

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
) Investigation Nos.:
FLUID END BLOCKS FROM) 701-TA-632-635 and
CHINA, GERMANY, INDIA, AND) 731-TA-1466-1468 (Final)
ITALY)

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 ITALY)

Tuesday,
 December 1, 2020

Teleconference
 U.S. International
 Trade Commission
 500 E Street, S.W.
 Washington, D.C.

The public hearing commenced remotely, pursuant to notice, at 9:37 a.m., before the Commissioners of the United States International Trade Commission, the Honorable RANDOLPH J. STAYIN, Vice Chair, presiding.

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 Washington, DC
on behalf of

FEB Fair Trade Coalition
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Kathy Saunders, Director of Marketing,
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Guy Brada, Technical Sales Service Manager,
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 Cogne Specialty Steel USA, Inc.
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 Washington, DC
on behalf of

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P R O C E E D I N G S

(9:37 a.m.)

VICE CHAIR STAYIN: Good morning. On behalf of the U.S. International Trade Commission, I welcome you to this public hearing concerning the final phase of Investigation Nos. 701-TA-632-635 and 731-TA-1466-1468, involving Fluid End Blocks from China, Germany, India, and Italy.

Due to COVID-19 considerations, the Commission is holding this public hearing by videoconference. We appreciate everyone's cooperation and patience during this time.

The purpose of these 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 imports of Fluid End Blocks from China, Germany, India, and Italy.

Before we begin, let me note some of the rules for the hearing. 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 may not refer to business proprietary information. Please speak clearly into the microphone, state your name and affiliation for the record for the benefit of

1 the court reporter, and mute your microphone and turn off
2 your web cam when you are not presenting.

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

7 Mr. Secretary, are there any preliminary matters?

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

11 VICE CHAIR STAYIN: Mr. Secretary, would you please
12 announce our foreign delegation witness.

13 MR. BISHOP: Joining us this morning is Sibylle
14 Zitko, Senior Legal Advisor with the Trade and Agriculture
15 Section of the Delegation of the European Union to the United
16 States of America.

17 Welcome back, Sibylle. Please go ahead and turn on
18 your microphone and web cam for us. Good morning.

19 MS. ZITKO: Yes, good morning.

20 MR. BISHOP: Please begin when you're ready.

21 MS. ZITKO: Okay. Thank you. Good morning again,
22 Vice Chairman, Commissioners. My name is Sibylle Zitko. I'm
23 the Senior Legal Advisor in the Trade Section of the
24 Delegation of the European Union to the United States of
25 America here, in Washington, D.C. Thank you very much for

1 the opportunity to participate in the hearing this morning.

2 The European commission will submit a written
3 submission in which we will address the issues for the
4 Commission in more detail.

5 MR. BISHOP: We're losing you, Sibylle. Sibylle?

6 MS. ZITKO: I would just like to issue a statement
7 to --

8 MR. BISHOP: Sibylle, can you stop a moment?

9 MS. ZITKO: Yes.

10 MR. BISHOP: Go ahead and turn off your web cam.

11 MS. ZITKO: Yes.

12 MR. BISHOP: I'm gonna stop your web cam for you.

13 MS. ZITKO: Okay.

14 MR. BISHOP: Are you there?

15 MS. ZITKO: Okay, thank you. Are you there?

16 MR. BISHOP: Okay. We missed most of what -- yes.

17 We missed most of what you said. Just go ahead and start
18 over for us, please.

19 MS. ZITKO: Okay. Yes. So I would just start by
20 saying that we will submit a written submission in which we
21 will address the issues before the Commission in more detail,
22 and I just -- today, I just want to make a very short
23 statement just to draw the attention of the ITC to the fact
24 that, in our view, the whole case is fundamentally flawed.

25 To begin with, the alleged subsidies in this case,

1 namely, the so-called free allowances under the European
2 Union's emission trading system and several national programs
3 found to be countervailable by the Department of Commerce,
4 are, in fact, measures against climate change established by
5 the European Union and its member states to meet their
6 international obligations under the Paris Climate Agreement.

7 These measures aim at fighting climate change and
8 are not causing material injury to United States FEB
9 producers. These measures are not designed to raise
10 government revenue or to reduce the costs of producing fluid
11 end blocks in Germany or Italy. Rather, the measures are
12 designed to reduce greenhouse gas emissions and encourage the
13 development of more environmentally-friendly production
14 processes.

15 The measures in no way provide a benefit or
16 financial contribution to German or Italian producers of
17 subject merchandise. Quite to the contrary, these measures
18 result in the direct and substantial increase of companies'
19 energy costs and impose financial costs and obligations upon
20 European producers that are not borne by the U.S. domestic
21 fluid end block industry.

22 Therefore, these measures do not meet any of the
23 statutory requirements for a countervailable subsidy and the
24 U.S. -- or U.S. treaty obligations pursuant to the WTO
25 agreement on subsidies and countervailing measures. It is

1 simply absurd, in our view, to claim that the costs of these
2 environmental measures give European companies an unfair
3 advantage or benefit, or that they can be a cause of injury
4 to said producers in the United States.

5 The United States, as we know, withdrew from the
6 Paris agreement in 2017; therefore, the U.S. industry faces
7 no additional costs in trying to reduce U.S. greenhouse gas
8 emissions.

9 It is impossible to argue that United States' FEB
10 producers are injured because German and Italian companies
11 have to pay more in energy taxes or emission trading
12 certificates, or for improving their production processes
13 required as part of the EU, and German, and Italian measures
14 to fight climate change adopted pursuant to the Paris Climate
15 Accord.

16 Again, the U.S. is not part of the climate accord;
17 and, therefore, domestic FEB producers bare none of these
18 costs. Any claim that the U.S. industry is injured by the
19 manner in which EU, and the German government, and the
20 Italian government implement costly measures to reduce
21 greenhouse gas emissions and meet their treaty obligations is
22 erroneous.

23 We understand it is not the job of the ITC to
24 correct the incorrect findings of a subsidy by the Commerce
25 Department. The preliminary antidumping measures based

1 largely on the application of other sets available are also
2 flawed, but that is another matter, but we did want to draw
3 the ITC's attention to these very serious flaws,
4 conceptually, in this case, as we believe.

5 I will now very briefly move to the injury
6 analysis, but, again, we will comment on this in more detail.

7 We just want to recall at this point that, according to WTO
8 antidumping and subsidies agreement, the investigating
9 authorities have to consider whether there has been an
10 increase of the alleged dumped subsidies imports; however, in
11 this present case, imports decreased by around 50 percent
12 during the investigation period.

13 Furthermore, the investigating authorities also
14 have to demonstrate a causal relationship between the
15 increase of alleged dumped subsidized imports and any injury
16 to the domestic industry. Any injury caused by other factors
17 may not be attributed to the alleged dumped and subsidized
18 imports.

19 Important element to consider in this context are,
20 for example, development of demand of the fluid end blocks,
21 which is linked to the oil and gas drilling operations for
22 the increase in costs of production due to an increase of raw
23 material costs. Again, we will come back to this in our
24 written submission.

25 Finally, I just would like to raise one more issue,

1 and that is a procedural concern which we have also raised in
2 previous cases, and we want to reiterate that in this case.
3 According to WTO agreement, meaningful non-confidential
4 summaries of documents in an investigation have to be
5 provided in order for parties to be able to adequately
6 exercise their rights of defense.

7 As in many previous investigations, we believe that
8 the public version of the ITC staff report does not meet this
9 requirement. A lot of crucial elements have been marked
10 confidential without providing any summary indices or ranges,
11 for example, development of demand, market shares, profits
12 and losses, et cetera. This makes it very difficult to --
13 based on the public record, to fully analyze the findings.
14 Nevertheless, we think Commission is trying to analyze the
15 pre-hearing staff report. And, again, we will provide more
16 comments in due course.

17 So that's all I want to say today. Thank you again
18 very much for the opportunity to speak, and I'm happy to take
19 any questions.

20 VICE CHAIR STAYIN: Thank you very much.

21 Mr. Secretary, let's continue with the opening
22 remarks.

23 MR. BISHOP: Thank you, Mr. Chair. Providing
24 opening remarks on behalf of the Petitioners will be Myles S.
25 Getlan of Cassidy Levy Kent (USA).

1 Welcome, Mr. Getlan. You may begin when you're
2 ready. You have a total of five minutes for your open.

3 MR. GETLAN: Thank you. Good morning, Vice Chair
4 Stayin, Commissioners. My name is Myles Getlan of Cassidy
5 Levy Kent, appearing on behalf of the FEB Fair Trade
6 Coalition, which includes Ellwood Group, Finkl Steel, and the
7 Forging Industry Association.

8 During the period of investigation, unfairly-traded
9 low-priced fluid end block imports from China, Germany,
10 India, and Italy materially injured, and threaten continued
11 injury to the domestic industry. This is an industry that
12 consists of Ellwood and Finkl, but also other American
13 forgers, some still participating in the FEB market, and
14 others that have been forced out due to the uneconomic
15 pricing environment caused by subject imports, and it is an
16 industry that also includes independent machine shops that
17 finish fluid end blocks and support the petitions.

18 You will hear this morning from several witnesses
19 from Ellwood and Finkl. Their testimony will corroborate
20 what is already before you in the pre-hearing report: a
21 record that presents a straightforward case for affirmative
22 determinations.

23 Since 2017, subject import volumes have been
24 significant, and have sharply increased their U.S. market
25 share. Such subject import market share gains came directly

1 at the expense of domestic producers.

2 The report also presents robust evidence of
3 significant underselling by subject imports, particularly
4 later in the period when subject import market share gains
5 were most significant. Such underselling, and the pricing
6 pressure exerted by subject imports not only explain the
7 industry's lost market share, but also the industry's sharply
8 declining operating and financial performance. Operating
9 income earned by the FEB forgers, including Ellwood and
10 Finkl, turned to significant operating losses by the end of
11 the POI.

12 The industry's material injury is further reflected
13 in steep reductions in capital expenditures, marked by
14 cancelled and postponed investments. In an industry where
15 technology and customer requirements continuously evolve,
16 such reduced investments can imperil the competitiveness of
17 the FEB industry for years to come.

18 You will hear from those opposing relief that any
19 decline in the industry's fortune is self-inflicted, or that
20 subject imports are otherwise not to blame. They will point
21 to declining demand for FEBs, which was most certainly a
22 factor in the U.S. market and some of the POI trends, but the
23 domestic industry is used to weathering downturns in demand,
24 which is tied to developments in the oil and gas market.

25 Our industry witnesses will contrast circumstances

1 today with prior downturns, with the biggest difference today
2 being the growing share of low-priced subject imports that
3 are crippling the economics of their business.

4 You will also hear arguments from the other side
5 that subject imports are somehow superior to domestically-
6 produced FEBs in relation to various non-price factors, but
7 the record simply does not support such claims.

8 Both Ellwood and Finkl have been in business for
9 over 100 years, each with a strong record of producing and
10 supplying high quality steel forgings for various
11 applications. These companies, as well as the other American
12 forgers that comprise the domestic industry, are trusted
13 suppliers of steel forgings to the aerospace and defense
14 sectors, end users that are hardly known for tolerating lax
15 quality and performance.

16 The pre-hearing report confirms that domestically-
17 produced FEBs and subject imports are interchangeable and
18 comparable in relation to important non-price factors.
19 Backed up by documentary evidence, Ellwood and Finkl stand
20 ready to refute Respondents' claims that domestically-
21 produced FEBs are somehow deficient in terms of quality and
22 availability.

23 In considering Respondents' argument, ask yourself,
24 if the U.S. industry's product and performance is so
25 inadequate, why have dozens of FEB purchasers rated them as

1 comparable, and why do purchasers continue to solicit price
2 quotes from the domestic industry? Such requests for quotes,
3 or RFQs, are themselves evidence that domestic producers are
4 qualified and able to supply FEBs that meet customer
5 specifications.

6 At the end of the day, these claims simply don't
7 withstand scrutiny, and the record will be clear that low-
8 priced subject imports materially injured the domestic
9 industry. This is an industry that was at the vanguard of
10 helping the U.S. oil and gas industry enhance their
11 capabilities and develop American energy resources that is
12 now in desperate need of trade relief if it hopes to survive.

13 We look forward to presenting our case to you and
14 answering all of your questions. Thank you.

15 MR. BISHOP: Thank you, Mr. Getlan.

16 Providing opening remarks on behalf of Respondents
17 will be Lian Yang with Alston & Bird. Welcome, Ms. Yang.
18 You have a total of five minutes for your open. You may
19 begin when you're ready.

20 MS. YANG: Good morning, everyone. My name is Lian
21 Yang with the law firm Alston & Bird speaking on behalf of
22 the Respondents.

23 Petitioners' injury allegations cannot withstand
24 scrutiny when examined in the proper context. The demand of
25 fluid end blocks is tied to the demand of the oil and gas

1 industry. The period of investigation coincided with the
2 unprecedented downturn in the oil and gas industry that is
3 further disrupted by the COVID-19 pandemic. Oil prices
4 plummeted in late 2018. In early 2020, oil price plummeted
5 below zero dollar per barrel in 150 years of oil price
6 history. The COVID-19 pandemic drove oil and gas demands to
7 almost non-existent.

8 Fluid end blocks are a customized product. The
9 market has gravitated towards stainless steel. This trend
10 emerged in the U.S. market about 60 years ago, but the
11 domestic industry did not begin to embrace this change until
12 2018, and it has been struggling to adapt. In contrast,
13 European producers have been perfecting stainless steel FEBS
14 for a decade.

15 Product quality is critical to purchasers due to
16 the demanding requirements of the treating and fracking
17 application. As you will hear from industry witnesses,
18 domestic producers have many quality issues.

19 With respect to volume, the quantity of subject
20 imports declined during the POI, a drop of nearly 50 percent,
21 5-0. The decline continued during the interim period, an
22 over 72 percent decrease. By the end of the POI, subject
23 imports virtually disappeared. The decrease in volumes
24 occurred at the same when the average unit value of subject
25 imports increased by 20 percent.

1 According to the largest purchasers, which ranges
2 from domestic FEB to subject imports for non-price reasons,
3 including quality, delivery, and the overall product life.
4 Evidence of lost sales is very limited. The record shows at
5 most import lost sales out of numerous instances of
6 purchases.

7 Turning to the pricing data, again, the average
8 unit value of subject imports increased steadily during the
9 POI. The record contains two separate pricing data: import
10 purchase cost and commercial shipment pricing. The price
11 cost comparisons show many more instances overselling than
12 underselling. The commercial shipment price data also do not
13 support underselling. Rather, they show a lack of head-to-
14 head competition between subject imports and domestic like
15 product.

16 Importantly, the six pricing products covered a
17 extremely small percentage of the U.S. producers' shipment.
18 There's no pricing data or evidence of underselling for the
19 vast majority of the domestic like product. The quarterly
20 price comparisons are sporadic. Very few incidences have
21 comparisons from one to one subject countries in continuous.

22 Many quarters have no price comparisons. The comparisons
23 also show huge trends in both underselling and overselling
24 margins, likely due to large differences in the physical
25 characteristics of the pricing products. This would suggest

1 apples to oranges comparison.

2 The U.S. producers' performance does not correlate
3 with the subject import trend. When the subject imports
4 decreased the most precipitously, the U.S. producers'
5 profitability did not improve. They incurred more losses in
6 2020 when there were virtually no subject imports. Rather,
7 the industry's performance closely tracked with the market
8 demand, raising of demand with the oil and the gas industry.

9 In short, subject imports are not the cause of any
10 lasting injury and threat thereof. Thank you.

11 MR. BISHOP: Thank you, Ms. Yang.

12 Mr. Chair, that concludes opening remarks.

13 VICE CHAIR STAYIN: Mr. Secretary, will you please
14 call the first panel.

15 MR. BISHOP: Thank you, Mr. Chair.

16 The first panel is in support of the imposition of
17 the antidumping and countervailing duty orders. This panel
18 has a total of 60 minutes for their direct presentation. We
19 welcome all of you. Go ahead and turn on your web cams and
20 microphones. We ask that when you're not presenting direct
21 testimony or answering a question, that you go ahead and turn
22 off your web cam so that we can -- especially when the
23 presentation is being shown, so that we can see as many
24 people as possible when they're speaking.

