ronnie Weinstein.
11 The prices--there's no contracts. It's a, at least for our
12 customer base it's on a case-by-case basis. We analyze the
13 list, the product mix, the quantity to determine a price.

14 COMMISSIONER BROADBENT: Is that consistent with
15 you, Mr. Angeretti?

16 MR. ANGERETTI: Yes. It's exactly the same.
17 Every transaction there is a price that we are basing on the
18 quantity and volume of material.

19 COMMISSIONER BROADBENT: Okay.

20 Mr. Szamosszegi, please explain kind of the
21 evidence on the record to support your position on price
22 effects.

23 MR. SZAMOSSZEGI: Andrew Szamosszegi from
24 Capital Trade. I'd be glad to.

25 One, the domestic industry's prices declined more

1 slowly than its costs. Two, that happened in 2016 in the
2 context of thrawling demand. Three, the gross profits
3 increased over the POI. The gross margin increased over the
4 POI. The cost of sales to the cost of goods sold to sales
5 margin narrowed over the POI.

6 So with all of these trends one would not expect
7 to see, if there was significant--if there were significant
8 price effects. If you saw significant price effects, you
9 would see the gross margin compressing. You'd see the cost
10 share of sales rising. You'd see the gross margin--I mean,
11 gross profits either stable or declining. You'd see
12 operating income either stable or declining. And you'd see
13 net income either stable or declining.

14 And you don't see any of those things here. So
15 the domestic industry was not--whatever underselling was
16 going on, the domestic industry was able to maintain prices
17 well enough in order to increase its profitability over the
18 POI.

19 COMMISSIONER BROADBENT: Okay, thank you very
20 much.

21 CHAIRMAN JOHANSON: Commissioner Kearns?

22 COMMISSIONER KEARNS: Thank you.

23 Thank you to the witnesses for appearing before
24 us today. I guess I want to ask a few questions about
25 normalization.

1 First, just to make sure I heard you correctly in
2 response to your questions from Commissioner Williamson, I
3 think you said one of the reasons why you produce only
4 normalized fittings is that the rest of the world is just
5 kind of standardized. They expect normalized in all of
6 their purchases. Is that right?

7 MR. ANGERETTI: Yep. Mauro speaking. That's
8 correct.

9 COMMISSIONER KEARNS: Okay. And then the other
10 thing I wanted to just check on, you also explained that for
11 you, even though--I guess I'm reading into this--even though
12 it may be an added cost to normalize the product, it's
13 cheaper for you overall to produce one product instead of
14 distinguishing having some product normalized and some not?

15 MR. ANGERETTI: Yes, that's true, because as I
16 said before, it's an integrated system. And therefore it's
17 more, let's say, easy for us to proceed by having an
18 integrated system rather than stop that system and do
19 something else. It will probably cost me more to avoid that
20 because it's already integrated into our process.

21 COMMISSIONER KEARNS: Right. Okay. So, you
22 know, this morning Petitioners said that for them the cost
23 to normalize the product might be \$120 to \$140 per ton.
24 What I'm hearing you say is, it's not that you disagree with
25 that, it might be for them that that additional process

1 costs more, but for you, given that you're in other markets
2 and so forth, it's easier to just not distinguish, and that
3 for you overall it's cheaper to have sort of one product.
4 So both of those things are true.

5 MR. ANGERETTI: Well, it is true that obviously
6 there is an additional cost to that. And the cost given by
7 the Petitioner is correct. What we have to highlight is
8 that if the demand, our demand, our customer are demanding
9 that, our obligation is to follow that requirement.

10 I have to say something that is probably out of
11 these things. Unfortunately, there is no one end user in
12 this audit. And it's difficult probably for the people to
13 understand what does it mean for them, the quality. We have
14 to remember that we just producing the product. The
15 distributor is buying the product and selling the product.

16 There is one who is affected by the quality of
17 the product, the end user. And the end user cares of that.
18 Any of the process that we serve, any of the industry that
19 we serve, has to stand for at minimum 20 to 25, even 30
20 years. That's normal average of a plant.

21 They have to guarantee that this plant is working
22 properly for that long. How can they do that? Only by
23 buying quality product. Quality means sometime even lesson
24 learned. If something happened to a plant, let's say they
25 have to learn why, what is the cause of this effect into the

1 plant. That is why they are constantly having an R&D
2 department, research and development department,
3 specifically for the quality of the steel. Sometime the
4 general industry is not that fast in learning that. Even
5 the international standard, the ASME code, or the ASTM code,
6 is not really that fast to integrating all these demands by
7 the industry.

8 But end user cannot stop because of the lack of
9 information. They still continue to do their plant. And it
10 is important for them to continue to have contact with the
11 manufacturer to understand what the manufacturer can offer
12 and what they can do.

13 Obviously it has to be an integrated process that
14 maintains the cost to a certain limit. Nobody wants to pay
15 more for the product. We try to sell our product with
16 margin. That is our scope. The only difference that we
17 have from the other is that we listen to what they ask for.
18 We not necessarily listen what the distribution system asks
19 for. We all know that the distribution system, they buy and
20 they sell. They buy quality when the customer is asking for
21 quality. They buy other product when the customer is not
22 asking other product.

23 But unfortunately, it's very hard to see
24 distributor sitting with the end user and discuss about what
25 do you want? What do you need?

1 We have to consider that, okay, the oil and gas,
2 before it was easy to find. It was enough to print the
3 finger into the lamp to get the oil. Today we get the oil
4 4,000 meter down to the sea. We get the oil in a very crazy
5 places where the weather is probably not really in favor of
6 the human being. So we have to consider that those aspects
7 are important for the end user. The plant could be in the
8 middle of Washington, or it could be in the middle of
9 nowhere, and they have to consider all these aspects.

10 So that is why they are trying to standardize the
11 quality of the product, and they don't know exactly where
12 this product is going to be used. So they have to make sure
13 that the distributor has what they need. The plant could be
14 just beside the distribution center, or it could be in the
15 middle of the desert, or in the middle of the sea. But they
16 have to guarantee that the quality is meeting all the
17 requirement. That's what we do.

18 COMMISSIONER KEARNS: Okay. Thank you. That's
19 helpful. I guess I'm just suffering a bit of a disconnect
20 here, though, because when I look at our staff report I'm
21 not seeing this normalization as being a big deal to
22 purchasers. So for example if you look on page 2-21, you
23 know, when purchasers are asked U.S. versus Italy, whether
24 or not the product is interchangeable, 11 say it's always
25 interchangeable; 5 say it's frequently interchangeable;

1 only 1 says it's never interchangeable.

2 How does that jibe with what we've heard from you
3 all this morning about normalized product being a very
4 different market?

5 MR. ANGERETTI: Well, if you look at --

6 MR. WEINSTEIN: Thank you, Commissioner. This is
7 Ronnie Weinstein. I'd like to answer two questions. One,
8 about your previous question about the normalization for
9 I.M.L. and M.E.G.A. It is easier to manufacture -- There's
10 two types of manufacturers and I think M.E.G.A., I.M.L., and
11 I think Bonney Forge is this kind of manufacturer as well --
12 there's two types of shop, there's a production shop--which
13 I think all three of them are--and I think there's what they
14 call a job shop. And a job shop is, they make to order.

15 And I believe the three of these companies,
16 Bonney Forge, I.M.L. and M.E.G.A, they probably all look at
17 their business, that they have one customer, and that
18 customer's their inventory. And it's cheaper to make to
19 your inventory than to make a job shop. And if you -- you
20 know, Mr. Leone testified this morning that he is very proud
21 of this--and he should be--that 85 to 90% of his material is
22 shipped out-of-stock.

23 He ships out-of-stock because that's their
24 standard. It's just A105. And to take an order that would
25 be normalized, they'd have to, really, it's a shut-down

1 production and become a job shop. And large manufacturers
2 are just not set up to be a job shop, okay?

3 And interchangeability, it is interchangeable,
4 but it's interchangeable one way. It can go from A105
5 normalized to A105. But you cannot take an A105 and make it
6 A105 normalized. So it is interchangeable.

7 COMMISSIONER KEARNS: Okay. That might get me to
8 my next question. Because if you then look at our pricing
9 data, you see quite a bit of what looks to me like
10 head-to-head competition on very specific products.

11 And I guess it's not a product that requires
12 normalization, but given that the Italian product is
13 normalized, I guess we're seeing in there--tell me if I'm
14 wrong--we're seeing normalized fittings competing
15 head-to-head against what are probably not normalized
16 U.S.-produced fittings. And you're seeing significant
17 underselling of that by the Italians.

18 So doesn't that -- so while it may be true that
19 the U.S. can't produce -- I think that Bonney Forge might
20 disagree with this, but others might have to accept it --
21 while they may not be able to produce normalized product, to
22 the extent that normalized product is competing head-to-head
23 against product that doesn't need to be normalized and is
24 underselling, you know, that seems to be a real problem.
25 And if you look at the data, this isn't an isolated

1 incidence. This seems like this is frequent from our
2 pricing data.

3 MR. GURLEY: Commissioner, I would like to have
4 the witnesses also speak here, but one of the issues that we
5 mentioned was we think the coverage was pretty low, right?
6 It was only like around 5% of whatever it was.

7 And the reality is, even if we reported a price
8 for our sale of A105N and Bonney Forge reported a sale of
9 their price of 105, they may be in the same buck at the same
10 price comparison, but that doesn't mean they're ever
11 competing. Because if we're selling that A105N to a
12 distributor who then sold it to an oil company, they're not
13 competing with a Bonney Forge product.

14 So I think it is a little confusing and we can
15 address that more in our post-hearing brief. But I think to
16 understand the basic nexus is that the end customer--not
17 just the distributor--the end customer is dictating what the
18 distributor selling to them. Means that even if there is on
19 paper some competition, the actual competition is way, way
20 less.

21 COMMISSIONER KEARNS: All right, my time's
22 expired. Thank you.

23 CHAIRMAN JOHANSON: Oh, I'm sorry. Mr.
24 Weinstein, did you wanna say something?

25 MR. WEINSTEIN: Well, I was going to elaborate on

1 that if that's okay. I actually think there's three market
2 shares. When I receive an inquiry for I.M.L., my competitor
3 is M.E.G.A. The same people that send me the inquiry do not
4 send it the -- they have an inquiry for domestic that they
5 would send to Bonney Forge and Capitol. They have an
6 inquiry they send for the approved normalized, what they
7 would send to M.E.G.A. and I.M.L.

8 And then frequently, and actually majority of the
9 time, there's a third segment of the market. There's more
10 of a nonapproved Asian market. You know, some customers,
11 for more of a commercial application they want the Taiwanese
12 and the Chinese.

13 So when you talk about prices, my competitor is
14 here. I don't think we've ever competed on a stock order
15 with Bonney Forge. I compete with them. Bonney Forge
16 competes with Capitol.

17 CHAIRMAN JOHANSON: All right. I would like to
18 thank all of you for appearing here today, as have my
19 colleagues. With consumption up during the interim period,
20 why did subject imports decline if not the result of
21 post-petition effects? And this comes out of the staff
22 report at Table C-1. I know that some of this is
23 proprietary, so maybe dance around this as best you can.

24 MR. GURLEY: I'll take the first answer. I will
25 say that at least the timing of the petition and the

1 preliminary determination is different from country to
2 country, right? So the initial decisions in the Chinese
3 case I think came out in March of this year, but for Italy
4 it was not until May.

5 So from our perspective, the May figures, since
6 they're making a decision as to what's happening when a
7 decision's coming out in May, 2018, what's happening from
8 Italy is not dictated by what happened in the petition.
9 Just, they're doing business as usual. I think Ronnie can
10 speak about this.

11 But I don't doubt that there's some impact, if
12 there's a preliminary decision coming out in mid-March,
13 there's gonna be some impact. But least of these will be
14 Italy since they didn't have a decision till May, I would
15 say there's no impact.

16 CHAIRMAN JOHANSON: Okay, thanks. And talking
17 about, or focusing on Italy again, respondents, M.E.G.A. and
18 I.M.L., accounted for a certain percentage of U.S. imports
19 of forged steel fittings from Italy in 2017 as shown at Page
20 7-9 of the staff report.

21 Do the other subject imports from Italy consist
22 of normalized forged steel fittings? Or are these subject
23 imports from Italy of other forged steel fittings? After
24 all, we need to consider all subject imports from Italy.

25 MR. ANGERETTI: Basically in European industry,

1 and specifically in Italy, everybody's following the same
2 rule because we are all competing. So for M.E.G.A. is
3 normalized, for I.M.L. is normalized, for everybody else is
4 normalized. Otherwise, they cannot compete. As Ronnie said
5 before, there is a nonexistent market outside U.S. which is
6 asking for non-normalized. Nowhere to my knowledge.

7 CHAIRMAN JOHANSON: So do you not do, to your
8 knowledge, is our non-normalized fittings produced in any
9 other country?

10 MR. ANGERETTI: Actually what I know is that our
11 market is 100% normalized. Most probably we are asked to
12 quote because of that. I cannot say anything about China.
13 China is a market for us. And by chance we sell into the
14 Chinese market, primarily to the usual customer like Shell,
15 BP, Chevron, whenever they have a project. There is no
16 distribution system in China like you have in the United
17 States. So I cannot answer this question, to be honest.

18 MR. GURLEY: Commissioner, I apologize, but I
19 sort of shushed my client when I shouldn't. He wanted to
20 give you an answer, so I'm gonna let him give you an answer.
21 You had asked about the post-petition effects and --

22 MR. WEINSTEIN: But you had asked why the volume
23 from Italy went down in 2016 and 2017, is that correct?

24 CHAIRMAN JOHANSON: Post-petition.

25 MR. WEINSTEIN: Yeah, you know, I.M.L. had two

1 very, very large customers that in the past have bought some
2 forged fittings that went bankrupt because the oil and gas
3 business. And so those two customers dried up and that's
4 why you would see the lack of volume.

5 CHAIRMAN JOHANSON: Okay, thank you. And Mr.
6 Weinstein, you talked earlier at some length about the
7 whole, the normalized fittings. Why they are produced, not
8 produced. Why does the United States not require normalized
9 fittings? Why does United States only market in the world
10 where non-normalized fittings are sold?

11 MR. GURLEY: Commissioner, I'm just a sales guy.
12 I'm not an engineer. And I can tell you, it's my
13 understanding that market in the past have discussed this at
14 the ASTM level, that they would like to move to a more
15 normalized product.

16 And it's my opinion, just opinion only, that will
17 happen once these major oil companies continue to push and
18 push and push and they want this, because it's a quality
19 product and these oil companies have now understood that you
20 have some issues if you don't have quality.

21 And that's why our customer base is the oil
22 companies. They're asking for these normalized product.
23 I'm not an engineer, so I can't answer that question, other
24 than just my market information.

25 CHAIRMAN JOHANSON: But the United States is now

1 the largest producer of oil and gas in the world. I would
2 think that if it was a quality issue that there would be
3 more movement or a more established market for the
4 normalized product.

5 MR. WEINSTEIN: I can give you an example. There
6 was a forged steel flange that's made into the ASTM
7 specifications and again, everywhere around the world is
8 required to be normalized. America is not normalized. And
9 we have people on ASTM committees that work for us, and it's
10 a topic that's being discussed every single meeting. And
11 the major oil companies, again Shell, on flanges have
12 required normalized as their standard, and I understand
13 Chevron's moving that way as well.

14 CHAIRMAN JOHANSON: Could that be because Shell
15 is Dutch?

16 MR. WEINSTEIN: You'd have to ask them. I'm not
17 their quality control people, I don't know.

18 CHAIRMAN JOHANSON: It just seems strange to me,
19 once again, if the United States is the world's largest
20 producer of oil and gas, that if it is indeed an issue of
21 quality, that the United States would've not moved there
22 already.

23 MR. WEINSTEIN: Quite frankly, I agree with you.

24 CHAIRMAN JOHANSON: Okay.

25 MR. WEINSTEIN: And we think that eventually it

1 will move that way.

2 CHAIRMAN JOHANSON: Okay. And --

3 MR. GURLEY: Commissioner, this one that --

4 CHAIRMAN JOHANSON: Sure.

5 MR. GURLEY: I think we're not trying to say that
6 every application in this market requires normalization. In
7 Europe, apparently it's sort of the norm, so everybody does
8 it. But here, they clearly found that they can sell product
9 that's not normalized.

10 And so the niche market, such that it is, that
11 the Italians are filling, is one where they're getting
12 specific orders that say you must have A105 normalized. And
13 we don't know that percentage of the market. I know you
14 asked the petitioners that question. We'll try to come up
15 with that for you, but it's not a big part of the market,
16 and neither are the Italians.

17 CHAIRMAN JOHANSON: Okay. Are normalized forge
18 steel fittings price higher than regular forged steel
19 fittings. Regular, I mean the U.S. regular.

20 MR. WEINSTEIN: You know, Commission, I don't
21 have that information because I compete with just normalized
22 forged fittings. So I really don't follow the U.S. market.
23 It's no concern of mine. So I honestly don't know.

24 CHAIRMAN JOHANSON: Okay. And sticking with the
25 same issue, Mr. Weinstein, do you agree as stated by the

1 petitioners this morning, that normalized and regular
2 fittings are interchangeable on the same equipment?

3 MR. WEINSTEIN: No. Repeat the question.

4 CHAIRMAN JOHANSON: The petitioners this morning
5 stated that regular and --

6 MR. WEINSTEIN: A105.

7 CHAIRMAN JOHANSON: -- non-normalized fittings --

8 MR. WEINSTEIN: Yes, sir.

9 CHAIRMAN JOHANSON: -- and normalized fittings
10 are interchangeable.

11 MR. WEINSTEIN: Absolutely not.

12 CHAIRMAN JOHANSON: Okay. How about --

13 MR. WEINSTEIN: They're interchangeable one way.
14 A105 normalized, they can be interchanged to A105. But if
15 you have a A105, it will not qualify for A105 normalized.
16 So it's interchangeable one way.

17 CHAIRMAN JOHANSON: Okay.

18 MR. WEINSTEIN: From the higher quality down to
19 the lower quality.

20 MR. GURLEY: And I encourage you to look again at
21 the Shell. You probably have it. Again, look at the
22 documents we put on the record with respect to Shell. And
23 also the purchasers we put on the record that are very clear
24 what these oil companies and these distributors are
25 expecting when they need normalized product. It's spelled

1 out.

2 CHAIRMAN JOHANSON: Okay. I appreciate your
3 responses. My time is about to expire. Commissioner
4 Williamson.

5 COMMISSIONER WILLIAMSON: Thank you. This
6 question of price (microphone noise) are related to
7 decreasing (microphone noise. Okay?

8 You argued that the price trends are related to
9 decreased demand and declining costs. Why then do we see of
10 such imports underselling in the domestic industry in the
11 majority of price comparisons? You talk about the -- you
12 know, there's very few products here. But this is what we
13 have, and also we have no indication that that's not true in
14 other products either.

15 In other words, you just can't say, we've taken
16 -- three or four products happen to be a pricing products
17 aren't difficult.

18 MR. SZAMOSSZEGI: Right, right. Understood. I
19 would say this. What you've heard, you have the two largest
20 producers of the normalized fittings at this table. They
21 are selling through distributors to purchasers who are large
22 oil companies. So what you have are producers with
23 particular supply curves, particular cost structures, who
24 are producing a product for a market that is largely
25 distinct.

1 I'm not saying that petitioners don't sell any
2 products to these customers, but what you have are different
3 supply and demand curves. And you just have a different
4 price. It's a market segment that these gentlemen
5 participate in and do so profitably. They make money. They
6 don't do it to lose money. So they make money and they sell
7 at a price that's determined in transactions between two
8 sets of firms on a particular product.