25 Welcome to all of you. Please begin when you're

1 ready.

2 MR. LEVY: Good morning, Vice Chair Stayin,
3 Commissioners. This is Jack Levy from the law firm of
4 Cassidy Levy Kent, on behalf of Petitioners. We're going to
5 kick things off with our industry witnesses, beginning with
6 Scott Boyd, President of Ellwood City Forge.

7 MR. BISHOP: Scott, are you on mute? Scott, are
8 you there? I'm showing you as being -- there you are. Are
9 you there? You're still on mute. Now you're under Kathy's
10 name.

11 MR. BOYD: Okay. Yes. Sorry about that. My
12 screen froze just as you opened up our panel. So I am here.
13 I'm at Kathy's workstation. We will now address you from
14 here. Good morning. So my name is Scott Boyd, and I'm the
15 President of Ellwood City Forge, which is the largest
16 American producer of fluid end blocks, or FEBs.

17 My educational background includes metallurgical
18 engineering and business administration, and I have more than
19 four decades of industry experience, including 15 years with
20 the Ellwood Group. Became president of Ellwood City Forge in
21 2015, which means I've been in charge of the company's FEB
22 business for the entirety of the POI.

23 I'd like to begin by thanking the Commission for
24 conducting a virtual plant tour of Ellwood. Several
25 Commissioners, Commissioners' aides, and members of the

1 investigative team participated in that GoTo meeting in
2 October. We're grateful for your flexibility during this
3 pandemic.

4 As shown in Exhibit 1, Ellwood began as a family-
5 owned business in 1910. More than a century later, we're now
6 in the fifth generation family-owned business, employing
7 approximately 1,800 people. We are headquartered in Ellwood
8 City, Pennsylvania. Several of our locations are involved in
9 the manufacture of FEBs, including facilities in Pennsylvania
10 and Texas.

11 As shown in Exhibit 2, Ellwood is a vertically-
12 integrated manufacturer of steel products, including a wide
13 array of forged products for the United States military,
14 aerospace manufacturers, and the energy sector. We make and
15 re-melt steel, operate open die, closed die, and crankshaft
16 forges, and perform various finishing operations.

17 With more than \$1 billion in sales and 110 years of
18 experience, Ellwood knows how to compete in the marketplace.

19 Every step along the way we find ways to innovate, and to
20 re-invest in U.S. manufacturing and our workers. Past five
21 years alone, Ellwood has deployed more than half a billion
22 dollars in new capital.

23 Despite Ellwood's many successes, there is one
24 business segment, FEBs, that has gone from being extremely
25 profitable to a state of unacceptable financial performance.

1 As you can see from our proprietary questionnaire responses,
2 our company is being injured. There is no question in my
3 mind that the low prices from subject imports are responsible
4 for our market share losses, and largely responsible for our
5 declining margins.

6 As I'm sure you know, Americans' oil and gas sector
7 has benefitted from a wave of technological innovation over
8 the past decade, with dramatic improvement in drilling and
9 recovery techniques. Most notable are the advancements in
10 horizontal drilling and shell fracturing and fracking. These
11 activities depend upon the use of positive displacement
12 hydraulic pumps. There are different types of pumps
13 depending on their use, such as frack pumps, mud pumps, and
14 cement pumps.

15 If you turn to Exhibit 3 you will see the products
16 subject to this case, FEBs. FEBs are the forged blocks of
17 steel shown at the top left corner that are used to make a
18 downstream product called a fluid end module. As you can
19 see, a lot of additional parts, referred to as jewelry in the
20 industry, are added to the fluid end block to form the fluid
21 end module. Every hydraulic pump has two sections, the power
22 end and the fluid end. The fluid end module forms the fluid
23 end of the hydraulic pump.

24 Exhibit 4 shows images of some frack pumps, mud
25 pumps, and cement pumps.

1 At Exhibit 5 you'll see images of FEBs for
2 fracking, different levels of finishing. In our experience,
3 certain customers request only a rough machine block. Other
4 customers request only that the holes be drilled out. Other
5 FEBs are delivered with a high degree of contoured machining.

6 In our experience, it's unusual that a customer
7 requests a fully-finished FEB that is ready for incorporation
8 into a fluid end assembly. More often, they send the blocks
9 they purchase to an independent machine shop for the final
10 finishing steps. To be clear, we produce and sell FEBs with
11 a full range of finishing levels.

12 Exhibit 6 has some additional examples of FEBs.
13 These are blocks for mud pumps. FEBs are specially designed
14 to handle high pressure hydraulic pump operations. They're
15 made to endure enormous stress, including high pressures and
16 fluids that can be both abrasive and caustic.

17 We work closely with our customers, helping them to
18 identify design specifications that yield the best possible
19 performance for the fluid end modules in the field. For
20 example, Ellwood has been a leader in offering a full range
21 of alloy and stainless grades, including modifications to the
22 standard commodity grade such as 15/5, and 17/4 ph, and
23 43/30. Our forging and heat treat processes are designed to
24 ensure the highest level of quality, durability, and
25 performance.

1 Want to respond to page 6 of the Respondents' joint
2 pre-hearing brief. I've quoted part of my testimony from the
3 preliminary staff conference suggesting that I testified that
4 the domestic FEB industry didn't really come around to
5 stainless steel FEBs until probably the 2018 period. This is
6 a false and misleading characterization of what I said.

7 If you look at my staff conference testimony, what
8 I actually said was that Ellwood had been supplying stainless
9 steel FEBs even before 2015, well before 2015, and after the
10 2015 downturn in oil and gas demand, we worked with a couple
11 of fluid end module producers and pump makers to figure out
12 ways to use stainless steel FEBs to get them more up time for
13 stimulation end mods out in the field.

14 Even then, some of those purchasers, those fluid
15 end module manufacturers and pump makers, didn't really come
16 around completely to the conclusion that stainless steel FEBs
17 provided the most cost-effective solution for them until
18 probably the 2018 period. Even now there's at least one very
19 large pump maker today, Haliburton, that has tried both alloy
20 and stainless steel FEBs and remains unconvinced that
21 stainless is the way to go. They remain focused on using
22 alloy steel FEBs.

23 To suggest that Ellwood was somehow late in
24 introducing stainless steel grades is simply untrue. Turn to
25 Exhibit 7 and see that we have two melt shops in

1 Pennsylvania. One of them is dedicated to producing
2 stainless steel grades. The quality of our steel is world-
3 class. It has to be when you're supplying customers like the
4 Defense Department and the United States Military.

5 I'm proud to say that Ellwood has been integral
6 player in supporting innovation within America's upstream oil
7 and gas sector, including pump manufacturers. We were there
8 along with them when they considered shifting from alloy to
9 stainless steel FEBS, and worked with them throughout the
10 transition.

11 I'm equally disappointed to report that after a
12 decade of close partnership with our customers, margins
13 are being squeezed to uneconomic lows, and we're losing
14 significant sales volume to cheap imports. The import prices
15 we see quoted in the U.S. market are often below our own
16 variable production gaps.

17 We know, from our own cost benchmarking, that
18 Ellwood is one of the most efficient manufacturers in the
19 world both in terms of our primary steel manufacturing, as
20 well as our open die forging machine capability. Ellwood has
21 been forging for more than a century. We've been competing
22 for a long time. We've seen cyclical downturns in demand
23 before, as recently as 2016, and we've managed to remain
24 profitable, despite temporary dips in demand.

25 We've never before seen such aggressive import

1 competition like we've seen with fluid end blocks in recent
2 years. Situation is so bad that we were recently forced to
3 suspend an ongoing \$9.3 million investment in a new automated
4 finishing facility. Given the low import prices, there's
5 simply no way we can expect to get a return on that
6 investment.

7 Closing, I should note that Ellwood has never
8 before been a Petitioner enforcing our rights under the U.S.
9 trade remedy laws, but the unfair pricing behavior by foreign
10 FEB producers is so extreme and harmful that we are left with
11 no choice but defend our business and our workers.

12 Available to answer any questions that you may
13 have. For now, I'll hand things back over to Kathy Saunders
14 who will discuss some of the conditions of competition in the
15 FEB industry. Thank you.

16 MS. SAUNDERS: Good morning, I'm Kathy Saunders and
17 I am the Director of Marketing for Ellwood City Forge. My
18 educational background is in business management. I have
19 worked in various roles in the Ellwood Group for more than 33
20 years, and since 2013, I have overseen the Ellwood sales team
21 that handles fluid end blocks. I am also responsible for
22 monitoring competitive intelligence, including demand trends
23 and trade flows.

24 As Scott testified, hydraulic pumps are essential
25 equipment in the upstream oil and gas sector, particularly

1 for drilling and recovery of oil and gas. FEBs are integral
2 components in the manufacture of the fluid end module of
3 hydraulic pumps. Because fluid ends are continually being
4 replaced, we can state that demand for FEBs generally tracks
5 drilling and fracking activity.

6 If you refer to Exhibit 8 you can see data showing
7 fracking activity during the period of investigation which
8 comes from Spears (phonetic) and is specific to fracking
9 horsepower. Also on this slide are market price lists for
10 oil and natural gas. As you can see, these trends in the oil
11 and gas industry help inform why demand for FEBs has
12 decreased significantly in recent years.

13 There is no question that when demand is down there
14 are fewer FEB sales opportunities. This makes the impact of
15 unfair import competition even more harmful to us. The
16 subsidized and dumped imports have been undercutting our
17 prices and taking share in a declining market. The share
18 loss was particularly concentrated in 2019, and continued
19 into 2020.

20 If you refer to Exhibit 9 we provide an overview of
21 how the FEB industry is structured. The domestic producers
22 consist of FEB forgers, as well as fuller (phonetic), who
23 typically perform FEB finishing operations for either the
24 forger or the purchaser.

25 Next, I would like to say a few words about how

1 FEBs are sold. The purchasers in this industry are OEM
2 manufacturers of hydraulic pumps or manufacturers of the
3 fluid end modules. There are easily more than two dozen
4 purchasers in the U.S. market.

5 If you refer to Exhibit 10 you can see a list of
6 purchasers that have solicited price quotes from U.S.
7 producers in recent years. Some of these customers, such as
8 Haliburton, are manufacturing and operating their own pump
9 equipment, and they, themselves, are also engaged in drilling
10 and recovery. Others, by contrast, such as Barter Denver
11 (phonetic), are simply selling their pump equipment to third
12 parties involved in oil and gas exploration and production.

13 When a customer needs FEBS to manufacture their
14 fluid end module, they will send out an RFQ with all of their
15 required specifications and drawings, which include steel
16 chemistry, forging process, heat treat properties,
17 dimensions, machining tolerances, et cetera.

18 Every customer has their own custom FEB
19 specification for each corresponding fluid end module that
20 they produce. For example, one customer may call for an
21 alloy steel triplex block that has been drilled and rough
22 machined to a specified dimension. Another customer may call
23 for a stainless steel quintuplex (phonetic) block that is
24 also unfinished that has even more contour machining. These
25 products are custom produced to fit custom specifications for

1 specific customers.

2 In this way, all suppliers are bidding to supply to
3 the same custom specifications, and the purchasers are
4 therefore in a position to make apples to apples comparisons
5 among competing suppliers on the basis of price.

6 If you refer back to Exhibit 5 you can see the
7 assortment of FEBs that are specified by customers in the
8 U.S. market. As producers, we have a choice to perform
9 finishing operations in-house, or we could decide to contract
10 out some of these operations to an independent machine shop.

11 At Ellwood, we have a strategic alliance with one machine
12 shop, Nadar (phonetic), where we actually own equipment and
13 pay them a tolling fee for their machining services.

14 Next, I should say a word about qualification.
15 Most customers require some kind of first article testing
16 before a manufacturer is qualified to produce FEBs in
17 commercial quantities, but, in our experience, all of the
18 major suppliers in the U.S. and in the subject countries are
19 qualified and able to produce a quality product that meets
20 customer specifications.

21 Remember, if purchasers are sending us an RFQ for
22 commercial quantities, that means we are already qualified.
23 Under these circumstances, competition generally boils down
24 to price. I say generally because sometimes we get awarded
25 volumes, despite our higher prices, because customers want

1 the security of having a back up domestic supplier with
2 shorter lead times. Unfortunately, those volumes are hardly
3 enough to support a healthy business.

4 Let me close by giving you an example of the kind
5 of competition we constantly face in this market. Ellwood
6 received an RFQ from a customer. Everyone receiving the RFQ
7 is qualified to produce to the same customer specs, so we are
8 competing on the basis of price.

9 At Ellwood, we try to set our prices at levels that
10 cover our costs, including raw materials, but the feedback we
11 often receive is that our prices are too high, and that
12 offshore suppliers are as much as 20 percent lower than
13 Ellwood's best price. A number of these examples were
14 detailed in the petition. Simply stated, subsidized and
15 dumped imports have made it impossible for us to obtain a
16 fair price for our FEB.

17 At this time, I'll turn things over to my
18 colleague, Guy Brada.

19 MR. LEVY: Guy, we can't hear you. We're unable to
20 hear you, Guy. If you're still having technical difficulty,
21 you may want to walk down to Kathy's office.

22 MR. BRADA: Okay, how about now? I changed subsets
23 (phonetic).

24 MR. BISHOP: Yes, we can hear you now.

25 MR. BRADA: Okay, I'll start again. Thank you.

1 Good morning, my name is Guy Brada. I'm the Technical Sales
2 Service Manager at Ellwood City Forge. My educational
3 background is in metallurgical and materials engineering, and
4 my responsibilities at Ellwood include product and process
5 development and technical support for our customers. In this
6 role, I serve as a liaison between our sales team,
7 metallurgical team, quality team, and the customer. I have
8 been with Ellwood for five years, and have almost three
9 decades of experience working the field of steel metallurgy.

10 Last month I had the pleasure of speaking with some
11 of you during the virtual plant visit. You may recall that
12 we provided an overview of Ellwood's FEB manufacturing
13 process, which is comprised of several steps, including
14 melting steel ingots, forging, machining, heat treatment, and
15 testing.

16 At Ellwood, my job is to ensure that our products
17 consistently meet the customer's specification. If there are
18 any complaints, my job is to work diligently with our
19 metallurgical and quality departments to investigate and
20 resolve those complaints. I can tell you that Ellwood's
21 commitment to quality is world-class, and, with few
22 exceptions, we have not received complaints about the quality
23 or performance of our blocks.

24 In the preliminary phase we heard testimony from
25 one purchaser, ST9, claiming that there were quality problems

1 with Ellwood's blocks. We take these allegations very
2 seriously, and I wanted to be here as a resource to answer
3 your questions in this area, but for now let me just say
4 there can be many reasons why a fluid end module fails, and
5 many of them had nothing to do with the fluid end block
6 component itself.

7 Probably the biggest factors that can result in a
8 crack type failure are cavitation and sanding off.
9 Cavitation results from improper flow into the fluid end that
10 starves the pump and creates internal pump damage that can be
11 observed in a failure analysis. Cavitation can be the result
12 of operator error, upstream system failures, or poor fluid
13 end module design.

14 Sanding off can lead to a fluid end cracking
15 quickly. If the ratio of sand to fluid becomes too high, you
16 are essentially trying to pump a solid, and the resulting
17 crash can cause cracks in both the fluid end and,
18 potentially, in the power end driving the pump.

19 Finally, even with proper maintenance and operating
20 parameters, all fluid ends will eventually wear out due to
21 extremely abrasive nature of the fluids being pumped.
22 Advances in stainless steel, fluid end module internal flow
23 design, valve and seat (phonetic) end materials, preventative
24 maintenance programs, and pump control systems, along with
25 operator training, all contribute to the longevity of a fluid

1 end module. This is a vast science, and part of my job is to
2 perform tests and provide technical support for our
3 customers.

4 At this point I will stop and turn things over to
5 Mr. Shirley of Finkl Steel. Thank you.

6 MR. SHIRLEY: Good morning, Commissioners. My name
7 is Mark Shirley. I'm CEO of Finkl Steel. I appreciate the
8 opportunity to testify today. It's been about one year since
9 we filed the three petitions, and our need for period relief
10 has never been more critical. These are challenging times in
11 our industry, and the competition we face from imports
12 threatens the viability of Finkl Steel.