9 That by and large does not compete with the
10 non-normalized fittings. So that's, you know, again, we can
11 do some more analysis with the data that we have. But it's
12 a small market. There are different power balances among
13 the companies who are participating in this market.

14 And it results in a price and it's the price that
15 you see for those products. And that's -- you know, we can
16 go into it more using more confidential data post-hearing.

17 COMMISSIONER WILLIAMSON: I don't recall any of
18 this being presented this and say that the petitioners are
19 not selling to the same companies.

20 MR. SZAMOSSZEGI: Excuse me?

21 COMMISSIONER WILLIAMSON: That the petitioners
22 are not selling to the same companies.

23 MR. SZAMOSSZEGI: They're not selling the same
24 product to the same companies in the same quantity. That's
25 not, you know, in the same type of quantity. Because,

1 again, they're doing, if you think of the cost structure of
2 the U.S. industry and what's coming out of the U.S. industry
3 may be a tiny bit of normalized product and a lot of the
4 non-normalized product.

5 In Italy, you have 100% of the normalized
6 product. And so, you know, despite the underselling that's
7 in the data for the 5% of the products there, you still see
8 the domestic industry able to maintain high profits and
9 increase their profits over the POI.

10 COMMISSIONER WILLIAMSON: Okay. So the pricing
11 in Italian sales, are the pricing products, are they
12 normalized or non-normalized? Was this specified?

13 MR. SZAMOSSZEGI: It's not specified.

14 COMMISSIONER WILLIAMSON: So, and if all the
15 Italian production, and that is correct. There are no
16 Italian companies producing non-normalized product. So the
17 sales that were made by the Italian companies to U.S.
18 purchasers had to be of normalized product?

19 MR. SZAMOSSZEGI: Correct.

20 COMMISSIONER WILLIAMSON: And yet we have
21 underselling here.

22 MR. SZAMOSSZEGI: The underselling data show
23 underselling and overselling, but predominant underselling,
24 yes.

25 COMMISSIONER WILLIAMSON: So why is that?

1 MR. SZAMOSSZEGI: Again, we can address this more
2 post-hearing, but the Italian producers have their own cost
3 structure. They make money, they participate in this
4 market. They sell through distributors to purchasers who
5 they actually deal with and come to, in M.E.G.A.'s case,
6 global agreements where they have a global contact to sell
7 all their fittings.

8 And this is a result of price negotiation. In
9 the market for particular products that don't compete with
10 domestic industry's product in the vast majority of
11 applications.

12 COMMISSIONER WILLIAMSON: That's what I'm having
13 trouble -- Ms. Noonan, you wanted to --

14 MS. NOONAN: I just wanted to add that we see the
15 domestic industry actually increasing its market share. And
16 that, I think is really unusual when you have underselling.
17 Usually the whole purpose of underselling is to take that
18 market away from the U.S. industry, but that's not what's
19 happening here.

20 And particularly as to Italy, Italian market
21 share is declining. So it all goes back to the fact that
22 they're really not competing head-to-head. They serve
23 different markets and different uses and that's why they're
24 not grabbing market share from the U.S. industry, despite --
25 some evidence of under-selling, but also some evidence of

1 over-selling.

2 COMMISSIONER WILLIAMSON: Okay.

3 MR. GURLEY: Can I just give you a good
4 example, because we made a big deal of it in the brief and
5 Mauro is right here, is that you know, his company has a,
6 how should we say, a strong relationship with Shell, all
7 right.

8 So they're selling to a distributor, and
9 correct me if I'm wrong, which sells to Shell. So whether
10 that price is ten percent below the price you find in the
11 product comparisons or 20 percent above, it really doesn't
12 matter, because the domestic industry is not competing for
13 that sale with Shell. Mauro hasn't. So it is low, high or
14 exactly the same. It has no economic impact on Bonney
15 Forge.

16 MR. ANGERETTI: I can only confirm that let's
17 say the -- our product, as the petition mentioned before,
18 are a large number of product. I always count to be over
19 60,000 line items. But different sizes, different material
20 grade, different operation, and I have to admit that it's
21 not easy to have all of them in full control.

22 Obviously, we are working as well as on the
23 average. When we see that the majority of the product are
24 getting us profit, and we see that other product, little
25 product are probably with very low profit or equal to zero,

1 it doesn't make such difference to us. I understand this is
2 my first time in that kind of petition. I understand that
3 that's my understanding, maybe I'm wrong.

4 Out of 60,000 over article, if we are good in
5 50,000 we are good buy. If you are betting of that, this is
6 affecting all the other 60,000. This is not the market we
7 live for. That's not exactly where we are. That's the
8 market that we are focusing on.

9 There is always some of the product into the
10 numbers of product you do that for whichever reason. Let's
11 say the machine that we're using is not appropriate for that
12 specific item. Okay, that's an investment we'll do later.
13 We'll make an investment to make appropriate to the machine.
14 But today we have to sell the product. The problem for us
15 to have the majority of product are profitable.

16 COMMISSIONER WILLIAMSON: Okay. Thank you for
17 that answer. Let me turn to another question. This morning
18 I had asked the Petitioners about what happened in 2014, and
19 they gave an explanation of why it was relevant. So I was
20 wondering how you might respond to their analysis, or what
21 is your analysis of what happened in 2014, and what is
22 relevant for this case.

23 I mean it's not part of the Period of
24 Investigation, but it is -- can say what happened and is
25 part of the conditions for competition.

1 MR. GURLEY: Being a very unbrave lawyer, I'm
2 going to ask Andrew to answer that question.

3 MR. SZAMOSSZEGI: Yeah. In 2014, the bottom
4 really fell out of the industry on the demand side. And so
5 what you saw over the next six months to a year after the
6 oil prices started to decline was an adjustment period. The
7 different producers in different countries adjust in
8 different ways. There are longer lead times. But what you
9 saw was eventually all of the demand from supply from all
10 sources declined because demand declined.

11 COMMISSIONER WILLIAMSON: Did the imports or
12 the suppliers from the foreign countries adjust to the U.S.
13 market differently from the way the domestic producers did?

14 MR. SZAMOSSZEGI: Well, it takes a little more
15 time because they're distant, and they also have different
16 customers, different projects. It all depends, right. It
17 depends on what's going on at one time versus another time.
18 And so, you know, again this is a project. You have
19 projects where they're being served by normalized fittings
20 or maybe some distributors are rushing in.

21 They had a big order of Chinese fittings or
22 Taiwanese fittings, and that has to ship and that gets here
23 and it eventually gets sold. Everybody has higher
24 inventories. They have to work it down. So there is
25 uncertain -- well, uncertainty's the wrong word. There is a

1 variation in response by the players in the market.

2 But at the end of the day, we reached an
3 equilibrium in 2015, and that's when the Period of
4 Investigation, this final begins. Since 2015, when demand
5 has gone up, domestic shipments have gone up, imports have
6 gone up by about the same. When demand continued to decline
7 in 2016 after 2015, imports declined, domestic shipments
8 declined, and it was all by the same amount. It was a
9 completely demand-driven market.

10 COMMISSIONER WILLIAMSON: Okay.

11 MR. SZAMOSSZEGI: So I think you have enough
12 within the three years to look at what happened while, you
13 know, these imports, these subject imports were in the
14 market and what happened, and the picture of the market is
15 it's demand-driven.

16 COMMISSIONER WILLIAMSON: Good, okay. Thank
17 you. My time has expired.

18 CHAIRMAN JOHANSON: Commissioner Broadbent?

19 COMMISSIONER BROADBENT: Okay. Mr. Weinstein
20 and Mr. Angeretti, how have the Section 232 national
21 security tariffs on imports of steel bars and seamless steel
22 pipes imposed by the President in March 2018 affected your
23 firm's competitive position compared to the domestic
24 producers?

25 MR. WEINSTEIN: That was in March of 2018;

1 correct?

2 COMMISSIONER BROADBENT: Yes, yeah.

3 MR. WEINSTEIN: Well in essence, it really
4 hasn't because there's been no imports after that, and the
5 price of -- it's affected my business at Itex. I
6 manufacture some piping components not competing with forged
7 fittings. But the price of my raw material has gone up 25,
8 30 and sometimes 40 percent. So of course we've had to
9 raise our prices. But when it comes to forged fittings,
10 there's really been no forged fittings coming from outside
11 the country since March, so I think it's a non-effect.

12 COMMISSIONER BROADBENT: Okay. Mr.
13 Szamosszegi, can you comment on the lost sales/lost revenue
14 that are presented in the staff report?

15 MR. SZAMOSSZEGI: I would -- for lost revenue,
16 I'd prefer to do that post-hearing.

17 COMMISSIONER BROADBENT: Okay. The
18 Petitioners point to a number of declines in the industry's
19 output that occurred in 2014 to 2017 on page 28 of their
20 brief. What is the relevance the domestic industry's loss
21 of market share and declines in most output indicators from
22 2014 to 2015?

23 MR. SZAMOSSZEGI: Hi. Andrew Szamosszegi from
24 Capital Trade. Again, I think what we saw then was just a
25 radical change in the market, and a period of adjustment

1 that occurred, and you know unfortunately we don't have data
2 on 2013 and 2012. We just have 2014, and that was the year
3 when very large changes in the industry's -- in demand
4 occurred, and I tried to show those in a few of my earlier
5 slides.

6 So that changed from 2014 to 2015, occurred at
7 different rates because the subject imports always react
8 more slowly. And so that's -- that's really what happened,
9 and it's hard to draw any conclusion from that large
10 decline. What really matters is the Period of
11 Investigation, to see if -- look, let me put this
12 differently. Let's say there were declines from 2014 to
13 2015 that were associated with this, and we saw something
14 similar in 2016 and similar again in 2017, and I think we'd
15 be having a different conversation.

16 But what we saw was that after 2015,
17 everything followed demand. All the trends followed demand
18 and none of the trends show injury. So I don't give much
19 weight to what happened from 2014 to 2015, because that was
20 just kind of an out of body experience, a historical
21 experience for this market.

22 COMMISSIONER BROADBENT: Okay, Mr.
23 Szamosszegi. How do you address the data in Table V-10
24 showing a substantial number of purchasers who reported
25 buying subject imports instead of the domestic like product,

1 with the low price of subject imports being a primary reason
2 for doing so?

3 MR. SZAMOSSZEGI: I'll give most of the answer
4 post-hearing. But in -- I will say this, that as far as the
5 Italians, the Italian fittings go, they're -- and I think we
6 may have -- we may have addressed this in the brief, there
7 wasn't that large of an overlap. When you look at some of
8 the ones that said sure, we switched because of price, they
9 were -- they were mostly very small.

10 We'll provide also a customer overlap analysis
11 with the post-hearing brief that will show, I think give
12 another look at how little the competition really is. So I
13 mean the volume -- in other words, the volumes that are
14 discussed for almost all of the companies that reported
15 switches were actually very small.

16 COMMISSIONER BROADBENT: Okay, Mr.
17 Szamosszegi. Petitioners contend that they should be able
18 to increase their profitability during a period of rising
19 demand for a product that constitutes a small share of the
20 cost of the end use application. Would you agree with that
21 assertion?

22 MR. SZAMOSSZEGI: No, I don't. Again, a price
23 determination is due to both supply and demand trends. So
24 when demand is going up, they can increase profitability and
25 they did increase profitability.

1 When demand is going down, it becomes more
2 difficult to increase profitability. I think that if you
3 look at what happened over the POI, you see increasing
4 demand and countries or companies that are able to change
5 prices to deal with -- to make a profit in that different
6 market situation.

7 And again, I have to bring it back to what you
8 see in an injury case. The imports come into the market at
9 such a rate that the domestic producers have to reduce
10 prices in a manner that doesn't match their costs, okay.
11 And so if they do that, they will -- in a regular case, if
12 they have to reduce costs more, reduce prices faster than
13 costs go down, they lose money, and that's when imports
14 cause injury.

15 In this instance sure, there are changes in
16 raw materials prices that helped them reduce their costs,
17 but they don't have to reduce prices by an extent that they
18 lose money, or that their margin declines. So you know,
19 just as a business and economic matter, the widening margin
20 is extremely important for an understanding of whether the
21 imports were injurious.

22 And so on one level you have subject imports
23 cumulated. They're large. They didn't cause that margin to
24 compress. At the next level, you have the Italian subject
25 imports. They're a much smaller level. They're even less

1 likely to have caused that margin to compress. So I
2 disagreed with that analysis, because there's nothing that
3 says or --

4 Well, they've changed the argument. They've
5 tried to change the argument and say we should have been
6 able to make sure. But they did make more as an industry.
7 I can't -- you know, Bonney Forge is Bonney Forge. But
8 you have to look at this. The industry has to be treated as
9 a whole, and the industry as a whole increased its
10 profitability, increased its sales, increased its margin,
11 increased its market share. And so I think, you know, that
12 record speaks for itself.

13 MR. GURLEY: Commissioners, one second. I'll
14 let Ronnie say something. I mean there's a reason oil
15 companies are rich, is they pay attention to the small
16 things. I'll bet you can say a thousand different parts of
17 an oil rig or in the industry which are "small."

18 But they pay attention to cost, and if they
19 didn't, they wouldn't be surviving and prospering, and I
20 think Ronnie brought this up earlier, and maybe you can just
21 talk a little bit about how you view oil companies doing raw
22 material cost.

23 MR. WEINSTEIN: Listen, I think I've testified
24 earlier that when the oil prices are dropping and the price
25 of steel is dropping, your phone's ringing. They understand

1 that if your cost of material and your cost of goods that
2 make this product and the majority of the cost is in the
3 steel is dropped 40 percent, your costs should go down.

4 And to answer your question, the cost, you
5 know, your question was how can they make more money? Maybe
6 their cost basis, their cost structure is too high. But
7 that's not the -- you've got to look at the industry. The
8 industry is doing well. Just because the Petitioner's maybe
9 profit didn't go up, maybe their overall cost is too high.
10 I don't know.

11 But I can tell you the way we operate our
12 company in Houston, we didn't lay off anybody. We became
13 more efficient through the whole process. I don't think
14 M.E.G.A. and IML laid off anybody. They're more efficient.
15 You have to work smarter and harder. But you know, you have
16 to control your cost if you want to make more money.

17 COMMISSIONER BROADBENT: Okay, thank you.

18 CHAIRMAN JOHANSON: Commissioner Kearns.

19 COMMISSIONER KEARNS: Thank you. I wanted to
20 go back to one of the slides that you had this morning, Mr.
21 Szamosszegi. I have a number on it, but on asymmetric
22 substitutability, you say a significant proportion of
23 subject Italian imports are consumed by end users who
24 require normalized fittings. I guess my question is, you
25 know, roughly what proportion?

1 When I see this, I've got to say I was
2 thinking well, I would have thought you would have said
3 "mostly all" or it sounds to me like when I hear "a
4 significant proportion," I think it's well under most, and
5 that this would seem to suggest to me that most of the
6 product, the Italian product that is consumed by end users
7 doesn't require normalization.

8 Do you have any data on how much of the
9 product that is sold, Italian product sold in the U.S.
10 market must be, you know, have as a requirement that it be
11 normalized?

12 MR. SZAMOSSZEGI: We'll have to provide
13 specifics on that post-hearing. That statement is meant to
14 imply that -- it was -- I don't want to say that 100
15 percent is consumed, because I don't know. I don't know
16 that 100 percent is consumed by consumers who would like --
17 or who require normalized product.

18 We think it's the vast majority, and we can
19 provide some information on why we think that post-hearing.

20 COMMISSIONER KEARNS: Okay. So you would say
21 you think that the vast majority of Italian product consumed
22 in the United States required normalization?

23 MR. SZAMOSSZEGI: Yes.

24 COMMISSIONER KEARNS: Okay. Yeah, I would
25 appreciate more data on the post-hearing, but that's

1 helpful.

2 MR. WEINSTEIN: If I could add to that
3 Commissioner, 100 percent of our orders are asking for
4 normalized. Is some of it given to non-normalized?
5 Probably a very small percentage, and if I had to guess, I
6 bet you the entire U.S. market is less than ten percent. If
7 you look at --

8 COMMISSIONER KEARNS: I'm sorry, less than --

9 MR. WEINSTEIN: Less than ten percent of the
10 total production and consumption of forged fittings in the
11 U.S. market, it's probably less than ten percent.

12 MR. GURLEY: Is normalized.

13 COMMISSIONER KEARNS: Is normalized.

14 MR. WEINSTEIN: Is normalized.

15 COMMISSIONER KEARNS: Okay.

16 MR. WEINSTEIN: I'm sorry. I didn't finish
17 the sentence, is normalized. And so it's -- I think could
18 it go higher? If the industry changes and all the domestic
19 manufacturers are going to have to change. But I think it's
20 clear and I think Mauro's making the right decision.
21 They're making it for the masses. They're making their
22 A-105 product for the masses, and they're doing inventory,
23 and for such a small portion of the market, less than ten
24 percent that's normalized, they're not bothering to make it
25 for their inventory.

1 COMMISSIONER KEARNS: Okay, thank you. That's
2 helpful. Kind of to the same point, we talked a bit about
3 your relationship with -- this is for Mr. Angeretti, your
4 relationship with Shell, and I'm guessing that you all don't
5 have great information on this, but I'm going to give it a
6 shot and hopefully we can find out either through
7 Petitioners or through our staff, get a better sense of
8 this.

9 But do you know how much of what you sell in
10 the U.S. goes to Shell, and do you know how much of what
11 Shell buys in the U.S. is from M.E.G.A.?

12 MR. ANGERETTI: I have to say something, just
13 to give you an idea of the structure of Shell. Shell is
14 selecting one vendor for certain product, maybe two vendors
15 worldwide. None of the vendor, none of the manufacturer is
16 selling direct to the -- to Shell. Shell is selecting four
17 distributors all over the world. Basically one in Southeast
18 Asia, one in Europe and two in America, one for Canada and
19 one for United States.

20 I can tell you that my sales to that
21 distributor is 100 percent for Shell for what I know. I
22 know --

23 COMMISSIONER KEARNS: So 100 percent of what
24 they purchase --

25 MR. ANGERETTI: From me is for Shell.

1 COMMISSIONER KEARNS: Okay.

2 MR. ANGERETTI: I have to commit with the
3 Shell requirement. My orders are coming to me specifically
4 with the application of the Shell specification, and Shell's
5 specification is very clear in dictating the vacuum to gas
6 requirement, the normalization requirement, the elements
7 requirement and --

8 COMMISSIONER KEARNS: So just to make sure I
9 understand, so you're saying 100 percent of what Shell is
10 purchasing is your product?

11 MR. ANGERETTI: Exactly.

12 COMMISSIONER KEARNS: Okay. That's helpful.

13 MR. ANGERETTI: I have to say that the frame
14 agreement, the enterprise frame agreement for forged fitting
15 worldwide is signed by one, with one manufacturer only, in
16 this case M.E.G.A. since 2011.

17 COMMISSIONER KEARNS: So you believe no one
18 else in the United States sells to Shell?

19 MR. ANGERETTI: To what I know by Shell, no.

20 COMMISSIONER KEARNS: Okay, and do you know --
21 to the extent you can answer this, open or in post-hearing,
22 what percentage of your sales are to Shell eventually? In
23 other words, is that half of what you sell into the U.S.
24 market or --

25 MR. ANGERETTI: Probably a little bit more

1 than that, but I'm not able to tell you.

2 MR. GURLEY: Commissioner, we'll put that in
3 our post-hearing brief, and I think we --

4 MR. SZAMOSSZEGI: Yeah. We actually, we
5 submitted that information. It's in a table in the brief.
6 I can't tell you which table it is, but it's not there.
7 That number is not put in the context of their sales alone.
8 It was put in the context of the industry. But that number
9 is there. But we can clean that up and provide it for you
10 post-hearing.