13 I would like to begin by providing some background
14 information on me and our company before turning to the
15 market challenges that have brought me to testify today. In
16 terms of my own experience, my educational background is in
17 metallurgical engineering and business administration. I
18 have over three decades of experience working in steel
19 products.

20 Prior to joining Finkl, I had -- I held various
21 roles in Amsted Industries, ranging from plant management to
22 engineering, product development, management of overseas
23 joint ventures, and executive management.

24 I joined Finkl Steel as its CEO in late 2014, and
25 the fluid end block business has been a strategic focus of

1 Finkl ever since I joined the company. I'm very proud to
2 serve Finkl Steel. Like Ellwood, the company started as a
3 family-owned business more than a century ago.

4 If you refer to Exhibit 11 you will see that Finkl
5 was founded in 1879 in Chicago. The company got started
6 making handheld chipping hammers to clean bricks after the
7 Great Chicago Fire. Over time, the company's operation
8 expanded into large forging operations, and the business
9 continued to grow.

10 Finkl has a proud history of innovation. We have
11 roughly 70 U.S. patents, and it is no exaggeration to say
12 that Finkl invented clean steel technology. When it comes to
13 production techniques that limit inclusions, we literally
14 wrote the book.

15 In the 2007 timeframe, Finkl was acquired by a
16 publicly-traded European company which allowed us to finance
17 a new world-class manufacturing facility on the south side of
18 Chicago. Our new plant became fully operational in 2014.
19 Our new plant has expanded melt shop capacity that is beyond
20 what it had been, and the opportunities for future growth are
21 substantial.

22 When I joined Finkl in October of 2014, Finkl's
23 fluid end business was really taking off, and the margins
24 were definitely justifying significant plant investment. One
25 such investment was in creating what we call a lean line

1 which enabled even more efficient streamlined production of
2 fluid end blocks. We also invested heavily to enable the
3 capability to self-produce our own stainless ingots in the
4 melt shop.

5 Unfortunately, because of the low-priced imports,
6 our business has been injured, and these investments have yet
7 to pay off. We have also been forced to reduce employment
8 due to these competitive challenges.

9 Production at Finkl is not so different than
10 Ellwood. We are vertically-integrated in that we have our
11 own melt shop for producing ingots, we have open die forges,
12 we have furnaces for heat treatment, and we have machining,
13 or finishing, lines.

14 We self-produce both alloy and stainless ingots,
15 including a newly-patented stainless steel grade called HBX.

16 We have many fluid end blocks made with HBX in the field
17 today, and they have a track record of high performance. HBX
18 offers significant cost efficiencies due to the less fickle
19 and other expensive materials and outstanding corrosion
20 resistance which contributes to longer life spans.

21 For the more commodity stainless steel grades, such
22 as 15/5 and 17/4, since this year we can now self-produce
23 those ingots in-house as well. Everyone needs to meet
24 customer specification, and to meet customer requirements, we
25 purchase any grade of ingot from other manufacturers, such as

1 ASW in Canada, Electralloy and Ellwood, both in Pennsylvania.

2 When it comes to finishing operations, we have
3 significant in-house capacity, but we have the option to farm
4 out some of the work to independent machine shops if we
5 determine that doing so is cost effective.

6 Without question, Finkl is a world-class fluid end
7 block manufacturing facility that is the result of massive
8 plant investments and manufacturing streamlining. Our campus
9 is ideally located in an industrial area with excellent
10 access to rail and long truck transportation, allowing Finkl
11 to be efficiently ship throughout the country. We are
12 positioned to be big winners in the fluid end block market if
13 there simply is a level playing field.

14 After the 2016 decline in the oil and gas market,
15 demand for fluid end blocks recovered in 2017, and our fluid
16 end block business was profitable, but since that time our
17 ability to earn healthy margins, grow our production and
18 sales volumes, and increase our employment came under intense
19 pressure.

20 Competition from low-priced imports has eroded the
21 economics of our fluid end business. There is a fair amount
22 of transparency in this market with purchasers issuing
23 requests for quotations, or RFQs, for specified fluid end
24 blocks. Our experience is similar to what you have just
25 heard from Ms. Saunders. We routinely receive feedback that

1 German and Italian prices were 25 to 30 percent lower than
2 ours, and that Chinese fluid end block prices were 40 to 50
3 percent lower. How do you compete with that?

4 Very often, we have been faced with two bad
5 choices. Either we reduce prices to compete with imports, in
6 which case our margins get crushed, or we try to hold the
7 line on prices, in which case we lose sales volumes and lose
8 market share. We have employed both strategies, to a certain
9 extent, but, either way, these low-priced imports are
10 injuring our business.

11 Of course, we have experienced weaker demand in the
12 last couple of years, and the impact of COVID this year on
13 the oil and gas sector and on demand for fluid end blocks has
14 been an enormous challenge, but this market has always seen
15 volatility, and we have previously experienced sharp declines
16 in demand. 2016 was one such example. We weathered the
17 storm and managed to keep our fluid end business in the
18 black.

19 What is different today, and in recent years, is
20 the price pressure from low-priced imports which is crushing
21 our fluid end business. Our inability to produce greater
22 volumes and earn a margin on those fields is destroying our
23 ability to obtain a fair return on our investments.

24 In the current environment, we cannot justify
25 further investments, which are crucial to keep pace with

1 technology and our continuously-evolving customer
2 requirements.

3 In conclusion, let me say that the fluid end block
4 business is central to the viability of Finkl's plant, and
5 the current situation is not sustainable. If we cannot
6 compete on a level playing field, I'm not sure how this 141
7 year old company will survive. That is why we brought this
8 trade action, and why I'm here today asking the Commission to
9 enforce the trade laws.

10 I want to thank the Commission for its important
11 work in these investigations, and I look forward to answering
12 any questions you may have. Thank you.

13 MR. LEVY: Thank you, Mark. This is Jack Levy
14 again for Petitioners.

15 We had intended to include our prepared testimony
16 at this point but you've obviously heard the opening
17 statement from the Respondents and I think we're going to
18 take a few more minutes to address what is probably the
19 elephant in the room.

20 Respondents claim that domestic producers and
21 Ellwood in particular have inferior quality and that this
22 somehow explains why purchasers switched to imports. They're
23 trotting out one purchaser, ST9 as their poster child for
24 these quality claims.

25 I'm going to turn things back over to Guy Brada and

1 also to Kathy Saunders who I think they're going to set the
2 record straight regarding these ST9 claims.

3 As you'll hear, ST9 did bring quality concerns to
4 Ellwood's attention during 2019 but the record shows that in
5 fact Ellwood only supplied in spec products to ST9 and
6 throughout this period ST9 continued to solicit quotes from
7 Ellwood and pressured them to reduce pricing to compete with
8 cheaper imports.

9 With that introduction I'm going to turn things
10 back over to Guy Brada. Guy?

11 MR. BISHOP: We're not hearing you, Guy.

12 (Pause.)

13 MR. BRADA: Okay, it's been suggested that I try
14 this microphone. Does that work?

15 MR. BISHOP: Yes, it does. We hear you.

16 Do you hear us?

17 Guy, can you hear me?

18 MR. BRADA: How about now?

19 MR. BISHOP: Yes, we can hear you.

20 (Pause.)

21 MR. LEVY: Guy, I'm unable to hear you again.

22 MR. BISHOP: We can't hear you again.

23 (Pause.)

24 MR. BRADA: Okay, give me a thumbs up if you can
25 hear me.

1 MR. BISHOP: We can hear you.

2 MR. BRADA: Good morning. This is Guy Brada again.

3 The first time we received quality concerns from
4 ST9 was back in May of 2019. At that time ST9 reported that
5 there were several failed fluid end modules in the field and
6 sent us two pictures.

7 Ellwood immediately offered to perform a
8 destructive analysis on the failed fluid end modules free of
9 charge so we could ascertain what really happened. ST9 never
10 provided us a sample module in response to this concern.
11 When I followed up with ST9 they indicated to me that the
12 operators for the fleet where the failures occurred lacked
13 proper training, a factor that can certainly result in
14 product failure but would have nothing to do with the quality
15 of the steel forging.

16 This entire episode was very unusual in my 30 years
17 of experience. If you have a failure with your fluid end
18 module and you suspect the fluid end block is the cause, why
19 would you refuse a free technical analysis from your supplier
20 and just proceed to continue buying from that supplier
21 without further testing. It made no sense to me at the time.

22 The second complaint arose in September of 2019.
23 ST9 informed us that a single Ellwood FEB at the machine shop
24 showed a void that this too could be a quality issue. We
25 responded by immediately dispatching our inspectors to the

1 field. We inspected dozens of blocks for inclusion and found
2 that 100 percent of them complied with the ST9 specification.

3 ST9's statement that Ellwood acknowledge the
4 presence of pinholes in some blocks is totally and completely
5 false. What we found was that some of the blocks had
6 indentations which fell within the permitted range of the ST9
7 specification of less than one-eighth inch. As a result of
8 our findings ST9 lifted the temporary hold on our products.

9 Separate from the ultrasonic testing that I just
10 described, we were also able to perform destructive analysis
11 on the block that appeared to have been in the void. Our
12 extensive investigation concluded that the defect was caused
13 by a failed carbide tool at ST9's machine shop and had
14 absolutely nothing to do with Ellwood's quality. We found
15 embedded particles of the carbide in the material that
16 appeared in a photograph to look like voids. We presented
17 our findings to ST9 in October of 2019 and they actually
18 applauded our analysis. ST9's Director of Technology stated
19 in an email, and I quote, "Things are not always as they
20 appear at first glance. What looked like a void was not and
21 the iron doesn't lie."

22 So with respect to any quality issue of ST9's fluid
23 end modules we are confident that any defects were not
24 Ellwood's responsibility.

25 I'll turn it back over to Kathy Saunders.

1 MS. SAUNDERS: This is Kathy Saunders again.

2 I'd like to make some final comments about ST9 from
3 a sales perspective. These supposed quality issues described
4 by Guy never factored into our sales negotiations. In fact
5 throughout 2019 we continued to received RFPs from ST9 and
6 the discussion was always focused on price.

7 If you turn to Exhibit 12 you can see the kind of
8 emails we were getting from ST9 in the first half of 2019.
9 For example, on June 12th ST9 suggested that Ellwood could
10 win 100 percent of ST9's business if we could price our FEBS
11 under X thousand dollars.

12 We ultimately lost our bid to the Italians and ST9
13 told me that the only reason was price.

14 Next, if you turn to Exhibit 13 you can see what
15 ST9 was telling us in July regarding sales for the 4th
16 quarter. They gave us a copy of the Lucchini Mame's quote
17 and told us that if we could reduce our price to X dollars we
18 could win 100 percent of ST9's North American business. Here
19 again their only concern was with our price.

20 Finally, if you turn to Exhibit 14, you can see
21 what ST9 told us in November and December about our ability
22 to supply them in 2020. ST9 asked us for our best quote
23 which we provided and the response we got on December 5th was
24 that our pricing was too high. So you can see that ST9 was
25 singularly concerned with our price, not quality, in its

1 purchasing decision.

2 Thank you.

3 MR. LEVY: Thank you, Kathy.

4 This is Jack Levy again for Petitioners.

5 I think we would just touch on one other point,
6 sort of another flavor of the quality allegation that we
7 heard from ST9 in their prepared testimony was that in the --
8 it relates to longevity, the idea that their fluid end
9 modules somehow had inferior longevity with an American FEB
10 as a component. And what they claimed in particular was back
11 in the May/June 29 period, they made this determination that
12 Ellwood had inferior longevity.

13 So against that backdrop, what did they do? It's a
14 pretty serious concern if true. Did they show data to
15 Ellwood? Did they give them a failed fluid end module to
16 test? No. What did they do? Let's turn back to Exhibit 13.

17 This is one to two months after the supposed
18 discovery of a longevity concern. Again, what are they
19 showing Ellwood in this time frame? Well, they showed
20 Ellwood a copy of Lucchini Mame's quote and they said here's
21 the Lucchini Mame price. If you can beat it, we will happily
22 give you 100 percent of our North American business.

23 You know, I think that it makes no sense to me that
24 if you are a producer of fluid end modules and a new one at
25 that, ST9 was basically a startup that began only a year or

1 so earlier. They're trying to build a reputation in this
2 business. They're trying to get their customers to believe
3 in their fluid end module design. If they have a bonafide
4 concern about the quality or the longevity of FEBs from
5 Ellwood, they're not raising that issue by showing data or
6 giving modules for analysis? Instead what they're saying is
7 look how cheap the Italians are. If you can beat the
8 Italians, you can have 100 percent of our business. Happily.
9 They'll happily give Ellwood 100 percent of their North
10 American business. And I would simply propose to you that
11 whatever these quality issues are that we're hearing now in
12 litigation are more likely a desperate gambit to avoid trade
13 remedies. Otherwise how do you explain their behavior in the
14 context of sales negotiations?

15 So I would simply ask you in the afternoon panel to
16 please pose the question to ST9's witness which is if these
17 quality concerns that you're now raising were so severe, why
18 were you so anxious to give Ellwood 100 percent of the North
19 American business before, during and after the supposed
20 discovery of these issues? And with that, I think we'll stop
21 and look forward to any and all of your questions.

22 Thank you.

23 MR. BISHOP: Thank you, Mr. Levy.

24 Mr. Chair, that concludes direct testimony from
25 this panel. We will reserve the remaining 23 minutes from

1 their 60 minute direct for their rebuttal and close. Thank
2 you.

3 VICE CHAIR STAYIN: Thank you. We'll begin the
4 questions from Commissioners. I'm the first one up.

5 Yes, quality is a big issues that has been raised
6 by the Respondents. They argue that domestic producers have
7 repeatedly failed to meet all the requirements which led to
8 decertification by purchasers. How often have domestic
9 producers failed to meet quality requirements during the POI?

10 And have there been any decertifications because of that?

11 MR. LEVY: Thank you, Vice Chair Stayin. A very
12 important question and thank you for raising it.

13 I think we would start by asking our industry
14 witnesses directly to say whether during the period of
15 investigation, I mean setting aside this ST9 issue which
16 we've just addressed directly and I think answered
17 completely. Setting aside the ST9 issue, are they aware of
18 any situations where they failed to meet customer
19 specifications?

20 I'd say first for Mr. Shirley and then for Mr.
21 Brada at Ellwood.

22 MR. SHIRLEY: Hello, thank you. This is Mark
23 Shirley responding for Finkl.

24 During the period of investigation Finkl has not
25 been decertified from any customer. We have had no

1 decertification whatsoever during the period of
2 investigation.

3 VICE CHAIR STAYIN: Are you aware of any other
4 companies, of your competitors, domestic producers who have
5 had these quality issues and have been decertified?

6 MR. SHIRLEY: I'm aware of an occasional quality
7 issue with a competitor, but also I'm aware that any of those
8 issues were addressed directly and rectified. On occasion
9 we have been accused of quality issues in the past, but upon
10 investigation we have found that the issue was not a fluid
11 end block issue, it was a fluid end module issue or a design
12 issue within the fluid end module.

13 VICE CHAIR STAYIN: All right, thank you.

14 Are there certain steel grades that either the
15 domestic industry or foreign industries are incapable of
16 supplying to the U.S. market? If so, what is keeping these
17 firms from supplying certain goods.

18 MR. LEVY: Mr. Brada, if you could take that, but
19 also address the same question that Mr. Shirley answered as
20 well.

21 MR. BRADA: Okay. First to answer the
22 decertification question. We have never received a
23 decertification from a customer and in fact in the last year
24 we're seeking additional certifications with other customers,
25 one of which was recently approved. So we continue to

1 improve our quality in the marketplace and gain acceptance to
2 all the quality standards.

3 With regard to the materials, there are no
4 materials that we cannot manufacture that are utilized in the
5 manufacture of fluid end blocks. We have extensive
6 capabilities in both alloys and stainless steel and in fact
7 produce proprietary stainless steels that are expanding the
8 market further.

9 VICE CHAIR STAYIN: Would you agree that U.S.
10 producers are able to satisfy demand for all the stainless
11 steel FEBS that are required in the marketplace?