11 COMMISSIONER KEARNS: That would be really
12 helpful. Thank you. I wanted to turn back to
13 under-selling. We've addressed this to some extent, but if
14 you could help me understand, and I know you all point out
15 that there is both under-selling and over-selling. But it's
16 quite a bit more under-selling than overselling. What
17 accounts for that under-selling? How do you all explain
18 what's going on there?

19 MR. WEINSTEIN: Again, my market is A-105
20 normalized and I compete with him. I honestly don't know
21 what the U.S. prices their stuff at, their material at.
22 When I get an inquiry, it's not against the domestics. It's
23 against Mr. Angeretti. So I have no clue how the domestics
24 price their products. It's not my market.

25 COMMISSIONER KEARNS: Okay. Let's see. Let's

1 see. So we've talked a little bit about what's going on
2 during 2018, and I just want to make sure I understood. In
3 other words, you know, Petitioners are arguing that the U.S.
4 industry is doing much better since the filing of the
5 petition. How all did you respond to that, and I apologize.
6 I know you've answered this to some extent earlier, but I'm
7 still not sure I quite understand.

8 MR. WEINSTEIN: In general, the volume is --
9 has been a little better in 2018, but I think it's because
10 of the main oil prices. We haven't imported, just like
11 anybody. The petition, because our -- I don't import from
12 around the world. I import from Italy, and our customer base
13 only requires normalized.

14 So we're having to figure out other ways that
15 we're going to attack the market, to continue to give our
16 products -- our customers what they're asking for is
17 normalized product, because they can't get it from the
18 domestics.

19 MR. GURLEY: We can give you more detail on
20 the timing of the purchases, etcetera, in our post-hearing
21 brief.

22 COMMISSIONER KEARNS: Okay, thank you. Also
23 on timing, we've talked a bit about what happened between
24 2014 and 2015. I guess a question for Mr. Gurley. Is there
25 anything that you've heard from Petitioners that you

1 disagree with, in terms of how we should be considering
2 that? In other words, as I understand their argument,
3 they're saying not that the POI should be extended, but to
4 better understand what's happening within the three year
5 POI, three or so year POI, it makes sense to look back at
6 2014. Is that -- is that something that you agree with or
7 disagree with?

8 MR. GURLEY: Oh, the Commission can look at
9 anything it wants frankly, right, and if it's a condition of
10 competition you want to, you know. What you -- but you've
11 been doing something consistently ever since I've been
12 before you, is you've been consistently using three years as
13 the POI, right. And so every case, you can say oh, if you
14 just went back two years, you went back one year, you get
15 more data and maybe a reason for what happened in the POI.

16 So there was a drop in prices in 2014 that
17 continued in 2015. It's true. But we have three years plus
18 now of data. I think the Commission should be able to rely
19 just on the POI, because it's three years of pretty
20 consistent data. It gives you a really good snapshot of
21 what the industry has been like during that period. It's
22 that period that shows them that their market share has
23 increased and they've become more profitable.

24 COMMISSIONER KEARNS: Okay, thank you. My
25 time is up.

1 CHAIRMAN JOHANSON: Mr. Weinstein, I'm going
2 to return to you I think probably one last time. But your
3 initial comments --

4 MR. WEINSTEIN: Yes sir.

5 CHAIRMAN JOHANSON: --I found interesting, so
6 I wanted to follow up a bit on them.

7 MR. WEINSTEIN: Yes sir.

8 CHAIRMAN JOHANSON: From your knowledge, are
9 normalized fittings more likely to be sold in certain
10 regions of the United States than other regions?

11 MR. WEINSTEIN: No.

12 CHAIRMAN JOHANSON: Okay, so for instance you
13 would still see these sold in a place like Texas or New
14 Mexico or the warm climates, as opposed to North Dakota?

15 MR. WEINSTEIN: Absolutely.

16 CHAIRMAN JOHANSON: Okay. Thanks for your
17 response there. And I'm going to return to under-selling,
18 which has been the subject of quite a bit of discussion
19 today. Can you please respond to Petitioner's arguments
20 that under-selling by the subject imports reduced domestic
21 producers' sales and suppressed their market share, and they
22 discuss this at some length at pages 16 to 19 of their
23 prehearing brief?

24 MR. GURLEY: We can do that, Commissioner, but
25 I think we'd also like to do it with a more fine-tooth comb,

1 and actually do it in a confidential version of our brief,
2 if that's okay.

3 CHAIRMAN JOHANSON: That's fine, yeah. I look
4 forward to seeing that. The Petitioner's volume story, it
5 seems to me is not so much about loss as it is about
6 suppression or performance during the Period of
7 Investigation. How do you respond to the argument that but
8 for subject imports, the domestic industry's market share
9 would have been materially higher during the Period of
10 Investigation than it was?

11 MR. SZAMOSSZEGI: There's no support for that.
12 All sources, the volumes of change during the POI declined
13 with demand and then increased with demand. And that's
14 exactly what an economist would expect. So there's just no
15 factual or economic support for that at all.

16 CHAIRMAN JOHANSON: All right, thank you for your
17 answer, Mr. Szamoszegi. And I have just one more question.
18 And this goes back again to the very nature of this product.
19 Are forged steel fittings that are typically used by the oil
20 and gas industry different than those used by other
21 industries?

22 MR. WEINSTEIN: I believe they are. I think the
23 petitioner even testified that they have a lot of commercial
24 applications, you know, buildings and churches and schools.
25 They would use those. The oil and gas companies will come

1 in and approve you and the petitioners are approved as well,
2 but they will spec in for whatever job that they're using,
3 "I want a normalized fitting."

4 The domestic market, as a normal, do not ship
5 normalized fittings to their stockists. Their stockists do
6 not buy them. If you go -- you know, they testified
7 earlier, they keep the inventory separate. The domestic
8 inventory is on Shelf A. The normalized is on Shelf B.
9 It's not comingled. And it's for a purpose. The oil
10 companies want a normalized product, and it's not stocked at
11 the distributor level.

12 CHAIRMAN JOHANSON: Okay. Thank you, Mr.
13 Weinstein. That concludes my questions. I appreciate you
14 all being here today. I found it very interesting.
15 Commissioner Williamson?

16 COMMISSIONER WILLIAMSON: Just a couple of quick
17 questions. Is there any evidence on the record to support
18 your claim that the U.S. does not produce many normalized
19 fittings or that it does not have a capacity to satisfy
20 demand for normalized fittings?

21 MR. WEINSTEIN: I can just talk from market
22 knowledge. There's not one distributor that I know of --
23 they mentioned the major ones in their brief -- that stocks
24 their product. And quite frankly, why would they? And why
25 would Bonney make it to normalized? They're the largest,

1 they say they're the largest, and they're making it for the
2 masses.

3 And if it's such a small portion, you know, in my
4 estimation, 8 to 10% of the market, why would the domestic
5 manufacturer spend the extra time and money to normalize a
6 product when majority, 95% plus, do not use it? And the
7 major oil companies require it from time to time.

8 And there's three different segments, like I
9 discussed. There's the domestic, there's the kind of
10 Italian and I would call it even Western Europe, there's a
11 manufacturer from Spain, a manufacturer from France that
12 bring in a little bit. And then there's the Asians which is
13 more of a nonapproved market and a lower quality. So if
14 they saw --

15 COMMISSIONER WILLIAMSON: You mean Asians in the
16 U.S. market?

17 MR. WEINSTEIN: Well they --

18 COMMISSIONER WILLIAMSON: The supply?

19 MR. WEINSTEIN: You talked about Bothwell and
20 China and Taiwan. They bring in material. It's more for a
21 commercial grade, more for a lower-quality. And that's what
22 there's -- the buyers either buy domestic-approved, they buy
23 the Italian normalized, or they buy the generic. Those are
24 the three markets.

25 COMMISSIONER WILLIAMSON: We talked about

1 commercial being like the hospitals, the place people have
2 large boilers and things like that. Is any of that -- so
3 non-normalized market energy-related companies? All
4 companies in the U.S.? 'Cause there are the major, or shall
5 we say, the global oil companies, like BP, Shell --

6 MR. WEINSTEIN: Repeat your question?

7 COMMISSIONER WILLIAMSON: -- and then there are a
8 lot of other companies. So are those other companies that
9 ones that are not demanding the normalized?

10 MR. GURLEY: I think your question was,
11 Commissioner, is that, as they testified today that I think
12 obviously part of their sales do go to energy companies. I
13 think that's fair to say. They testified to it today. And
14 they said that there's a portion of their product which goes
15 into the non-energy section. And I think they characterized
16 it as "not huge".

17 So we'll let them tell you where they're selling
18 their product. What we've been trying to emphasize is where
19 our product is going and we think it's going to a segment of
20 the oil and gas industry which they are not servicing. They
21 may sell to energy companies; I don't doubt it. But not for
22 the applications which require normalization.

23 COMMISSIONER WILLIAMSON: And can you put it
24 either here, now or post-hearing, put a percentage of how
25 large that segment is that you sell to?

1 MR. GURLEY: We are gonna endeavor to estimate
2 that, yes, we will, Commissioner.

3 COMMISSIONER WILLIAMSON: Okay. And what do you
4 say about the role of the Chinese and Taiwanese producers in
5 the U.S. market? What should we make of that?

6 MR. WEINSTEIN: For me, they are more of the
7 nonapproved market. Quite frankly, we don't play in the
8 nonapproved market. I never have -- again, I get an
9 inquiry, and I'm competing with Mr. Angeretti. I don't
10 receive an inquiry that says hey, your competition's the
11 Asians or the competition's domestic.

12 I can just tell you from, me seeing in the
13 marketplace, I think they're significantly lower. But the
14 quality's lower and they don't really go after the oil and
15 gas markets like we do. They go after more of those
16 commercials, those churches and the school buildings and
17 office buildings like this.