12 MR. BOYD: This is Scott Boyd for Ellwood. I can
13 answer that.

14 VICE CHAIR STAYIN: You're breaking up. I can't
15 hear what you're saying.

16 (Pause.)

17 MR. SHIRLEY: While he's trying to fix that, maybe
18 I can answer on behalf of Finkl.

19 VICE CHAIR STAYIN: I can't hear him.

20 MR. SHIRLEY: Finkl is fully capable of producing
21 all alloys and stainless grades that customers have requested
22 through RFQs. There's no grade that we're not capable of and
23 in fact we have our own patented grade we call HBX which
24 we'll offer as an additional option to any customer that
25 should ask for a quote.

1 VICE CHAIR STAYIN: Okay, thank you.

2 Please elaborate on the market shift towards
3 stainless steel fluid end blocks. What caused this shift and
4 how did the domestic or foreign firms respond to this shift
5 in demand to stainless steel?

6 MR. LEVY: Scott, are you able to speak at this
7 point or are you incapacitated?

8 (Pause.)

9 Scott, can you try turning off your video to see if
10 you get a better connection that way?

11 (Pause.)

12 MR. SHIRLEY: Maybe Scott can go to Guy Brada's
13 computer since that seems to be connected.

14 In terms of --

15 MR. BOYD: Okay. I'm now on Guy Brada's work
16 station. I'm sorry, can someone repeat the question?

17 VICE CHAIR STAYIN: Please elaborate on the market
18 shift towards stainless steel fluid end blocks. What caused
19 this shift? How did the domestic and foreign firms respond
20 to this shift in demand for stainless steel? Do any firms --

21 Go ahead, just answer that question.

22 MR. BOYD: Okay, thank you.

23 We saw some interest in stainless steel prior to
24 2015 and in fact we were making stainless steel blocks back
25 in the 2011-2012 time frame.

1 The cost differential between an alloy and a
2 stainless block because of the costs in raw material and as
3 hot costing requires was fairly considerable at the time so
4 there was interest in trying to get a longer life out of a
5 fluid end block and a fluid end module.

6 The reason stainless was considered, because of the
7 somewhat caustic solutions that are used in hydraulic
8 fracturing. So we did some development work, so we still had
9 fairly significant cost differential until well after 2015
10 when we started to see the imports surge and at that time the
11 cost differential between stainless and an alloy block began
12 to collapse. I'd attribute that collapse primarily to the
13 abundance of a very low priced stainless blocks from the
14 foreign producers.

15 Did that adequately answer your questions?

16 VICE CHAIR STAYIN: Yes. I think going to the next
17 step, with respect to the products coming from the
18 Respondents, are there any products that they're able to
19 provide that the U.S. industry is not or has not been able to
20 provide? Has that drawn purchases from the foreign
21 producers?

22 MR. BOYD: To my knowledge there are no products
23 that the foreign producers can manufacture that we cannot
24 manufacture here in the United States.

25 VICE CHAIR STAYIN: With respect to the quality

1 issue are there any problems with the U.S. producers in
2 meeting the industry qualifications, the specifications? And
3 if you do, is that a problem with why we're getting the
4 inputs from the foreign countries?

5 MR. BOYD: No, these are all -- I'll just
6 reiterate, I think on an earlier point made, these are all
7 custom products. So it does take in some cases a back and
8 forth effort between the steel producer and the forger and
9 the ultimate user and customer, but in all cases that I'm
10 aware of we have been able to meet those customer
11 specifications and deliver product that met the specification
12 and worked in practice.

13 MR. LEVY: Commissioner Stayin, Jack Levy, if I can
14 just jump in and maybe refer back to Exhibit 10. I think
15 you've heard testimony earlier this morning from Kathy
16 Saunders that if a purchaser considers you to be qualified,
17 then they are going to be soliciting price quotes from you.
18 Or put another way, if you're getting an RFQ it means that
19 you are considered qualified by that purchaser. And since
20 2019 we see that the major purchasers in the industry are
21 sending RFQs to one or several U.S. producers and you see
22 that summarized here.

23 So the notion that U.S. producers are somehow not
24 qualified to meet customer specs is actually belied by the
25 record. If you go to Exhibit 17 just to sort of remind you

1 of what's in the pre-hearing report, you're being told by
2 purchasers that U.S. and subject countries are always or
3 nearly always interchangeable and that U.S. producers are
4 almost always able to meet the quality specs of purchasers.

5 Similarly, if you look at Exhibit 18, and this is
6 an aggregation of the country pairings, what you see is that
7 domestic producers are rated as comparable to subject imports
8 by reference to all of the key metrics including quality and
9 steel pipe and availability and delivery time. With the
10 exception of one metric which is price where domestic
11 producers are more often considered to be inferior. So I
12 just wanted to point those points out because they stand in
13 stark contrast to the narrative that we're now hearing from
14 Respondents.

15 Thank you.

16 VICE CHAIR STAYIN: Thank you.

17 Please to all of the witnesses, please identify
18 yourself before you speak.

19 Going back to the RFQ issue, I think that's very
20 interesting. So is it your view that there are no quality
21 differences among producers that receive RFQs?

22 MR. LEVY: Commissioner Stayin, that's correct.
23 Jack Levy for Petitioners.

24 Our understanding is that the purchaser has a spec.
25 They send out an RFQ that delineates exactly what everyone

1 is bidding on and it's the same thing. So in that
2 environment everyone is competing to produce to the same spec
3 on a basis of price. There should be no difference is
4 everyone's producing to spec.

5 VICE CHAIR STAYIN: Thank you very much. That's
6 the end of my time.

7 Commissioner Johanson?

8 COMMISSIONER JOHANSON: Yes, I'd like to begin by
9 thanking all of you for appearing here today. It's a very
10 interesting subject.

11 Following up on Commissioner Stayin's questions, I
12 have the following question: To what extent do non-price
13 factors guide purchasing decisions in the fluid end block
14 market?

15 MR. LEVY: So Commissioner Johanson, Jack Levy for
16 Petitioners.

17 I think it's pretty clear from the record as
18 summarized in the pre-hearing report that the top three
19 purchasing factors are price, quality and availability. I
20 think that frankly there's been no debate that all of these
21 things matter.

22 With regard to price, what we see from the pricing
23 record is that more often than not imports are the low price
24 leader and particularly during the period, toward the end of
25 the POI when the domestic industry experienced share loss and

1 deteriorating financial performance.

2 With regard to quality, I've just summarized in
3 response to Vice Chair Stayin's questions the overwhelming
4 accounts from purchasers that everyone is comparable with
5 respect to quality and indeed, they should be because they're
6 all submitting quotes and producing to the same customer
7 specification.

8 With regard to availability of supply, that too
9 matters. But here the record bears out that domestic
10 producers have shorter lead times. So if anything that
11 should explain or that should transit into an advantage for
12 domestic producers. But despite that advantage, they're
13 losing share during the POI.

14 So I think that from our point of view those are
15 the factors. Price, quality and availability first and
16 foremost and we don't think that the non-price factors such
17 as quality and availability in any way explain why purchasers
18 have switched from domestic to import sources.

19 COMMISSIONER JOHANSON: Okay, thank you, Mr. Levy.

20 I'm now going to move onto another issue.
21 Respondents have challenged the probative value of the price
22 comparisons on this record and you can see this at pages 25
23 to 27 of the joint Respondents in their brief. Among other
24 matters they argue that the data are so sporadic that rather
25 than demonstrate underselling or overselling the data tend to

1 support finding very little head to head competition which
2 they discussed at page 26.

3 Lucchini argues that the pricing products
4 demonstrate that there is very little head to head
5 competition. How do you respond to these arguments?

6 MR. LEVY: Thank you, Commissioner Johanson,
7 another very important question.

8 First what we see from the quarterly pricing data,
9 what we see importantly is I think a preponderance of
10 underselling and a much higher frequency of underselling
11 since 2019 which is the period when there's a lot of shared
12 gain from subject imports at the expense of the domestic
13 industry. So there's actually this strong correlation
14 between increased underselling and market share gains by
15 subject imports which I think is very relevant to your impact
16 analysis. So that's fairly damning data if you're a
17 Respondent so they're left with no choice but to attack the
18 integrity of the data.

19 And I would say a couple of things with regard to
20 the integrity of the pricing products. I think at a high
21 level our position is that the data are robust and
22 representative and of great probative value. Why? Well,
23 this is one of those industries where there are literally
24 more than 100 distinct FEB models being sold, so you have a
25 large variety of product mix.

1 So when you're picking pricing products, you're
2 trying to strike this balance between baskets that are broad
3 enough to provide meaningful coverage on the one hand; and on
4 the other hand, baskets that are narrow enough to provide
5 meaningful apples to apples comparisons. And we believe that
6 the Commission has struck the right balance. The coverage of
7 subject imports is nothing short of extraordinary and the
8 coverage of domestic producer shipments is actually quite
9 strong and much much stronger than what you found to be
10 adequate in other cases involving diverse product mixes of
11 custom products.

12 Cases like tapered roller bearings where you said
13 we would expect relatively limited coverage of the pricing
14 products given the differentiation of consuming from China
15 and India where you went on to state that even though there
16 were the limited number of price comparisons, you said this
17 reflects a diverse product mix, not a lack of competition.

18 That's exactly what you have here, is you have a
19 diverse product mix.

20 The other point I'll raise, and I think this is
21 really important. It's a procedural point.

22 There were four pricing products from the prelim
23 and the Commission said we'd like to do better on coverage
24 for the final phase. We as Petitioners said you should also
25 collect direct import data and we proposed an entirely new

1 pricing product.

2 The Respondents, many of them weighed in --
3 Metalcam, Cogne, Rod Forged (phonetic) and what did they say
4 with regard to the proposed price in products? Well, they
5 either said nothing or in the case of I think Cogne and
6 Metalcam, together they proposed three new products.

7 So out of the four from the prelim, those four
8 carried over to the final with little or no change, and out
9 of the two new that have been added, two of the three
10 proposed by Respondents, are now in the pricing products.

11 Petitioners, by the way, got no new pricing
12 products.

13 From my point of view, it's a bit insincere for
14 them to cap the pricing products on coverage grounds when
15 they themselves expressed no serious misgivings in their
16 comments on the draft questionnaires. If you've got a
17 problem with pricing products, the burden is on you to
18 propose changes in your comments on the questionnaires. They
19 got two of their three new pricing products for the final
20 phase and one of those two provided almost meaningless
21 coverage for the domestic industry.

22 Had Petitioner's pricing product been accepted
23 instead we would have had much more robust coverage of the
24 domestic industry.

25 But you know, we got what we got, the Commission

1 sort of split the baby and we're at peace with that. And
2 what we're left with is a robust and representative record
3 and I think it's fundamentally unfair for Respondents to now
4 complain about the pricing products when they were all but
5 silent on key products in their comments on the
6 questionnaire.

7 COMMISSIONER JOHANSON: Thank you, Mr. Levy, for
8 your response.

9 The Commission also collected purchase cost data in
10 this investigation. How should we weigh the purchase cost
11 data on this record which in the pre-hearing staff report
12 appeared to show that the import purchase costs were higher,
13 not lower, than domestic sales prices. And this is in the
14 table 517 of the pre-hearing staff report.

15 MR. LEVY: Thank you, Commissioner Johanson. Jack
16 Levy again for Petitioners.

17 We advocated for collecting data on purchase costs,
18 direct imports, and comparing them to U.S. producers' prices
19 because we knew that that was an important cost asset of how
20 FEBs were purchased in the industry. We thought that it
21 would expand coverage and we think it did. And what you have
22 as shown in the pre-hearing report, it is a record in that
23 space where the underselling is frankly mixed. And what you
24 see in our pre-hearing brief, we'll make two points.

25 First we said that actually there's one responding

1 importer who basically misreported all of their data and that
2 that's a sort of some distortion and we put in attachment
3 notes to the staff for their consideration.

4 But even if you take all the tabulated data at face
5 value and you look at what's happening since 2019 which is
6 when all the share growth starts for subject imports. By
7 reference to direct import data what you have there is a
8 preponderance, in fact pervasive underselling.

9 So it's important to look at what's happening by
10 period, and from 2019 to the end of the POI there's
11 tremendous shared growth from subject imports and there's
12 pervasive underselling and you see that pervasive
13 underselling by reference to the direct import quarterly
14 pricing data as well as by reference to the U.S. commercial,
15 the U.S. shipments of imports.

16 So we do believe the data are of probative value
17 and we encourage you to analyze them.

18 COMMISSIONER JOHANSON: Thank you, Mr. Levy for
19 your response.

20 My time is about to expire. I look forward to the
21 second round of questions in a bit.

22 VICE CHAIR STAYIN: Commissioner Schmidtlein?

23 COMMISSIONER SCHMIDTLEIN: Okay, thank you very
24 much. I'd like to thank all of the witnesses for being here
25 today.

1 I guess let me start with a question, I'm not sure
2 you'll be able to answer it here, maybe you can talk about
3 it. You showed some emails during the presentation with
4 regard to I think it's ST9 is the name of the company which
5 the Respondents talk about.

6 They also talk about other major purchasers who
7 supposedly are purchasing due to non-price reasons mostly
8 quality, delivery, time.

9 Can the witnesses respond in terms of have you had
10 -- let me ask it this way.

11 Have you had other purchasers, major purchasers,
12 besides ST9 use subject imports as leverage in negotiations?

13 Have they been citing to, other purchasers been citing to
14 subject imports?

15 MR. BOYD: This is Scott Boyd from Ellwood.

16 We see price competition constantly actually from
17 our customers and buyers here in the U.S. Nearly every RFQ
18 that is given to us and to our competitors domestically is
19 for a certain number of FEBs to be purchased. Generally
20 they'll look for some number of those to be delivered in a
21 fairly short time frame, lead time, and in general the
22 domestic producers can meet the shorter deliveries. But then
23 we're often faced with a split RFQ then, a split order that
24 says we can give you a third of this order because you can
25 deliver it quickly, but if you'd like to land the entire

1 order your price needs to be reduced by 15 percent or 20
2 percent to beat the foreign competition. Because can afford
3 to wait for the delivery of those, the balance of those FEBs.

4 So it's constant that we're faced with an off-shore
5 price that's lower. Sometimes we can win at least a portion
6 of the order by a shorter lead time and a quicker factory
7 cycle, but generally we'll not land the entire order based on
8 competing prices.

9 MS. SAUNDERS: This is Kathy Saunders from Ellwood.
10 I concur with Scott. We do have instances where that
11 happens. We do typically hear from our customers that we are
12 competing against imports and they'll give us or ask us to
13 meet very, very low prices in order to maintain the business.

14 But in answer to the question, yes, we have had
15 other customers ask us to do the same.

16 COMMISSIONER SCHMIDTLEIN: Would it be possible if
17 it's done through email that you could put more of those
18 emails on the record? Part of the confidential record
19 includes responses from some major purchasers indicating that
20 there are qualities, and the reason they're buying is not
21 price. That it's quality, it's lead time, it's diversity of
22 supply. And who those are and what they're saying is
23 actually confidential. But if yo have other examples like
24 with the ST9 where you have major purchasers citing a price
25 to you as the reason that they're not interested in buying or

1 that's what they're focused on, I think that would be helpful
2 if you could put those types of things on the record.

3 MR. LEVY: Commissioner Schmidtlein, I'm Jack Levy
4 for the Petitioner. We'll endeavor to get you more paper for
5 the record. There's actually a fair amount as well in the
6 petition in connection with lost sales and the lost revenue
7 allegations. Please understand that a lot of this is in the
8 form of sort of internal call reports and correspondence with
9 the company based on contemporaneous conversations with the
10 purchasers, but we will do our best to document what was
11 happening at the time and the feedback being received. And I
12 don't know if Mark Shirley has anything, you know, he wants
13 to add in terms of price-based competition with imports.

14 COMMISSIONER SCHMIDTLEIN: Even if it's internal,
15 if it's contemporaneous, I think that's very useful.

16 MR. LEVY: So I don't know what happened to Mark.
17 Are you there, Mark?

18 (Simultaneous discussion.)

19 MR. LEVY: Sorry.

20 MR. GETLAN: This is Myles Getlan for Petitioners
21 while Mark, hopefully, gets back on. I just wanted to touch
22 on a point that Scott had touched on. You mentioned a price
23 difference of 15 to 20 percent. And Mr. Shirley, in his
24 direct testimony, cited differences where they're up higher
25 than import prices, 20, 25 percent are up.