18 COMMISSIONER WILLIAMSON: But isn't the energy
19 market the primary market for this product?

20 MR. WEINSTEIN: I think they testified earlier
21 that is the majority, but there's still a large percent of
22 forged fittings that goes to other industries.

23 COMMISSIONER WILLIAMSON: Okay. Either now or
24 post-hearing, Itex, are you in the same position as M.E.G.A.
25 in terms of having a relationship with a major oil company

1 that you're the global supplier for, and this can be
2 addressed post-hearing, I'm just trying to get --

3 MR. WEINSTEIN: I think --

4 COMMISSIONER WILLIAMSON: -- an understanding of
5 your role in the market.

6 MR. WEINSTEIN: I think Mr. Gurley -- excuse me
7 for interrupting --

8 COMMISSIONER WILLIAMSON: Yeah.

9 MR. WEINSTEIN: I think Mr. Gurley put in some
10 purchase orders that were going to one of the major oil
11 companies that requested, "It has to be a 105 normalized,
12 and it has to be for this AML." And we do have a long-term
13 agreement, seven-year contract with the person who is
14 supplying one of the major oil companies for forged steel,
15 so we're on their AML, that's correct. But I have a pricing
16 agreement, but we have an agreement to supply them product.

17 COMMISSIONER WILLIAMSON: Okay, fine, thanks.
18 Anything to clarify, you wanna do post-hearing will be fine.

19 MR. GURLEY: We will, Commissioner.

20 COMMISSIONER WILLIAMSON: Good, okay, thank you.
21 That's all the questions I have. Thank you.

22 CHAIRMAN JOHANSON: Commissioner Broadbent?
23 Commissioner Kearns? DO you have any more questions?

24 COMMISSIONER KEARNS: Yes, I just have a couple
25 more real quick. One has to do with capacity in Italy.

1 Petitioners argue that the industry in Italy has higher
2 capacity than reported due to reported hours of operation
3 and changes in those reported hours. How would you respond?
4 Are the two represented companies capable of operating more
5 shifts or hours?

6 MR. GURLEY: We will deal with that -- one of
7 those is addressed to this one specific company -- we'll
8 address that in our post-hearing brief.

9 COMMISSIONER KEARNS: Okay, thank you. And the
10 last question I had, and I'm hoping you can do your best to
11 answer both with respect to Italian producers, but also
12 Taiwanese and Chinese. What role do approved manufacturers
13 play in the market here?

14 And I think we see from our staff report, from
15 what I gather of it, Italian producers tend to be on the
16 AMLs. U.S. producers tend to be on the AMLs, but maybe not
17 so much Taiwan or China. Can you help us understand that?

18 MR. WEINSTEIN: Yes, sir, Commission. I think I
19 just did that a couple minutes ago. Where I think there's
20 three market segments. There's the, not what I would call
21 non-approved, which was the Chinese and the Taiwanese.
22 There's more of the approved, which would be the Western
23 Europeans, which would be the Italians, French and Spain.
24 And there's the domestics, which would generally be Bonney
25 Forge and Capitol Manufacturing.

1 COMMISSIONER KEARNS: Okay, so got the second
2 category is approved, first category is not approved. Third
3 category is --

4 MR. WEINSTEIN: Domestic.

5 COMMISSIONER KEARNS: And approved?

6 MR. WEINSTEIN: Generally the domestic
7 manufacturers are approved, yes, sir.

8 COMMISSIONER KEARNS: Yeah, so two categories, I
9 guess, right?

10 MR. WEINSTEIN: So there's the domestic approved.
11 There's what I would call a foreign approved, which makes
12 normalized, and then there's foreign nonapproved, which kind
13 of is the Taiwanese and the Chinese.

14 COMMISSIONER KEARNS: Okay. And what does that
15 mean? Like in percentage? How much does the fact that
16 they're not approved, what impact does that have on their
17 ability to sell into the market? Like, who are they able to
18 sell to, who are they not able to sell to?

19 MR. WEINSTEIN: Generally from what we've seen in
20 the marketplace, they sell into areas that do not want
21 quality. And the major oil companies do not get their
22 product for the most part. You know, specifically, if
23 they're dealing with a driller in Midland-Odessa that needs
24 a fitting, we've seen, it's a local producer, we've seen
25 them buy the cheapest they can find.

1 They're not buying our normalized product 'cause
2 they don't wanna pay for it. The distributors are offering
3 them the domestic, they're offering them the approved, which
4 are very similar in price from my understanding. The
5 Chinese and Taiwanese are cheaper.

6 COMMISSIONER KEARNS: Okay. So you're saying
7 it's very small producers in the oil and gas --

8 MR. WEINSTEIN: It's not the major oil and gas
9 companies. And these are oil and gas companies or producers
10 that don't even have AMLs.

11 COMMISSIONER KEARNS: Okay.

12 MR. ANGERETTI: If I may add something, a very
13 important thing. We are talking about the AML like it is an
14 automatic process. This is not. I mean anchoring into an
15 AML means a lot. It means that the end user is coming over
16 to visit your factory, to testify and verify your capacity
17 and not all the AMLs are equivalent. You might be listed in
18 certain area of AML and separate area for different category
19 or different product.

20 Some of the end users are classifying their
21 supplier in Class A, B and C. Depending where the material
22 goes. But again, it's not an automatic process. They
23 decide who is entering into the AML. So if Chinese and
24 Taiwanese are not that frequent into that, most probably
25 because when the inspectors are going and visiting their

1 factory, they're simply verifying that they are not good for
2 the scope.

3 COMMISSIONER KEARNS: Okay, thank you. I have no
4 further questions.

5 CHAIRMAN JOHANSON: Do any other Commissioners
6 have questions? All right. That concludes Commissioners'
7 questions. Do staff have any questions for the respondent
8 panel?

9 MR. CORKRAN: Douglas Corkran, Office of
10 Investigations. Thank you, Mr. Chairman, staff has no
11 additional questions.

12 CHAIRMAN JOHANSON: Do petitioners have questions
13 for the respondent panel?

14 MS. DRAKE: Chairman Johanson, we have no
15 questions. Thank you.

16 CHAIRMAN JOHANSON: All right, thank you. Then
17 we will now move to the petitioner's rebuttal and closing to
18 be followed by respondent's rebuttal and closing. I'd like
19 to note that petitioners have a total of thirty-seven
20 minutes. That's thirty-two minutes of direct and five
21 minutes of closing time. And respondents have a total of
22 thirty-three minutes with twenty-eight minutes of direct and
23 five minutes of closing. So we will now proceed to
24 petitioner's closing.

25 MR. BURCH: Closing and rebuttal remarks on

1 behalf of the petitioner will be given by Elizabeth J. Drake
2 of Schagrín Associates. Ms. Drake, you have thirty-seven
3 minutes.

4 CLOSING STATEMENT OF ELIZABETH DRAKE

5 MS. DRAKE: This is Elizabeth Drake of Schagrín
6 Associates for Petitioners Bonney Forge and the United
7 Steelworkers.

8 First I want to thank the Commission for their
9 attention today, and I want to thank the Commission staff
10 for all of their hard work putting together the record of
11 these final investigations. Petitioners really appreciate
12 it, and we believe that that final record will support an
13 affirmative determination of material injury.

14 I want to start with the conditions of
15 competition. Obviously there have been sharp swings in
16 demand over the period, which is a very important condition
17 of competition, and we do hope the Commission will take into
18 account how that demand fell in 2014, as well, and other
19 conditions in 2014. But we do not believe that it can be
20 concluded from this record that the fate of the domestic
21 industry was dictated solely by trends in demand. We
22 believe that subject imports also had a material adverse
23 impact on the domestic industry.

24 In terms of supply, we think it's a very
25 important condition of competition that supply was

1 absolutely plentiful during the entire Period of
2 Investigation, both from domestic producers and from
3 importers.

4 There were claims this afternoon that domestic
5 producers somehow manufactured a shortage, even though they
6 had very low capacity utilization. Then it was admitted
7 that this made no sense. And the reason it makes no sense
8 is that it is simply not supported by the record at all.

9 In terms of lead times, where there was any
10 difference between domestic and import lead time, purchasers
11 reported that domestic lead times were superior, meaning
12 shorter. There obviously were large amounts of unused
13 capacity throughout the period.

14 We saw large increases in production and
15 shipments very quickly once importers retreated from the
16 market. There are some isolated statements by certain
17 purchasers that there were supply issues.

18 A number of those had to do actually with subject
19 imports, responding to the filing of the Petitions, and not
20 to do with any constraints on supply from domestic
21 producers. So we think there's absolutely no support for
22 the claim that was admitted made no sense, that there were
23 limitations on supply from domestic producers during the
24 Period of Investigation.

25 Another important condition of competition is a

1 very high degree of interchangeability and substitutability
2 between domestic product and imports from all three subject
3 countries. These are products that are made to standard
4 specifications, so they can be used together in the same
5 piping systems. Eighty percent or more of purchasers say
6 they're always or frequently interchangeable, regardless of
7 source.

8 Most also say that Italy is always or frequently
9 interchangeable with China, and always or frequently
10 interchangeable with Taiwan. So again, no attenuated
11 competition regardless of source. Most find them to be
12 comparable across most factors. Most meet minimum quality
13 requirements. Et cetera.

14 And so that brings us to the issue of
15 normalization as an attempt to establish that there is some
16 sort of attenuated competition in the market. I hope that
17 our discussion on this issue today has convinced the
18 Commission that this is a complete red herring, and the
19 issue of normalization does not attenuate competition
20 whatsoever.

21 It was estimated this afternoon that only 8 to 10
22 percent of the U.S. market requires normalized fittings, and
23 therefore that for 90 percent or more of the market no
24 normalization is required.

25 The only reason Italians are providing normalized

1 fittings for those applications is because everything they
2 produce is normalized, because it's more efficient for them
3 to do so. And they're certainly not doing so at a premium,
4 as the underselling data shows.