1 Respondents, for going back to Commissioner
2 Johanson's question on the pricing data, Respondents have
3 asserted that the pricing data of the undersigned record
4 really makes no sense because of the margins of underselling
5 that you see. Actually, they make perfect sense.

6 As Mr. Levy mentioned, we provided a litany of
7 examples in the petition of customer-specific price
8 negotiations, many of which reflect that difference in
9 pricing. And you saw it actually or will you see it, I
10 think, in the confidential submission post-hearing with
11 respect to FTMI and others.

12 MR. LEVY: Commissioner Schmidtlein, if I could
13 just sort of make one more point. You alluded to quality
14 again, and I think we're going to have to give a more
15 complete rebuttal to quality allegations in the post-hearing
16 brief, given the protective order, but it is the case from
17 the preliminary phase that Respondents argued from certain
18 claims that Halliburton had made. And I can give a partial
19 response today if we can refer to Exhibit 19. And, again,
20 we'll give a more complete response post-hearing, but I think
21 that, first of all, I would say that, again, we're talking
22 off of Exhibit 19.

23 But first, I would say that we will call under
24 attention to what Halliburton is saying in its questionnaire
25 responses in the final phase because I think that's very

1 telling. But one of the arguments I think from Respondents
2 is that Ellwood's grade from Halliburton on quality is
3 somehow inferior relative to other suppliers. And what we
4 can tell you publicly is that Halliburton gives its suppliers
5 scorecards. And basically, they say -- it's called PPM. And
6 for 12-month periods, they add up the complaints.

7 The complaint could be something as simple as, you
8 know, the label is in the wrong location. But, you know,
9 they equate this with quality. And so they add up all the
10 complaints and they divide it by the sum of the goods
11 received. They multiply by a million. And so they come up
12 with a quality score. And they're giving all their suppliers
13 a scorecard for every 12-month period, and they call this the
14 PPM12.

15 And what we will show you in documentary evidence
16 in the post-hearing is that Ellwood's score, and I don't
17 think that Halliburton would dispute this, was always less
18 than 5,000 PPM. Halliburton, by its own rating, calls that
19 superior performance.

20 So it may be that Respondents are saying, you know,
21 Halliburton, you are less than 5,000 PPM, but we're even more
22 less than 5,000 PPM. It's like saying we all got an A plus
23 on the exam, but my A plus is better than you're a plus. And
24 I would respectfully submit that if Ellwood is scoring an A
25 plus by Halliburton's own scorecard, the differences between

1 suppliers can't be all that meaningful so as to set aside the
2 importance of price. Because by Halliburton's own metric,
3 there is superior performance.

4 With regard to delivery, I think what we're going
5 to be able to show you post-hearing is that on average,
6 Ellwood's deliveries to Halliburton are several days early
7 relative to what was requested. And to the extent there are
8 some lateeness, bear in mind that Halliburton is the one
9 dispatching the truck to Ellwood. They're doing the pickup,
10 so sometimes trucks are late. But, again, does this explain
11 why they switched to imports? We respectfully submit the
12 answer is no.

13 So hopefully that gives you some color as to, you
14 know, the seriousness of the arguments that Respondents are
15 advancing and they'll have to give you a more complete
16 explanation post-hearing with paper and documents.

17 COMMISSIONER SCHMIDTLEIN: Okay. And I think that
18 would be helpful just because quality does seem to be the
19 main issue in this case or the question of, you know, non-
20 price reasons. So my time has expired. Thank you.

21 VICE CHAIR STAYIN: Commissioner Karpel?

22 COMMISSIONER KARPEL: Yes. Thank you all for being
23 here. I wanted to follow-up on a few of these quality
24 questions. I know we've talked quite about it, including
25 about the issues with ST9. In addition to some of the

1 follow-up information you've already indicated you would
2 provide in response to other commissioners' requests, I
3 wonder if you could help me better understand some of the
4 quotes we see from some of the purchasers in Respondent's
5 prehearing brief.

6 For example, I'm looking at some statements from
7 ST9, which are confidential, but they seem to say exactly the
8 opposite of what you all have been saying this morning and
9 what you showed us in the documentation of exchange between
10 you and ST9 or between Ellwood and ST9.

11 So I'm just -- are we just not to believe -- is one
12 side saying something false and the other is pointing out the
13 truth of the matter or is there a way to sort of reconcile
14 what's being said? And, for example, you know, the
15 statements in excerpts from the questionnaires from other
16 major suppliers, Halliburton, among others -- so if you could
17 try to do what you can do in post-hearing to sort of help us
18 understand the different views being expressed from these
19 purchasers' quotes in this brief as compared to what you're
20 telling us today, I think that'd be very helpful. I don't --
21 I don't know if there's much more we can talk about now given
22 the confidentiality of it, but I open the floor if you have
23 comments.

24 MR. LEVY: Thank you, Commissioner Karpel. We will
25 provide a complete rebuttal, obviously, in our post-hearing

1 because much of it is proprietary. But with regard to ST9, I
2 think you've got it right. There's a fundamental disconnect
3 between the account you're getting from Ellwood and the
4 account that we're hearing from Respondents. And I would
5 just kind of call you back to Exhibit 13 because I think this
6 is an important question for their witness, if there were
7 these severe quality concerns -- remember ST9, it's a brand
8 new company. They come out of nowhere in 2018 with their own
9 proprietary design for a fluid end module, FEBs are a
10 component in the fluid end module.

11 So it's very important for them to establish
12 themselves as a credible supplier of a quality module in the
13 field. They claimed that they had these serious unresolved
14 quality problems. But we've heard from Guy Brada that that's
15 just not true; that separate and apart from that, if they
16 were serious and unresolved issues, why are they, before and
17 after that period of time, saying to Ellwood, we will happily
18 give you 100 percent of our North American business. Here's
19 the price point from Lucchini Mame, beat this price; you've
20 got 100 percent of our business.

21 How do you reconcile that kind of a communication
22 with a serious unresolved quality concern? And so I think
23 it's an important question for them this afternoon.

24 COMMISSIONER KARPEL: And then just another follow-
25 up. Mr. Shirley, you indicated that you had never been

1 decertified during the POI. Have you ever failed to qualify
2 with a new supplier?

3 MR. LEVY: I'm sorry, who's that question for?

4 COMMISSIONER KARPEL: I believe it was Mr. Shirley.
5 (Crosstalk)

6 MR. SHIRLEY: This is Mark Shirley. Can you hear
7 me? I had to rejoin by phone.

8 COMMISSIONER KARPEL: Yes, I can hear you.

9 MR. SHIRLEY: Okay. So if I turn the clock back to
10 the 2014 time frame when Finkl was moving its plant from the
11 north side of Chicago to the south side of Chicago, we indeed
12 had been considered an unreliable supplier to a couple of
13 customers. And were decertified at that time. That was
14 right around the time I joined the company. Since that time,
15 we've changed out the management team. We've upgraded our
16 facilities. We've debugged all of the plant operations and
17 we've invested quite a bit into improving our production
18 capabilities for fluid ends and have made efforts on a
19 regular basis to try to recertify with a couple of these
20 customers.

21 And they're really not giving us any window to
22 entertain us. They're not interested in talking to us
23 because they have supply from low priced imports, even though
24 today, Finkl is a very successful supplier with virtually all
25 other customers in the market.

1 COMMISSIONER KARPEL: Okay.

2 MR. SHIRLEY: With a demonstrated rate of success
3 with product and with (crosstalk).

4 COMMISSIONER KARPEL: Okay. So with these
5 purchasers who don't want to give you a chance, it's not that
6 you're submitting your information and trying to get
7 qualified, it's just that they're not even opening the door?

8 MR. SHIRLEY: That's exactly right.

9 COMMISSIONER KARPEL: Okay.

10 MR. SHIRLEY: They're not even opening the door to
11 a meeting.

12 COMMISSIONER KARPEL: Okay. And Mr. Brada, I had
13 the same question for you, you answered that you had never
14 been decertified, but has there ever been a situation where
15 during the period of investigation, Ellwood has tried to get
16 certified with the purchaser and failed?

17 MR. BRADA: We have not. Actually, the
18 circumstance is that they want to get us certified so that
19 they can justify sending us the request for quotation, so we
20 go through the certification process and become certified and
21 then are unable to compete on price.

22 COMMISSIONER KARPEL: Okay. So I have also some
23 follow-up questions on an exchange you had, I believe, with
24 Commissioner Johanson about the pricing data. And Mr. Levy,
25 I believe you said something to the effect that the pricing

1 coverage was -- I don't remember the exact word -- fantastic
2 for subject imports, given the variety of models there at of
3 FEBs and not lower than to be expected for domestic
4 producers, given the variety of models there are.

5 But I wonder if you have an idea of why we do see
6 such a difference in coverage between the domestic prices
7 reported and the subject imports?

8 MR. LEVY: So what we tried to do was to identify
9 pricing products that in the first instance were
10 representative, so you get apples-to-apples price
11 comparisons, and focused on where the volume was on the
12 subject import side. In many instances, you are going to get
13 less domestic volume precisely because the subject imports
14 had displaced US producers because they are so aggressive in
15 that area.

16 So, it's not so unusual to have some of this
17 mismatch where you have a larger volume of low price subject
18 imports and a smaller volume of displaced domestic producer
19 volumes. Our priority was maximum coverage of subject
20 imports. Again, I think the coverage of domestic producers
21 is actually quite robust given the number of differentiated
22 products in this industry and when you look at cases like
23 TRBs and mechanical tubing, the Commission has been
24 comfortable with much less coverage.

25 We had proposed one pricing product, which had it

1 been chosen, the coverage would've been that much greater, I
2 mean significantly greater, but instead, the Commission chose
3 to accept two out of the three proposed by Respondents. And
4 one of those two provided essentially negligible coverage of
5 domestic producers. I would argue that it was proposed by
6 the Respondent precisely so that they could make this
7 disingenuous argument that there's somehow a lack of
8 competition between imports and domestic production.

9 It's a game that Respondents play. They pick
10 pricing products where there's little or no domestic
11 productions during a period and then they say, ah-ha,
12 attenuated competition. And it's just -- it's too cute by
13 them.

14 COMMISSIONER KARPEL: Okay. So I also want to ask
15 about your price depression argument. So I think it's Table
16 5 -- no, Table 7 of the prehearing brief, it looks like. You
17 take the high and low points -- the highest and lowest prices
18 recorded in Table 515 of the staff report. And then you
19 compare those and note -- ah, yes, here it is. Table V --
20 no, Table 7. And you come up with some percentages of, I
21 guess, the price -- you call it the percent change. But I
22 wonder if you could talk about -- I know the numbers here are
23 confidential, but I wonder if you could talk about your
24 methodology here. You know, I guess when I typically look at
25 whether there's price depression going on, I'm looking for a

1 trend over the POI. So looking to see okay, what were prices
2 at the beginning of the POI and what are prices at the end of
3 the POI and how much did they change? Did they go up or did
4 they go down?

5 But this sort of technique of taking the highest
6 price any time in the POI and taking the lowest price any
7 time in the POI and comparing that, I'm not sure I've really
8 thought of doing that before. Can you explain your thoughts
9 on that? Why you did this approach and we should take it on
10 board?

11 MR. LEVY: So we can certainly show you different
12 representations of the data in response to your concern in
13 the post-hearing. It's generally my understanding that the
14 high prices are at the beginning of the POI; the low prices
15 are at or near the end. I think what we can do is that for
16 each of the pricing products, we can map what's happening to
17 US producer prices over the POI. We can show you the start
18 and the ending points.

19 We could also show you a regression line to show
20 you what the average change is over the period. And so I
21 think there are different ways of looking at the same thing.

22 And I think what you find invariably is that there is a
23 significant depression in US producer prices. So I
24 understand, Commissioner, there are other metrics that you
25 might find more probative, and we'd be happy to accommodate

1 you and show you other metrics, but I think the conclusion is
2 right, and I think one of the points that we've always wanted
3 to make is that, you know, what do you do with AUVs, right?

4 This is an industry with a lot of product mix, and
5 if product mix were constant, then AUVs would be probative
6 for understanding what's happening in terms of relative
7 change in price. But product mix is not constant in this
8 industry over the POI, including the fact that there's more
9 migration to higher priced stainless and there's changes and
10 differences of machining over time.

11 So it's really important to look at the pricing
12 products to understand what's happening to prices over time,
13 and we'll endeavor to give you more points of reference so
14 that you can do that analysis.

15 MR. GETLAN: Commissioner Karpel --

16 COMMISSIONER KARPEL: Yes.

17 MR. GETLAN: This is Myles Getlan for Petitioner.
18 Just one other point, that Table 7 in our prehearing brief,
19 as you mentioned, is based, in part, on Table 515 in the
20 prehearing report. And the prehearing report itself
21 characterizes this data as presenting price trends during the
22 POI, and it observes that prices were generally constant
23 earlier in the period and then dropped off late in the
24 period, but overall showing that decline. So we'll speak
25 more to that in post-hearing as well.

1 COMMISSIONER KARPEL: Okay. Yeah. And the more I
2 looked at Table 515, the more I was a little confused by what
3 I was looking at, but we have a different column of quarterly
4 change in prices, which isn't based on comparing that low and
5 high price. So when you look back at this for post-hearing,
6 I would like your sort of reflections on whether our analysis
7 here in the quarterly price changes would show -- I think
8 tell a different story than you were trying to tell, whether
9 you think those are valid ways of looking at this data or not
10 and why yours might be different or better. I'm way over my
11 time, so I'll stop there. Thank you.

12 VICE CHAIR STAYIN: Thank you. Do the domestic
13 firms have the capability of producing their own steel blades
14 to meet demand? Rather than purchasing certain steel ingots
15 from ingot suppliers, at any point during the period for
16 which we collected data, were domestic producers unable to
17 produce their own steel ingots of certain steel grades and
18 had to rely on domestic or foreign ingot suppliers?

19 MR. LEVY: So, Vice Chair Stayin, I'm going to turn
20 it over first to Ellwood and then to Finkl.

21 MR. BOYD: Vice Chair, this is Scott Boyd from
22 Ellwood. The answer to that is we produced all of our own
23 ingots throughout the POI, supplied our own cord shops
24 (phonetic) and finished all of the forgings within our
25 facilities throughout the POI.

1 VICE CHAIR STAYIN: All right. Thank you. Go
2 ahead.

3 MR. SHIRLEY: And then this is Mark Shirley
4 speaking for Finkl. As the conversion of the industry went
5 from alloy to stainless, Finkl initially was purchasing
6 ingots from local sources, which would include Electralloy in
7 Pennsylvania, ASW in Canada and Ellwood in Pennsylvania. We
8 have been producing stainless fluid ends from ingots all the
9 way back to 2014, so prior to the period. And then we
10 invested in our own melt shop beginning in 2018, and we now
11 produce beginning here in 2020, our own stainless ingots.

12 MR. LEVY: So, Vice Chair Stayin, just to give a
13 more complete answer for the domestic industry as a whole, so
14 what you basically have with Ellwood is the ability to
15 produce any grade of ingot in-house and then to forge it.
16 Similarly, what you had during the POI with Union Electric
17 Steel, which was a producer, was that their sister company
18 supplied them with stainless ingots out of Canada and ASW is
19 the name.

20 And then for Finkl, throughout the POI, they were
21 self-producing alloy and they were self-producing their own
22 patented stainless grade that. But for other commodity
23 grades of stainless, they were buying ingots from the likes
24 of Ellwood or the likes of ASW in Canada. Importantly,
25 whether you self-produce your ingot or buy it from somewhere

1 else, there's no resulting difference in the quality of the
2 FEB. It's simply a question of vertical integration and how
3 you structure the supply chain. The chemistry of a Finkl
4 stainless FEB is exactly the same, regardless of whether, you
5 know, it is self-producing, as it can do today, based on its
6 investments, or whether it's buying that ingot from say
7 Ellwood or ASW.

8 VICE CHAIR STAYIN: All right. Thank you. The
9 Baker Hughes Rotary Rig Count for November 2020 showed a U.S.
10 total for 310 rigs, down 493 rigs from one year ago. How
11 have the most recent oil and gas industry trends affected the
12 market for FEBs?