5 We heard today also that in fact the domestic
6 industry does have significant available capacity to produce
7 normalized fittings, has been doing so for decades; that
8 earlier they could do it by outsourcing the heat treatment,
9 which any domestic producer could do, and then they invested
10 more than a decade ago to bring in their own normalizing
11 capacity. But that capacity is only one-third full.

12 We also heard that they have their normalized
13 fittings in inventory. So this claim that domestic
14 producers can't quickly ship normalized fittings is simply
15 not true. There are hundreds of tons of normalized fittings
16 sitting in Bonney Forge's own inventory right now. And
17 that's produced inventory, not produced to customers.

18 Any purchase order they get for a normalized
19 fitting, they are more than capable of supplying with very
20 quick turnaround.

21 We also heard some claims of I don't know why the
22 domestic producers didn't mention normalization in the
23 Petition. It's because it's not an issue. And that's what
24 today's testimony from both sides has established.

25 We also heard claims that, while there may be

1 overlap in the distributors, that the Italians and the
2 domestic sell to, there's no overlap in the end users. And
3 that's simply false. That is not true.

4 We will put more information in posthearing on
5 that, but companies like Chevron, Exxon, Marathon, they use
6 Bonney Forge products. They may buy it from a distributor,
7 they may not be a direct customer to Bonney Forge because
8 unlike large importers that are their own distributors they
9 sell through distribution, but these are the exact same end
10 users using the same exact same product with the exact same
11 applications. Italian may be normalized, but is often not
12 required to be normalized.

13 We heard that many of the purchaser orders that
14 the Italian producers get specify normalization. And that
15 is simply a function of the fact that those customers know
16 that everything they produce is normalized. So they're not
17 going to send them a purchase order for something that's not
18 normalized.

19 That doesn't mean the end-use application
20 requires normalization; it means that, oh, I'm going to buy
21 from M.E.G.A, or I.M.L. because their product is X percent
22 cheaper. All they have is normalized, so I'm going to send
23 them the one with the "N" on it. That purchase order for a
24 product in the exact same application, the exact same end
25 user, could be sent to Bonney Forge and not have an "N" or

1 it could have an "N" and Bonney could supply it either way,
2 often from inventory.

3 So these claims of attenuated competition just
4 are false. The idea that domestic producers for some reason
5 don't understand their end users' needs, that perhaps
6 they're not talking to them, they only talk to distributors,
7 of course obviously has no basis in reality. Bonney has a
8 very experienced sales team that spends a lot of time
9 talking directly to end users to understand their needs and
10 a high degree of interchangeability.

11 That does make price an incredibly important
12 factor in this market. I've rarely seen a record where you
13 have literally 90 percent of purchasers saying that price is
14 a very important factor in purchasing decisions. Where you
15 have it being the most frequently top three purchasing
16 factor. And where the only other factor that's rated that
17 important, which is quality, is one on which the domestic
18 and imported product are completely comparable. Where we
19 have literally 100 percent of purchasers saying that
20 Italian and domestic product is comparable in terms of
21 meeting quality requirements.

22 So--and then we also have of course a number of
23 purchasers saying that they change their sourcing decisions
24 due to price, a very large number. So interchangeable
25 product, fluctuating demand, plentiful supply, and decisions

1 made on price are conditions the Commission should take into
2 account.

3 In terms of volume, as a preliminary matter, of
4 course the Commission is well aware that not each of the
5 indicators of volume need to be satisfied in order for the
6 Commission to make an affirmative volume determination.

7 Here we have volume that is significant on an
8 absolute basis. We have an absolute increase that is
9 significant, and we have market share that has remained at
10 significant levels, though admittedly somewhat declining,
11 throughout the Period of Investigation.

12 And the only reason that market share didn't
13 continue to climb after 2015 was because of the price
14 concessions that domestic producers undertook. And again
15 that's confirmed by what we see in the interim period where
16 they no longer had to undertake those price concessions to
17 gain back a lot of the market share they lost from 2014 to
18 2015.

19 And we believe the lost sales/lost revenue
20 confirmation from purchasers is strong evidence of this, and
21 I will just say that nine of those were purchasers that
22 specifically cited switching from domestic to Italian
23 product. So again, head-to-head competition with product
24 from all subject countries, including Italy.

25 That brings us to significant adverse price

1 effects. Clearly we see widespread underselling. We
2 believe what's in the staff report is understated, but
3 nonetheless that the products are representative, and that
4 this underselling was not only widespread but was
5 significant in terms of holding down domestic producers'
6 market share even as they cut prices. And, that 70 percent
7 of purchasers confirmed that the reason that they switched
8 from--or bought imported instead of domestic was because of
9 the lower prices, the primary reason. So that we think all
10 confirms underselling as significant.

11 We also believe there's some record of price
12 depression. We acknowledge that the Commission did not find
13 price depression in the preliminary determination, and it
14 does not need to find price depression to find significant
15 adverse price effects.

16 But here we have a situation where the domestic
17 AUV in 2017 was below the AUV in 2015, even though apparent
18 consumption was higher. Yes, there were declines in costs,
19 and I will get to that in a moment. But that is another
20 impact of the underselling, and we think you also see a
21 correlation between underselling and lower domestic prices
22 within the pricing product data.

23 And we also think that, again, the interim period
24 2018 is the only period they were able to increase prices
25 along with demand, able to do it with falling costs, and

1 only because subject imports left the market.

2 Mr. Gurley said that in other cases with products
3 that go to the oil and gas sector such as OCTG or line pipe,
4 you will have purchasers that will be very attentive to raw
5 material input costs to their suppliers.

6 Well OCTG and line pipe, with all due respect,
7 are a much larger cost component of their overall systems
8 than these two-inch little forged seal fittings, which are
9 about 5 percent of a piping system. Excuse me.

10 And when the Commission did look at a similar
11 product just recently, it was in the case on carbon steel
12 flanges from Spain, Italy, and India, and that was a 2017
13 affirmative determination, the oil and gas industry was the
14 major user of these carbon flanges. There was discussion
15 about whether or not prices simply reflected raw material
16 costs. And the Commission found, quote, "little evidence
17 that prices were linked to raw material costs."

18 So I recognize this is perhaps unusual, not like
19 a large pipe case or other cases, but I think the staff
20 report confirms that there are reasons for this. There are
21 reasons that demand is inelastic and does not respond to
22 price increases or decreases, and this is because they have
23 no substitutes. They make up a small cost share, just like
24 the carbon flanges case. And so we will hopefully be able
25 to find more examples like that for the Commission in our

1 posthearing brief.

2 So as the volume of imports remains significant
3 and broadly undersold the domestic like-product, they had a
4 negative impact on the domestic industry. In the first
5 place, it's important to note that this industry started the
6 POI in a state of extreme distress, due not only to decline
7 in demand from '14 to '15, but also to the significant loss
8 of market share to subject imports from '14 to '15. And
9 demand continued to fall in '16.

10 And in '15 when they were experiencing the
11 deepest underselling by domestic--excuse me, by subject
12 imports, they had dismal capacity utilization. They were
13 desperate to maintain volume and fight back for market
14 share, and they did so either by lowering prices or by
15 charging prices that weren't sufficient to cover their
16 costs.

17 This resulted in, over the POI as a whole, an
18 inability for the domestic industry to recover, fully
19 recover, in 2017 as demand rebounded strongly. If you look
20 at the domestic industry's average operating income, or
21 average net income--average operating income over the entire
22 period, it was small average net income over the entire
23 period, even as demand was included, the increase in demand
24 period included, is low or negative and a very poor return
25 on assets over the period.

1 So this is certainly not an industry that I would
2 characterize as doing well, even as demand increased.

3 And another indicator of the injury that was
4 suffered was a huge reduction in capital expenditures over
5 the period. And this is exactly the scenario that Congress
6 envisioned when it asked the Commission to take conditions
7 of competition in the business cycle into account. And even
8 as demand resurged in 2017, you had domestic industry
9 capital expenditures that were far, far below what they had
10 been in 2015. And basically you have a domestic industry
11 that is disinvesting in itself over the period. And though
12 it was able to hire back some workers in 2017, employment
13 still remained below what it was in 2015.

14 I'd like to briefly, if I may, address a case
15 that Respondents spoke a lot about in their prehearing
16 brief, and I was expecting to be asked about this morning.
17 So since I have 37 minutes, I'll take a few to talk about
18 it. And that's the PTFE resin case.

19 There was a recent negative determination and
20 Respondents claim that this is the perfect parallel to our
21 case here. It was also when the oil and gas industry was
22 one of the end use industries. You also saw a decline in
23 demand in 2016, a rebound in 2017 following the oil and gas
24 market, and as a consequence if one just looked at the
25 domestic resin industry's performance in '15 and compared it

1 to the domestic resin industry's performance in '17, you
2 would see an increase. But the Commission didn't stop
3 there.

4 The Commission didn't just say, oh, your
5 indicators went up, you're not injured, case over. They
6 looked at all of the conditions of competition to understand
7 if they could have done better? Or would it have reasonably
8 expected to do better in 2017?

9 And they found ample evidence that they could not
10 have. They found ample evidence that the domestic industry
11 was operating at high rates of capacity utilization, that
12 there was a supply squeeze, that there were disruptions in
13 capacity and a difficulty in satisfying demand. There's
14 nothing like that on the record here in this investigation.
15 There's ample unused capacity, and no reports across large
16 majorities of purchasers or producers about difficulties in
17 supplies. So that's a major important difference that would
18 have justified a negative determination in the resin case
19 that's simply not present in this case.

20 You also have an industry that, though much of
21 the data is not public, appears to have performed better in
22 the resin industry than here where they were actually able
23 to increase their average unit values in '17 as demand went
24 up. We weren't able to do that.

25 Their average number of workers actually went up

1 from '15 to '17. Not so for our industry. And in fact
2 their capital expenditures increased. As I just said, our
3 capital expenditures were slashed.