13 MS. SAUNDERS: This is Kathy Saunders at Ellwood.
14 We do look at Baker Hughes Rig Count, but there isn't a
15 direct correlation really between return and the use -- the
16 consumption of fluid end blocks. There are some other demand
17 drivers we look at that come from stairs (phonetic) that look
18 at backing horsepower, for instance, and fluid spreads. And
19 we do monitor those. And right now, they are actually
20 trending up, so it's encouraging.

21 MR. LEVY: Commissioner Stayin, can I stay on this
22 topic for a moment, please?

23 VICE CHAIR STAYIN: Yes, yes.

24 MR. LEVY: So we hear from Respondents a lot about
25 demand, and I don't think there's any argument that demand is

1 down precipitously since the 2017, 2018 period. There are
2 different points of reference, but everyone understands that
3 the demand drivers are those in the oil and gas industry.
4 Our point has been simply this, that whatever demand is for
5 FEBs, if demand is down, U.S. producers need to make every
6 incremental sale that much more.

7 And what's happened in 2019 and in interim 2020 is
8 a sharp increase in market share for subject imports at the
9 expense of the U.S. producer. So the share gain has been
10 particularly pernicious precisely because demand is down.
11 The other point I would make, and maybe I could refer to
12 Exhibit 16 to make this point, I think we heard from Ms. Yang
13 this morning that the decline in demand was, in her words,
14 unprecedented. But I will say this, if you look at the
15 proprietary data, what you find is that aggregate demand for
16 FEBs in 2019 is actually a lot like aggregate demand in 2016.

17 And you don't have data from the preliminary phase on 2016's
18 financial performance from U.S. producers, and I'm not asking
19 you to expand the POI or anything like it, but simply to look
20 at it is a condition of competition and simply to make the
21 point that the U.S. industry, in a demand environment that
22 was similar to 2019, 2016, they knew how to make money
23 despite the cyclical downturn.

24 So the difference in 2019 is not the demand piece,
25 although that was relevant, it was the import element. And

1 the low price imports explained why the domestic industry is
2 injured in this most recent period of 2019 and interim 2020.

3 So I just wanted to give a more expanded answer as to the
4 relative importance of demand in explaining the condition of
5 the domestic industry. Thank you.

6 VICE CHAIR STAYIN: All right. Thank you.

7 MS. SAUNDERS: I'm --

8 VICE CHAIR STAYIN: Go ahead.

9 MS. SAUNDERS: Sorry, I wanted to say something
10 else. We also know that oil and gas is very cyclical and we
11 are starting to see a trend up. Unless we do have some kind
12 of remedy put in place where we can compete fairly when
13 volumes increase, we are just going to continue to suffer
14 injuries.

15 VICE CHAIR STAYIN: All right. Thank you. Anybody
16 else want to comment on that one?

17 (No response.)

18 VICE CHAIR STAYIN: Okay. Does the level of demand
19 have a potential impact on product mix? Does weaker demand
20 change the attractiveness of a higher-priced stainless steel
21 fluid end block compared to a non-stainless alloy steel fluid
22 end block?

23 MR. LEVY: Commissioner Stayin, I think the way we
24 would answer it is that to the extent there's been a
25 migration from alloy to stainless blocks and stainless blocks

1 have a longer life, that has the tendency to reduce demand
2 for FEBs. But for whatever the particular purchaser
3 specification is, the amount that they're demanding is the
4 amount that they're demanding. I don't know if Ms. Saunders
5 can add any more color there.

6 MS. SAUNDERS: I mean we produce both and happy to
7 produce alloy or stainless blocks. The process is primarily
8 the same. There's a few processing changes, differences, but
9 for the most part, it's the same to go from an ingot to a
10 fluid end block.

11 VICE CHAIR STAYIN: Okay. Thank you. Anybody
12 else?

13 MR. SHIRLEY: Yeah, this is Mark.

14 VICE CHAIR STAYIN: Okay. Go ahead, Mark.

15 MR. SHIRLEY: This is Mark Shirley from Finkl.
16 Since demand has been falling over the last 18 months, we
17 have not seen any change in mix. We have just seen a lower
18 demand due to, you know, lower overall aggregate demands and
19 because of the lost share, no change in mix.

20 VICE CHAIR STAYIN: How has COVID-19 impacted
21 production and consumption of fluid end block to date, and
22 what are the expected impacts of COVID-19 on production and
23 consumption of fluid end blocks over the course of 2021?

24 MS. SAUNDERS: This is Kathy from Ellwood. Oh, go
25 ahead, Scott.

1 MR. BOYD: No, that's okay. So very briefly, as
2 far as production, COVID's impact on production of FEBs at
3 Ellwood, it has had no impact whatsoever. We've operated
4 every day throughout 2020 and continue to do so today.

5 As far as demand, demand did drop off significantly
6 in the early days of the COVID pandemic due to the halt of
7 most transportation by road and plane. But that is
8 recovering and we're starting to see more of an upward trend
9 now, and we're hopeful for some relief from the surging
10 imports to be able to participate in that recovered demand.

11 MS. SAUNDERS: This is Kathy from Ellwood. The
12 COVID affected the macro economy to a great degree and the
13 oil and gas industry is an important industry. So it's
14 national, it has affected the oil and gas industry as well.

15 MR. SHIRLEY: So this is Mark Shirley. Similarly,
16 we've seen a further drop in demand as a result of the COVID.

17 And we also see a little bit of positive momentum in recent
18 weeks. From a production standpoint, we have not been
19 impacted. We are considered an essential business and we
20 have implemented very robust measures to keep our employees
21 safe. And we have, you know, a base of employees that have
22 been laid off that we would like to recall if we could get
23 some trade remedy action here and get ourselves on a level
24 playing field.

25 VICE CHAIR STAYIN: All right. Thank you. My time

1 has run out.

2 Commissioner Johanson?

3 COMMISSIONER JOHANSON: Yes. I'd like to get just
4 back briefly to the quality issue. As was discussed this
5 morning, Respondents have argued that quality issues
6 associated with domestic producers forced OEMs and pump
7 manufacturers to source from imports. See, for example,
8 Respondent's prehearing brief at Page 4. Some of these
9 allegations involve business proprietary information. Could
10 you please respond to these allegations involving BPI in your
11 post-hearing brief. This would be helpful if you would do
12 so.

13 MR. LEVY: Yes, Commissioner Johanson. We're more
14 than happy to do so. But if I could just again refer back to
15 a public exhibit, Exhibit 18, and let us remember what the
16 overwhelming number of purchasers have reported to you in
17 their questionnaire response. With regard to quality meets
18 industry standards, overwhelmingly saying comparable, exceeds
19 industry standards, comparable; reliability of supply,
20 comparable; steel plat, comparable; technical support,
21 comparable. Essentially, what the record bears out is that
22 everyone's comparable.

23 And if the Respondents are now telling you that
24 they have won share from the domestics not because of price
25 but because of these non-price factors, if their stuff is so

1 much better, please ask them if the afternoon, if your stuff
2 is so much better, why are your prices lower? So thank you.

3 COMMISSIONER JOHANSON: Okay, certainly. Thanks,
4 Mr. Levy. I look forward to seeing that in the post-hearing
5 brief.

6 This is a complicated investigation, in part due to
7 the crash of the oil and gas industry. How can we be certain
8 that we are not attributing to subject imports into the
9 domestic industry which was caused by increasing demand?

10 MR. LEVY: So Commissioner Johanson, if I could,
11 let me refer you to Exhibit 15. And this admittedly is
12 pieced together from both public information and client data,
13 so it's not identical to what you have in the confidential
14 version of the prehearing report, but directionally, I think
15 it tells a fair story.

16 And what you see here in terms of demand in the
17 blue bars, the demand goes down pretty sharply in 2019 and
18 even further in 2020. And there's no question that demand is
19 a factor and that you are charged with ensuring that you're
20 not ascribing to subject imports, you know, other causes of
21 material injury. But for whatever demand is, what you see
22 during this period is that subject imports gained share at
23 the expense of the domestic industry.

24 So for whatever is going on in terms of volume,
25 there is an adverse effect here by reason of subject imports,

1 an adverse effect on the volume side and most certainly on
2 the price side. And that translates into a deteriorating
3 financial performance. And if you go ahead to the next
4 slide, which is Exhibit 16, again, just to remind you, 2019
5 demand looked a lot like 2016 demand. The domestic industry
6 knew how to make money in 2016 but lost money in 2019. Why?

7 Because of the share growth and low prices of subject
8 imports.

9 So we'll address this more fully post-hearing, but
10 we think that you certainly have the ability to isolate the
11 point that there is an indication that subject imports were a
12 cause of material injury, separate and apart from other
13 causes during the period of investigation.

14 MR. SHIRLEY: Jack, this is Mark Shirley --

15 MR. LEVY: Yes, Mr. Shirley.

16 MR. SHIRLEY: Yes, I'd just like to make one
17 comment that's related here, and that is I can give you a
18 very specific example of price competition along with in the
19 beginning of 2019, we were quoting with a customer on a very
20 specific number of fluid ends, 800 fluid ends, which was a
21 very large number at the time. And we were quoting the spec
22 that was a very specific spec, so it was a very apples to
23 apples comparison for 174 material in an undrilled block
24 condition. And we had been a supplier to this customer for a
25 number of years. They preferred to buy from us because our

1 lead times were shorter, especially versus the foreign
2 competition.

3 So they were giving us price feedback because they
4 preferred to buy from us, but they wanted to -- they wanted
5 to buy at the lowest price first. And in the end, we had
6 offered a price that was 37.4 percent higher than what the
7 Italians were offering. And so we have an Italian price of
8 \$1.87 a pound; a German price of \$1.97 a pound and the Finkl
9 price was \$2.57 a pound, which was typical of our pricing in
10 the industry for that kind of block.

11 In the discussion with the feedback, our customer
12 had told us if you can match these prices, we will give you
13 this business. And similar to, you know, what Ellwood
14 testified to earlier with ST9, this customer considered us
15 all equal from a quality standpoint. They actually preferred
16 to buy from us because of the advantage in lead time, but
17 they would not do it given that the prices from the Italians
18 are so low. The Italians got the entire order.

19 COMMISSIONER JOHANSON: Okay. Mr. Shirley, thanks
20 for your comments. I appreciate it. Moving on to another
21 issue, Respondent takes the position that the paucity of
22 confirmed lost sales on this record confirms that non-price
23 reasons drive subject import purchases. This can be seen at
24 Page 22 of their prehearing brief. How do you all respond?
25 Why don't we see more confirmed lost sales?

1 MR. LEVY: Sorry. Jack Levy for Petitioners. We
2 can give a more complete response post-hearing, but I think
3 that suffice it to say that there's a significant number of
4 instances where purchasers have confirmed that import prices
5 that they switched from domestic to imports, that import
6 prices were lower. And how often do they then go to the next
7 step and say that it was because of price? Even still, you
8 see a significant number of instances where that happens. As
9 I understand it, the statute doesn't require you to do an
10 analysis of lost sales and lost revenue, but it's an
11 important thing to look at to corroborate what you're
12 otherwise seeing in the record. And we think that we've seen
13 you go affirmative with far, far less.

14 And we think that actually, what you see here
15 suffices to provide corroboration of what otherwise are
16 adverse price effects on the record of this case. So we'll
17 give a more complete answer post-hearing, but the idea that
18 it's a paucity is, I think, belied by the record and your
19 findings in other cases where you've gone affirmative on far
20 less.

21 MR. GETLAN: This is Myles Getlan for Petitioners.
22 I would just add in addition to being able to derive lost
23 sales information from the prehearing report, the record
24 needs to be considered as a whole, and that includes the
25 witness testimony at this hearing and you've heard in our

1 affirmative panel when Ms. Saunders was addressing the ST9
2 issue, you saw the correspondence. We'll obviously provide
3 all of that in our post-hearing brief. But that is
4 significant evidence of very substantial lost sales on the
5 basis of price to subject imports.

6 Mr. Shirley just described in great detail one
7 example in early 2019 of a huge lost sale of 800 blocks he
8 mentioned. So I hope and I expect the Commission will
9 consider the record as a whole, including what you receive in
10 the post-hearing brief and the hearing testimony, in addition
11 to what's in the prehearing report as you consider this
12 issue.

13 COMMISSIONER JOHANSON: Thanks, Mr. Getlan. I
14 appreciate it. Yes, go ahead, Mr. Brada.

15 MR. BOYD: So this is Scott Boyd again sitting in
16 at Guy Brada's work station.

17 COMMISSIONER JOHANSON: Oh, okay.

18 MR. BOYD: But I'll corroborate what Mark Shirley
19 kind of commented. A lot of the negotiation for the next set
20 of purchases, the RFQs for the fluid end blocks, happens
21 verbally, and a lot of that can be over phone calls or in
22 person with a sales representative sitting in in the
23 customer's office. So there's not always a trail, a paper
24 trail or an electronic trail to corroborate lost sales, but
25 it happens, it happens quickly, it happens verbally, and

1 sometimes even in person across a desk.

2 COMMISSIONER JOHANSON: Okay. Thank you for your
3 comments. My time is about to expire.

4 VICE CHAIR STAYIN: Thank you. Commissioner
5 Schmidtlein.

6 COMMISSIONER SCHMIDTLEIN: Okay. Thank you.

7 I wanted to go back to a question about price
8 depression and price suppression, so this is probably for Mr.
9 Levy or Mr. Getlan.

10 I'm looking at your brief in Table 7. I know you
11 were just talking about this, I think, maybe with
12 Commissioner Karpel. But can you look through -- I guess I'm
13 looking at -- you cite to the prehearing report, but I guess
14 I'm not quite clear on where you're getting some of these
15 price percent changes.

16 MR. LEVY: So, Commissioner Schmidtlein, I confess,
17 I don't have the proprietary version of our brief up in front
18 of me here. It's a public hearing, but what I recall that we
19 put in that table was entirely based on what's in the
20 prehearing report. Essentially, we were comparing the high
21 and low points during the period. So we can unpack that for
22 you post-hearing so that maybe we can show you metrics that
23 you're more familiar with.

24 Again, the conclusion, we think, is the right
25 conclusion, which is that no matter how you slice the data,

1 domestic producer prices are down during the latter part of
2 the Period of Investigation, and that corresponds with the
3 period where there's, you know, declining financial
4 performance, significant share loss, et cetera.

5 COMMISSIONER SCHMIDTLEIN: Okay. Maybe you can
6 address that since you don't have the confidential version.
7 I'm looking at it. Just the numbers are much different in
8 the confidential version than what you all have included in
9 Table 7.

10 MR. GETLAN: This is Myles Getlan, Commissioners.
11 So the prices themselves, the highs and the lows, as Mr. Levy
12 mentioned, comes directly from Table 515. They are the U.S.
13 producer prices in those columns.

14 The percentages were not calculated on the
15 quarterly basis. That's what's different. You see that in
16 the far right column of Table 515 of the prehearing report.
17 Our table just takes the overall POI difference between
18 those. So that's why you see different figures in terms of
19 the percent change, but, again, as Mr. Levy mentioned, we're
20 happy to provide, you know, further sort of explanation and
21 articulate that further in our post-hearing.

22 COMMISSIONER SCHMIDTLEIN: And so, in your Table 7
23 then, are you saying that the high prices the beginning of
24 the first quarter of 2017, 2018 -- 2017, I guess, and the low
25 price is the second quarter of 2020, or this is just the

1 period at some point during the POI there was a high price
2 and this was the lowest price?

3 MR. GETLAN: Yeah, I don't want to attribute to a
4 particular quarter in referring to each of these products,
5 especially in the year end, but we'll certainly address that.
6 We understand where you're coming from, and we'll address it
7 in a post-hearing.

8 COMMISSIONER SCHMIDTLEIN: Okay.

9 MR. LEVY: Commissioner Schmidtlein, I just do want
10 to make clear, I don't think that that presentation is
11 fundamentally misleading because the high prices are bunched
12 up at the beginning of the POI and the low prices are bunched
13 up toward the end. But, to answer it with specificity, we'll
14 do that post-hearing.