4 And finally, the Commission importantly found no
5 post-petition effects whatsoever in the resin case. It
6 found that imports continued to increase after the petitions
7 were filed; that domestic prices were going up prior to the
8 filing of the petition, et cetera. Whereas, here we have a
9 very different record that shows very strong post-Petition
10 effects, not just post-prelim effects, but post-Petition
11 effects, in terms of a strong reduction in imports,
12 improvement in prices, and improvement in the domestic
13 industry.

14 When asked about the trends in the interim
15 period, counsel for the Respondents said, well, you know,
16 that would just be based on rumors, et cetera. But clearly,
17 you know, these are people who speak to their customers
18 every day. They were all well aware that these Petitions
19 were filed.

20 This is oil and gas customers that had just gone
21 through the carbon steel flanges case. They know what the
22 impact is of duties on imports, including from Italy in both
23 cases, and the quotes from purchasers and importers in the
24 Commission's own prehearing staff report confirm that there
25 are post-Petition effects. That during the pendency of the

1 investigation, not just post/prelim, there was a reduction
2 in imports.

3 So, strong post-Petition effects, and clearly the
4 domestic industry reaped powerful benefits from that that
5 they were not able to reap in 2017 before the Petitions were
6 filed.

7 Finally, if Orders are not imposed, there is an
8 imminent threat of even further injury to the domestic
9 industry.

10 First, we believe imports absolutely should be
11 cumulated for present injury, but also for threat due to the
12 high degree of fungibility. No anticipated changes in the
13 overlap in channels and simultaneous presence and geographic
14 presence, so we see no basis whatsoever not to cumulate
15 Italy. But we will address that more posthearing.

16 We also have a domestic industry that's very
17 vulnerable; that even with the increase in demand in 2017
18 was unable to make up for the losses they suffered. That
19 still is in a cycle of disinvestment, despite the increase
20 in demand, and that still is at a lower level of employment
21 and very low capacity utilization. So highly vulnerable if
22 those imports come back with the presence of Orders.

23 We also have significant excess capacity in the
24 foreign subject industries here. Obviously we've had the
25 situation in China and Taiwan where we don't have

1 cooperation. And we also highlighted this in our prehearing
2 brief, but the foreign producers of all countries, the way
3 they measure their capacity, simply has no basis in how the
4 industry measures capacity. And so we encourage the
5 Commission to use their actual capacity and not reduce it by
6 things that have nothing to do with production capacity.

7 They demonstrated their ability to use
8 underselling to maintain a significant presence in the
9 market. They would do the same to regain that presence, if
10 Orders are not imposed.

11 They themselves admitted that the U.S. is an
12 important market and an attractive market for them. And so
13 they've already thwarted the domestic industry's ability to
14 recover from a very painful decline in demand that was made
15 worse by their presence. And if Orders are not imposed,
16 that injury will continue or recur, and therefore we think
17 there's a very strong case in favor of an affirmative
18 determination and we thank you for your time.

19 MR. BURCH: And closing and rebuttal remarks on
20 behalf of Respondents will be given by John M. Gurley of
21 Arent Fox. Mr. Gurley, you have 33 minutes.

22 CLOSING STATEMENT OF JOHN M. GURLEY

23 MR. GURLEY: Thank you. I'll run through just a
24 few points at the beginning, and then I'll finish on I think
25 a subject which we're all probably kind of sick of today, to

1 talk about normalization. But while we may be sick of it, I
2 think it goes to the heart of the case.

3 The Commission had lots of tough questions for us
4 today on the issue of underselling. I get it. We're going
5 to address these issues in a brief, but I'd just like to
6 point out what I think the preliminary staff report said.
7 It said that there really was no evidence of, you know, lost
8 sales or price suppression. And I think even if there is
9 this underselling, and obviously it shows up in some of the
10 tables, I think we have good explanations as to why that
11 underselling did not result in any lost sales for the
12 domestic industry or price depression, precisely because
13 we're not really competing with the domestic industry.

14 The second issue I'd like to bring up is the
15 issue of raw material costs. Ms. Drake just brought it up,
16 to say that there apparently are some cases which said that
17 there seemed to be no linkage between raw material prices
18 and the price of a product.

19 I mean, those would be the rare cases, and I
20 certainly don't think they provided evidence on the record
21 today to show that somehow forged fittings are delinked from
22 the normal laws of economics. And I think we will put some-
23 -we put some charts in our submission that's going to show
24 you that their cost of goods sold went down at exactly the
25 same time that steel went down. And this was normally in

1 virtually every industry that we work in.

2 They mentioned that somehow forged fittings are
3 not as important as OCTG, and the whole process, well,
4 maybe, but it's mission critical in a lot of these things.
5 And the reason for requiring normalized fittings is because
6 the oil companies take their responsibilities very
7 seriously. And just because it's small doesn't mean the oil
8 companies don't care about it.

9 On the issue of post-Petition effects, we will
10 address that in our response. I get it that first quarter
11 '18 data is pretty rosy, and you do see a drop off of
12 imports, but I think there's some explanations for that that
13 we can provide.

14 One issue we ask the Commission to really
15 consider carefully is this issue of their apparently
16 unlimited capacity to produce additional forged fittings.
17 There's been numerous reports in the market of shortages,
18 long lead times, et cetera. And you just can't square up
19 it, too. You can't claim you have 40 percent or 50 percent
20 additional capacity at the same time you're telling your
21 customers that it's going to take 6, 9, 12 months to ship
22 them product.

23 Something doesn't add up. And I think
24 Petitioners need to address that themselves, because
25 otherwise their theory of being able to take over the whole

1 market with all their capacity makes no sense.

2 At the end of the day, I think you just look at
3 the basic statutory criteria for material injury, and I
4 don't think they meet any of it. I think Andrew's slide
5 show that he went through today, the PowerPoint, showed all
6 the various criteria the Commission considers. And all of
7 them are favorable to Petitioner in the sense that their
8 capacity utilization is going up, their shipments are going
9 up, their profitability is going up. Every indicator the
10 Commission normally looks at is positive for them.

11 This is just not the kind of normal case where
12 they'd file a petition.

13 Let's move to the issue of normalization. And
14 I'll try to keep this short, even though I think we've all
15 gone on a bit too long today, but finally after 10 months of
16 the case we're finally getting I think a lot of education.

17 And you can see the Petitioners basically
18 backfilling the gap they left in the record. What is
19 abundantly clear that was today the testimony of I.M.L. and
20 M.A.G.A. is that they are affirmatively stating that the
21 vast majority of their sales are going to companies which
22 require normalized fittings.

23 And I think that the purchasers' questionnaires,
24 and the other stuff in the--the other information on the
25 record will satisfy that. We are also going to buttress

1 that in the--in our post-hearing brief.

2 I think we can claim with some certainty that two
3 of the biggest oil companies operating in the United States,
4 which are Shell and Chevron, require normalized fittings.
5 And to our knowledge, again, Petitioners have not been
6 playing in that playground. They have not been selling
7 mission-critical fittings to these companies. If they have,
8 it's not been in large quantities.

9 Now one of the last things that they mentioned
10 today, which I thought was one of the most interesting--and
11 I'm still wondering whether it's good for them or bad for
12 us, but I'll just repeat it out loud because I think it's
13 worth thinking about--they mentioned that they had this
14 capacity for heat treatment.

15 Okay, we get that. We take them at their word.
16 But they've also said really they don't need the heat treat,
17 and I think Mr. Leone was basically saying heat treatment is
18 a very small slice of the market. And they also said, well,
19 we make it for Canada and other cold applications, something
20 we're scratching our head about.

21 But at the every end in their rebuttal they
22 mentioned that they have several hundred tons of normalized
23 product in their inventory. And I asked myself, why do they
24 have several hundred tons of normalized product in their
25 inventory?

1 They testified today that it cost over \$120 a
2 metric--a ton to heat treat, I think it was \$120 to \$150.
3 So on the one hand they're kind of going, oh, these
4 Italians, they sell normalized but that's all they've got.
5 Well, okay, that's all they've got but we're only selling it
6 to companies that require it.

7 But then if it's not so important for them, why
8 are they now bragging they have several hundred tons in
9 inventory?

10 So I think Bonney Forge is thinking that maybe
11 somebody needs that normalized, and several hundred tons is
12 a lot. Look at the Italian exports during the period.
13 They're very low. They're not thousands of tons; they're
14 very small amounts, right?

15 So I just leave that quizzical comment with you,
16 and we're going to try to figure out ourselves why Bonney
17 Forge suddenly now has hundreds of tons of inventory, if it
18 doesn't really matter, U.S. customers don't want it, they
19 don't need it, but somehow they decided to spend \$120 a
20 metric ton to make it?

21 Anyway, I appreciate your time and your
22 attention, and look forward to addressing all of your
23 concerns in our post-hearing brief.

24 CHAIRMAN JOHANSON: I would like to thank all
25 the parties for appearing here today. I will now make the

1 closing statement for the hearing.

2 Post-hearing briefs, statements responsive to
3 questions, and requests of the Commission and corrections to
4 the transcript must be filed by August 9th, 2018.

5 Closing of the record and final release of data
6 to parties occurs on August 24th, 2018. And final comments
7 are due on August 28th, 2018.

8 With that, this hearing is adjourned.

9 (Whereupon, at 3:09 p.m., Thursday, August 2,
10 2018, the hearing in the above-entitled matter was
11 adjourned.)

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CERTIFICATE OF REPORTER

TITLE: In The Matter Of: FORGED STEEL FITTINGS FROM CHINA,
ITALY, AND TAIWAN

INVESTIGATION NOS: 701-TA-589 and 731-TA-1394-1396

CONFERENCE DATE: 8-2-18

LOCATION: Washington, DC

NATURE OF CONFERENCE: (FINAL)

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: 8-2-2018

SIGNED: Mark A. Jagan

Signature of the Contractor or the Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings 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 proceedings.

SIGNED: Duane Rice

Signature of Proofreader

I hereby certify that I reported the above-referenced proceedings 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 proceedings.

SIGNED: Gaynell T. Catherine

Signature of Court Reporter