15 COMMISSIONER SCHMIDTLEIN: Okay. Because, as well,
16 you know, and maybe this is -- you were discussing this with
17 another Commissioner, but what I'm looking at, at least for
18 the pricing products, I haven't gone through and looked at
19 the purchase cost data in the last few minutes as closely,
20 but when you look at the pricing products, you know, there
21 doesn't seem to be much movement in the U.S. price for each
22 of these pricing products, right, from the beginning, from
23 2017 through the end of the POI for where we have instances,
24 some of the pricing products we don't have U.S. sales in the
25 second quarter or into the interim period.

1 I mean, I see, you know, product two, U.S. prices
2 drop down, there's not too many instances, but for several
3 others, you know, there doesn't look to be as much of a
4 decline as what you all are suggesting. So maybe you could
5 look at that as well in the post-hearing.

6 MR. LEVY: We're happy to do so, and I'm sorry I'm
7 sort of at a loss because, you know, I don't have the APO
8 data up, but the other point, of course, in our prehearing
9 brief is one of price suppression, and I think what's
10 happening in terms of the COGS to sales ratio in particular
11 is, I think, quite telling during this period.

12 COMMISSIONER SCHMIDTLEIN: So that's my next
13 question, is, you know, how would we find given the huge
14 decreases in demand both in 2019 and then, of course, into
15 2020, that, one, those were causing prices to go -- subject
16 imports were causing prices to go down and not the collapse
17 in demand. And the same question for price suppression. Is
18 it really realistic that U.S. producers could be expected to
19 raise prices when demand collapsed as much as it did?

20 MR. LEVY: So let's say you're used to getting an
21 RFQ for 500 blocks, and then demand is down, and lo and
22 behold, you're getting an RFQ for 200 blocks. What you do in
23 that case is what you do -- what you did before, you look at
24 your cost structure at that moment in time, you know, what
25 are you paying for your raw materials, what is your -- you

1 know, what are your other costs of goods sold or costs of
2 manufacture, and you work-up a price that makes sense so that
3 you can obviously make a direct contribution to margin, and
4 obviously to the extent possible, have operating profit.

5 So, against that backdrop, you make a quote, and
6 what you're trying to do again is to ensure, among other
7 things, positive gross margin, and you're inability to do so
8 during this period, which is, in particular, 2019, and early
9 in 2020, is undercut not by the fact that it's an RFQ for 200
10 blocks instead of 500 blocks, it's undercut by the fact that
11 there are lower priced imports, and you're being told that
12 you're not going to get that volume unless you meet those
13 lower import prices.

14 So, you know, I think that when you look at it from
15 the perspective of the forgers who are producing, and
16 offering for sale FEB's, they understand on an account by
17 account basis that the reason that their prices cannot get
18 higher is a function of the lower imports that they have to
19 compete against.

20 I don't know, Cathy, if you can add any more color.

21 MS. SAUNDERS: No, I agree one hundred percent with
22 what you said, with what you said. It's -- yes, the volume
23 is down, but the competition that we're seeing offshore is --
24 it's significantly lower prices than we could offer.

25 MR. GETLAN: And this is Myles Getlan for

1 petitioners. Again, this is an industry that is used to
2 dealing with the ups and downs, the cyclical nature of the
3 oil and gas industry.

4 We have experience in downturns in demand,
5 significant downturns in demand as recently as 2016. Mr.
6 Boyd spoke about this in his testimony, comparing the
7 experience then and now with the biggest difference the
8 presence in growing share of subject imports.

9 And so -- and Mr. Levy was referring to Exhibit 16,
10 where that shows operating income, but, you know, the same
11 could be said in terms of the, you know, gross margins, and
12 that squeeze is particularly apparent in 2019 and into 2020,
13 whereas, in 2016, the last major downturn, U.S. forgers had a
14 decline in that low demand environment.

15 MR. SHIRLEY: This is Mark Shirley from Finkl. I'd
16 like to add that during that period, when the 232 tariffs
17 were put in place, it did not protect our products, but it
18 caused Big Steel to ramp up, and they were buying up all the
19 raw materials, the scrap, and the alloys, that we use in
20 order to produce ingot for our own sales.

21 So in 2018, and in 2019, raw material prices were
22 escalating significantly, and we were trying to pass through
23 price increases because our raw materials were up 20 percent,
24 and we were unable to do that, especially in the fluid end
25 cycle because of the low price imports.

1 COMMISSIONER SCHMIDTLEIN: So does -- you know, you
2 said you're used to the cyclical nature of oil and gas. Does
3 the demand side have an impact on your price negotiations, so
4 when demand is high because oil and gas is in a boom cycle,
5 does that enable you to raise prices?

6 MR. SHIRLEY: It's typically when -- this is Mark
7 Shirley again. Typically when demand is going up, yes, we're
8 able to raise prices. We had such strange environments,
9 market environments, you know, the last several years because
10 raw material changes were so significant as a result of the
11 232, that we found ourselves in a down market trying to raise
12 price, and we were successful in some of our product lines
13 but not in fluids.

14 MS. ALVES: Commissioner?

15 COMMISSIONER SCHMIDTLEIN: Well, so is there --
16 yes, go ahead.

17 MS. ALVES: Commissioner Schmidtlein, Mary Jane
18 Alves for Petitioners. I would also add that during a period
19 of lower demand where you're competing with large volume
20 scale volumes of subject imports, you're also less able to
21 pass along your cost. You need to be able to run your
22 facilities at greater capacity utilization, and you're not
23 being able to do that because you have to spread those same
24 fixed costs across a much smaller volume of products, and, so
25 that's often tacked onto your cost to produce as well.

1 COMMISSIONER SCHMIDTLEIN: Okay. So I know I kind
2 of just -- let me just finish this thought. I mean, in terms
3 of the pricing depression argument, I mean, if you are -- if
4 demand does impact you price negotiation so that you are able
5 to raise prices when demand is going up, how are we to
6 untangle here where we have such a big decrease in demand,
7 and what that impact is on the movement in prices?

8 So put aside the cost price squeeze, and this
9 question about whether they ought to be able to break even,
10 or, you know, at least cover the cost, just with regard to
11 the price depression argument, how do we -- how do we
12 untangle the impact of demand on prices versus what's going
13 on with subject imports?

14 MR. LEVY: So, Commissioner Schmidtlein, I
15 understand the question, and it's an important question. I
16 will recall the Commission struggled with these issues a lot
17 around the time of the great recession where you had a lot of
18 situations where you had a downturn in demand, and the
19 Commission needed to ensure that they weren't erroneously
20 ascribing to subject imports, a demand-based cause of injury.

21 I think that the simple answer to your question in
22 this case is underselling. You know, if we were in a world
23 where import prices, and U.S. producer prices were on par,
24 and there was a significant downturn in demand, it might be,
25 quote/unquote, normal to see that there could be a lower

1 price, a lower equilibrium price in the market maybe.

2 But in an environment where the U.S. producers are
3 experiencing rise in costs, they want to do the best that
4 they can to recoup those rising costs for whatever demand is,
5 When they're getting an RFQ for the 200 blocks instead of the
6 500 blocks, what's preventing them from maximizing their
7 return is the fact that they're being undercut by lower
8 import prices.

9 So in an environment where you have, particularly
10 in 2019, and interim 2020, for basic import underselling, I
11 think it's pretty clear that you can see a cause and effect
12 relationship between a significant volume of low priced
13 imports on the one hand, and the declining condition of the
14 U.S. industry, including a cost price squeeze.

15 COMMISSIONER SCHMIDTLEIN: Okay. All right. Thank
16 you, and I apologize for exceeding my time.

17 VICE CHAIR STAYIN: Commissioner Karpel?

18 COMMISSIONER KARPEL: Thank you. I think I want to
19 pick up where Commissioner Schmidtlein left off. I have the
20 same question, but I would like to know from you -- so I'm
21 trying to look at this from another angle, and maybe I should
22 start with the elasticity question.

23 I mean, is there something we should mean about the
24 ability of producers in this industry to pass on rising costs
25 but for competition from subject imports from the elasticity

1 estimates, which, you know, the staff report puts at very
2 low, which sort of says to me that purchasers are that
3 sensitive to price based -- well, to demand.

4 I don't know, do you have any thoughts on that? I
5 normally don't look at the elasticity when I'm coming to a
6 conclusion in an investigation, but it struck me here for --
7 and I thought I'd ask you about it.

8 MR. LEVY: Yeah, I think we'd like to give that a
9 little more thought, and respond post-hearing, but if you
10 sort of take a step back, the oil and gas industry is a big
11 business, and when there is a compelling demand for oil and
12 gas production, the demand for fluid end modules is real, and
13 they burn through these things constantly throughout the
14 year. And, so against that backdrop, there's sort of this
15 never-ending drum beat for FEBs as a component in the
16 production of those fluid end modules.

17 This is not an industry where the producers of
18 fluid end modules say, you know what, FEB's are a little
19 pricy; I think on further consideration, I just won't buy
20 one. No, they would look to pass it through, and then
21 perform a higher cost of a fluid end module, which, in turn,
22 would probably be absorbed by people who are doing oil and
23 gas production.

24 So, I think, the analysis, the demand for FEBs is
25 relatively inelastic is a fair statement, but what is real is

1 that for whatever the demand is, there is a tremendous amount
2 of pressure for the fluid end module makers to get the lowest
3 price because the less they pay for FEBs, the lower their
4 cost structure for their modules and the more competitive
5 they are, right? So ST9 is competing against Gardner Denver,
6 is competing against leaders then.

7 COMMISSIONER KARPEL: Right. But let me direct you
8 to -- so is the purchaser's desire to get the best price they
9 can with the FEB, does that desire become more heightened in
10 times of falling demand, or does it not really matter?
11 Whether it's high demand, or low demand, they want the best
12 price, and they deal with some pressure to get the best price
13 for that FEB.

14 MR. LEVY: That's an interesting point, right, that
15 in a low demand environment, maybe there's the ability of
16 fluid end module buyers to shop around, and maybe there's
17 more pricing pressure that the fluid end module for the
18 purchasers of FEB's are being motivated to use imports as
19 leverage even more so in a low demand environment.

20 I think it's an interesting thesis, and, again,
21 something we can comment on further in post-hearing.

22 COMMISSIONER KARPEL: Yes, so give that some more
23 thought. I'm curious what you have to say on this situation
24 because we will have to address this issue of, you know -- I
25 think you've read enough from the Commission.

1 It's not that we often cite, you know, falling
2 demand is a counterpoint to a price suppression argument that
3 a petitioner is making, so we'll figure out what we think of
4 that, and be able to address that.

5 MR. LEVY: Sure. I mean, the way I think of demand
6 is, you know, we have cases all the time where there are non-
7 subject imports, and you've got to make sure that you're not
8 ascribing to subject imports by non-subjects. That doesn't
9 stop you from issuing an affirmative.

10 I mean, demand is kind of like that. It's another
11 factor in the marketplace that could be a contributing cause
12 of declining performance of the domestic industry.

13 The question -- well, what about subject imports?
14 If they are price leaders, if they are taking share, if they
15 are also a cause of material injury, you know, that is enough
16 under the statute.

17 And, so, I fear that we're going to have this fact
18 pattern more as we look at economic headwinds in the macro
19 economy, but only time will tell, and I really do appreciate
20 the thoughtful questions.

21 COMMISSIONER KARPEL: Thank you. And then my next
22 question is about Table 5, and I'm sorry to ask you if you
23 don't have the proprietary version in front of you, but maybe
24 you recall the methodology there. That's what I'm most
25 interested in, sort of walking me through your methodology

1 there, and then sort of probing on whether it's really fair.

2 You basically take the total quarters where there
3 was underselling reported, and there's total quarters were
4 overselling was reported, and you add those numbers together,
5 and then you use that as the denominator, and then as
6 enumerator for calculating the percentage of quarters of
7 underselling, you put the number of quarter of underselling
8 in for overselling, you put number of quarters of
9 overselling, you come up with these percentages.

10 But if you look at the raw numbers of instances of
11 underselling in that earlier period versus the later period
12 you're showing in this table, the number of instances of
13 underselling are greater in the earlier periods.

14 You're sort of making a ratio, but if you don't
15 look at it from the ratio perspective, you just look at the
16 number of quarters of underselling versus overselling in that
17 earlier period, you know -- which is January 2017 to December
18 of 2018, and the later period, which is January 2019 to June
19 2020, the number of instances are pretty different.

20 So I think what we did analytically was to say
21 there are really fundamentally two periods in this period of
22 investigation. There's '17-'18 and then there's 2019 through
23 interim 2020 because it's really almost a tale of two periods
24 and there's no question that the share growth from subject
25 imports is pronounced '19 forward, the condition of the

1 domestic industry deteriorates sharply in that period, and
2 from our perspective the underselling is more pernicious in
3 this period.

4 Now I think the way we look at it is we say, okay,
5 let's look in the first period and for whatever comparisons
6 that do exist, how frequent is the underselling and within
7 that period you can do it by quarter count or you can do it
8 by volume. And then we do the same thing for the second
9 period, 2019 forward and for whatever comparisons that do
10 exist, we can do it by quarter count or we can do it by
11 volume. And we think that is an intellectually honest way of
12 presenting things.

13 Now to be sure, you're not going to have
14 necessarily the same number of quarterly comparisons in any
15 given period because there's shifts in product mix and even
16 customers change their spec over time. But for whatever
17 comparisons are available, that's your available data set.
18 And so again I think it's the Commission's practice that for
19 whatever data set they're analyzing, they look at both
20 quarter counts, as well as by volume, and I think both of
21 them tell the same story, which is an increase frequency of
22 underselling in the second half of the POI. And you see that
23 not only for the quarterly pricing data based on U.S.
24 shipments, but importantly also for direct imports we see the
25 same difference, which is a preponderance of underselling

1 since 2019.

2 COMMISSIONER KARPEL: All right. I think that's it
3 for questions from me. Thank you all for being here and I
4 appreciate your testimony and all the answers you provided in
5 response to questions. Thank you.

6 VICE CHAIR STAYIN: Thank you. Respondents argued
7 that Ellwood is the low priced leader in the U.S. market, not
8 subject imports, citing a couple of purchaser responses that
9 identify Ellwood as a price leader. How would you respond?

10 MR. LEVY: Commissioner Stayin, this has always
11 been sort of pet issue of mine. I don't know if it's
12 intentional, but the Commission always asks this question in
13 the questionnaires, who do you consider below price leader.
14 But what it doesn't ask is who do you consider to be below
15 prices. They say who is the price leader. And I think in
16 this particular record, our position would be that, you know,
17 Ellwood may very often be the high price leader, trying to
18 get the prices up consistent with rising costs, not that
19 Ellwood is the low price leader. And I think when you look
20 at the purchaser questionnaire and you look at the pair
21 comparisons, U.S. versus subject countries, purchasers are
22 telling you that more often than not domestic producers have
23 inferior price. So I think that's probably right, that
24 Ellwood is the price leader trying to get prices high.
25 Although in fairness, Finkl also, if you were to look at

1 American metals market, a couple times during the POI they
2 announced cost-based price increases or at least attempt
3 them. But with respect to FEBs, we're totally unsuccessful
4 because of low-priced imports.

5 VICE CHAIR STAYIN: All right. Any other responses
6 by anybody else?

7 (No response.)

8 VICE CHAIR STAYIN: There's a question of whether
9 or not the U.S. produced products and the products produced
10 by the Respondents, are they substitutable for each other?
11 The Commission staff believes that they are. What is your
12 view?

13 MR. LEVY: Yeah. Vice Chair Stayin, I think what
14 the purchasers have said, U.S. versus Germany, 100 percent
15 interchangeable. U.S. versus India, 100 percent always
16 interchangeable. U.S. versus Italy, I think 90 percent
17 always interchangeable. U.S. versus China, I think it was
18 more than two-thirds always. Our experience is that at a
19 given purchaser account when they're sending out RFQs,
20 everyone who is receiving that RFQ is 100 percent fungible
21 and they're competing on the basis of price.

22 VICE CHAIR STAYIN: So basically would you say that
23 the specification is set forth and when you're bidding on
24 that specification, that the only difference then, if they
25 are saying to you they want you to bid, there's an

1 assumption, as you described earlier, that you meet the
2 specifications? So if you meet the specification and the
3 foreign product meets the specification, then it's price --
4 that is where price comes into play?

5 MR. LEVY: That's precisely right, Vice Chair
6 Stayin. And I must say as a matter of just to clarify,
7 there's one exception that I'm aware of and maybe Mark
8 Shirley can elaborate. But in the case of Finkl, if they get
9 an RFQ that says, you know, we want a particular quintuplex
10 block, we want to drill, these are the dimensions, and we
11 want it with a 15-5 PH stainless steel, my understanding is
12 that Finkl's practice will be to quote on exactly what is in
13 the RFQ and say here's the price, but then they provide an
14 alternative and say, and, oh, by the way, in the alternative,
15 you may want to try using our patented HVX grade, which we
16 think affords you better performance at a better value. And
17 so if the purchaser were to choose that particular grade,
18 that grade is unique to Finkl and no one else can produce it
19 because it's under patent.

20 Unfortunately during the period of investigation,
21 the competitiveness of that grade is undercut by very low-
22 priced imports. But it is one area where the overlap of
23 competition is not 100 percent. I don't know, Mark, if you
24 can elaborate on that?

25 MR. SHIRLEY: Yes. This is Mark Shirley, speaking

1 for Finkl. Jack is exactly right, in every case, we quote
2 exactly to the specification that the customer puts in front
3 of us and then we offer our proprietary grade as an
4 alternative and, you know, hope to push for, you know, a
5 trial or an acceptance of that (technical interference).

6 VICE CHAIR STAYIN: All right. Anybody else have a
7 comment?

8 MS. SAUNDERS: This is Kathy from Ellwood. We
9 actually do something similar to that with our customers.
10 You know, we're all getting the same specification to quote
11 on. We can all meet that specification. So we'll quote back
12 to the customer, but then occasionally we'll also offer an
13 alternative grade, you know, that we developed in-house.
14 It's something for the customer to look at. It may be an
15 upgrade.

16 VICE CHAIR STAYIN: Okay. How do FEBs used for mud
17 pumps differ from FEBs used for fracking? And are FEBs for
18 mud pumps generally produced from stainless steel or non-
19 stainless?

20 MR. LEVY: So, Commissioner Stayin, let me try to
21 give a high level of review and I'll let the witnesses add.
22 My understanding is that FEBs for mud pumps are by and large
23 made from alloy steel and by and large are uniplax in design.
24 There is, however, overlap with FEBs for fracking, in so far
25 as FEBs for fracking can also be made of alloy and FEBs for

1 fracking can also be in uniplex form and then the FEM
2 producer actually strings several of them together to make
3 either a triplex or a quint design. So there's definitely
4 overlap such that if you're looking at a block in a
5 warehouse, you wouldn't necessarily know for that uniplex
6 alloy block whether it's going to go into a -- going to go
7 for a fracking or a mud pump application.

8 As to whether there are ever stainless mud pumps, I
9 would ask our witnesses to answer that. Maybe Kathy and
10 Mark, if you can speak to that?

11 MS. SAUNDERS: Go ahead, Guy.

12 MR. BRADA: Yeah. So this is Guy Brada at Ellwood.
13 Jack is correct, most of the mud pumps are made out of the
14 alloy steel. It's pretty rare to see a stainless requirement
15 for the mud pumps. It has to do with the application and
16 what they're pumping is not as corrosive in a mud pump. But
17 they are interchangeable. The purchasers will provide
18 specifications that are specific to the application. So a
19 frack block specification could differ slightly in their
20 requirements from a mud pump specification.

21 VICE CHAIR STAYIN: Thank you. Any other
22 responses?

23 (No responses.)

24 VICE CHAIR STAYIN: Okay. I have no further
25 questions. I would like or appreciate Counsel, if in your

1 post-hearing brief, I'd appreciate if you'd address the
2 issues raised on pages 16 through 22 of the Respondents'
3 brief. And that's all that I had for my questions.
4 Commissioner Johanson?

5 COMMISSIONER JOHANSON: I have just one more
6 question. Is the lower volume of cumulative subject imports
7 in January to June 2020 compared to January to June 2019
8 partially explained by a post-petition effect (technical
9 interference)?

10 MR. LEVY: Commissioner Johanson, we'll address
11 that more post-hearing in terms of what the post-petition
12 effects have been. So I think we'll just save that for post-
13 hearing, if possible.

14 COMMISSIONER JOHANSON: Okay, that's fine. That
15 completes my questions and I certainly appreciate you all
16 being here today. Thanks again.

17 VICE CHAIR STAYIN: Commissioner Schmidtlein?

18 COMMISSIONER SCHMIDTLEIN: I have no further
19 questions. Thank you all for being here today.

20 VICE CHAIR STAYIN: Commissioner Karpel?

21 COMMISSIONER KARPEL: Nothing further for me.
22 Thank you all.

23 VICE CHAIR STAYIN: Thank you very much. Thank you
24 all for being here today. We appreciate your testimony and
25 I'll look forward to your post-hearing brief. We will

1 adjourn for lunch now and come back at, actually let's say
2 1:15.

3 (Whereupon, at 12:22 p.m., the meeting was
4 recessed, to reconvene at 1:15 p.m. this same day, Tuesday,
5 December 1, 2020.)

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

(1:16 p.m.)

VICE CHAIR STAYIN: Okay. We will now move to our second session of the day. But before we do that, I have a couple of tasks before we get -- kept over from the first session. And the first thing is does the staff have any questions for this panel, first panel?

(No questions.)

VICE CHAIR STAYIN: No questions. Do those in opposition to the imposition of antidumping and countervailing duty orders have any questions for this panel, the first panel?

MR. HEFFNER: This is Doug Heffner. We don't have any.

VICE CHAIR STAYIN: Okay, all right. So, Mr. Secretary, are there any preliminary matters?

MR. BISHOP: Mr. Chair, I would note that we will now move to the panel in opposition to the imposition of the antidumping and countervailing duty orders. This panel has a total of 60 minutes for their direct presentation. We welcome all of you. Please go ahead and turn on your webcams and microphones and you may begin when you're ready.

MR. SHIRLEY: Thank you, Commissioners. Thank you, Mr. Bishop, Secretary Bishop. I'm Doug Heffner of Faegre Drinker Biddle & Reath. I have with me today Richard Ferrin

1 and Carrie Bethée of Faegre Drinker. We are representing
2 Cogne Acciai Speciali, Cogne Specialty Steel, Metalcam
3 S.p.A., and Officina Meccanica Roselli today. I also have
4 with me Gabriele Coppo and we have three witnesses for you
5 today, Jean Paul Betemps, CEO of Cogne Specialty; Giulio
6 Girivetto of Cogne Acciai; and Massimo Cocchi, Sales Manager
7 of Metalcam.

8 We have with us also today Lorenzo Di Masi, Robert
9 LaFrankie, and Vassilis Akritidis of Crowell & Moring. They
10 represent Lucchini Mame Forge and they have a customer
11 witness by the name of Nicholas Poradek of ST9, that you
12 heard a lot about today.

13 And finally we have from the law firm of Alston &
14 Bird, representing Schmiedewerke Groditz GmbH, Lian Yang,
15 Jason Waite, Yuzhe PengLing and they have a customer witness
16 by the name of Tom Bell. He's Vice President Americas of
17 Groditz Steel North America.

18 And finally before kicking off, Ms. Robinson of Fox
19 Rothschild asked that I mention that Rock Forge, although
20 they're not here today, they will be submitting a post-
21 hearing brief. And with that, I would like to kick it off to
22 Mr. Di Masi.

23 (Technical interference).

24 MR. BISHOP: Lorenzo, we can't hear you. We're
25 having difficulty hearing you. Can you just do it without

1 your video, please? Go ahead and speak. You're on mute
2 right now. You're cracking up a bit. Go ahead and speak, so
3 we can hear. No, it's not working. No. Are you able to
4 disconnect and just phone in?

5 MR. DI MASI: Yes, give me one second.

6 (Pause.)

7 MR. DI MASI: Hello? Can you hear me?

8 MR. BISHOP: Yes, but you need to mute your
9 computer now.

10 MR. DI MASI: Okay.

11 MR. BISHOP: Okay, yes, we can hear you.

12 MR. DI MASI: Good. Apologies for the technical
13 issue. Good afternoon. My name is Lorenzo Di Masi and I'm a
14 lawyer based at the Brussels office of Crowell & Moring,
15 L.L.P. I'm appearing today on behalf of Lucchini Mame Forge
16 S.p.A. in the present proceedings alongside my colleagues
17 Robert LaFrankie and Vassilis Arkritidis. I would like to
18 very briefly expand upon and complement a few of the points
19 already raised in the prehearing briefs of Lucchini and of
20 the other parties opposing imposition of duties.

21 Importantly, the domestic FEB industry is not
22 suffering material injury by reason of subject imports.
23 There is no correlation between subject imports and
24 Petitioner's alleged injury. To discern the domestic fluid
25 end blocks industry suffering any injury, it is up to usable

1 dramatic change in market for fluid end blocks, including the
2 precipitous drop in demand from the downstream oil and
3 trucking industry and a decline in overall apparent
4 consumption in the U.S. This decline in demand and
5 consumption of fluid end blocks should inform the
6 Commission's analysis of the lack of a causal link between
7 subject imports and the alleged material injury. Indeed, the
8 impact of declining market conditions on the overall economic
9 performance of the U.S. industry is acknowledged by
10 Petitioner.

11 We have already heard from the previous week and
12 the opening statement about the extent of and the reason for
13 the drop in demand and the changing market conditions. I
14 would like to highlight today another aspect of the market
15 condition, which has increased the importance by downstream
16 users on the need for high quality fluid end blocks. The
17 impact of no price evidence such as quality significance and
18 can explain why the market share of subject imports increased
19 during the POI despite the overall decreasing trends of the
20 market. Most notably the poor quality of domestically
21 manufactured FEB has manifested itself in terms of
22 potentially lethal figures in the operation of the fluid end
23 blocks, as well as in the overall low performance in fracking
24 operations.

25 In this regard, we have brought one U.S. purchaser

1 of fluid end blocks to testify on this very topic. I would
2 like to introduce Mr. Nicholas Poradek, Vice President and
3 Co-Founder of ST9 Gas + Oil LLC, the fluid end block OEM, for
4 him to explain a little more about the various quality
5 consideration that drive many of these particular decisions.
6 Importantly, Mr. Poradek will explain how domestic producers
7 cannot supply him with the quality fluid end blocks he needs
8 for his downstream customers.

9 This concludes my testimony. Thank you for the
10 opportunity to share my views with the Commission. I now
11 refer you to Mr. Poradek.

12 MR. BISHOP: You're on mute, Nick.

13 MR. PORADEK: Thank you, Di, and thank you for your
14 time. So I apologize in advance for reading a script. I
15 know that can be a bit painful for everybody, but we'll get
16 there, I think.

17 So I just want to say good afternoon to everybody.
18 My name is Nicholas Poradek and I'm Co-Founder and Vice
19 President of Finance of ST9. As a result, I'm responsible
20 for ST9's strategy, planning capital allocations, risk
21 management, and purchasing activities since the company's
22 founding in April of 2017. My job with the company is to act
23 as pretty much a gateway between engineering ideas and in how
24 we invest our capital. For this reason, my job requires a
25 strong understanding of both finance and engineering.

1 Before founding ST9, I worked for three-and-a-half
2 years as an engineer and financial analyst at Weir Oil and
3 Gas, which is a large multinational company providing
4 engineering solutions to products for the fracking industry.
5 During this time, I became very familiar with fluid end
6 blocks in Italy and the United States.

7 By way of background, the ST9 company was founded
8 in April 2017 by myself and Chris Buckley, who is a renowned
9 engineer and former Vice President at Weir Oil and Gas. ST9
10 offers a comprehensive portfolio of high performance
11 products, systems, and services that support well completion
12 and production for upstream operations in the United States
13 of America and across the globe. Most of these products are
14 manufactured using U.S. produced input and raw materials.
15 ST9's customers are fracking service companies and these
16 companies are the end users of the fluid end blocks. One
17 thing I want to highlight by the way is that we buy the
18 majority of our stuff from the United States and I'm an
19 American, we're an American company, and I'm pretty sure that
20 oil and gas is probably arguably one of the most patriotic
21 industries there is and it's a huge thing to say it's made in
22 America. So we have a huge focus on buying made in American
23 when we can.

24 Since our founding, our company has grown to be one
25 of the top five fracking OEMs in the nation. The immediate

1 success of the company led to its acquisition in October 2018
2 by Liberty Oilfield Services, which is a large publicly
3 listed provider of high quality fracturing services. With
4 the present testimony, I would like to draw the Commission's
5 attention to two issues, which I consider of utmost
6 importance to the purpose of the overall analysis of the
7 conditions of competition. More specifically, I would like
8 to focus my witness statement on superior quality of Italian
9 fluid end blocks compared to those manufactured by U.S.
10 Petitioner firm from which we source our merchandise, mainly
11 Ellwood. In addition to discussing quality, I also take the
12 opportunity to briefly address the status of the fracking
13 market during the period of investigation and its impact on
14 the supply of subject merchandise.

15 As I briefly mentioned, ST9 offers a comprehensive
16 portfolio of high performance products for oil and gas
17 applications. One of our premium oil and gas products
18 designed by ST9 is a fluid end block and we call it the XGEN
19 Fluid End. The XGEN Fluid End is based on ST9 proprietary
20 technology and design, which is a result of years of
21 engineering and expertise in the fracking industry. Most
22 specifically, the XGEN Fluid End is manufactured from
23 unfinished fluid end blocks produced by Forge to ST9
24 specifications. The unfinished fluid end blocks are machined
25 by third-party contractors to reach their final quintuplex or

1 triplex configuration and then they're post processed. The
2 finished XGEN Fluid End is then ready to be installed on a
3 frack pump. Quality is by far the most important element to
4 ST9 with regards to fluid end blocks. In particular ST9
5 focuses on producing the highest consistent chemical
6 composition, tightest and most even grain structure,
7 wholeness, which is like absence of inclusions in steel and
8 incorporates specialized heat treatments to ensure ultimate
9 quality of its fluid ends. In order to ensure the quality,
10 the need for consistency and reliability of a raw material,
11 in other words the unfinished fluid end block, is very, very
12 important and is precisely with respect to quality,
13 consistency, and reliability that unfinished Italian fluid
14 ends blocks show significant advantages when compared to
15 material supplied by Ellwood.

16 Before discussing such differences and the major
17 quality issues that ST9 has experienced in its use of U.S.
18 products, I would like to briefly describe the history of my
19 company's commercial relationships with Italian and U.S.
20 forgers. I believe that such a narrative of we assure the
21 Commission that ST9's purchasing strategy is indeed
22 ultimately driven by a need for quality. Between the date of
23 its founding, which is April 2017 and April 2018, ST9
24 purchased fluid end blocks from a well known Italian
25 producer. It was Cogne. We were satisfied with the quality

1 of this Italian producer and did not experience any major
2 issues at all. In fact we were taking market share with the
3 problems in the product.

4 In April 2018, we started purchasing from Ellwood.
5 This decision to switch suppliers was based on the generous
6 pricing offered and there was a discount basically that
7 Ellwood offered and they undercut Cogne by about three grand
8 per block. At the end of the day, we also preferred to buy
9 from Americans. It's a lot easier, it's a shorter supply
10 chain, and we could say it was made in America, which is --
11 it's a benefit all around. So the general belief was that by
12 buying from a well known U.S. forger, we would be able to
13 mirror expectations from a subjugation standpoint and a
14 quality standpoint. We would be safe and we moved to them
15 immediately.

16 Regrettably, we learned the hard way that this
17 would not be the case. As I'll explain during the next part
18 of our presentation, the continuous failures and low useful
19 life of fluid end blocks prompted us to switch back to the
20 Italian supply and stop buying from the Petitioner.
21 Importantly, the price of our current Italian supplier were
22 then and are currently on cost basis higher than the ones
23 charged by the U.S. producers. So to make that clear, we're
24 spending more money to buy from somebody else. Furthermore,
25 I just want to re-highlight, we're an American company and I

1 told -- I told Ellwood this by the way, and it was actually
2 after the -- actually been on a couple of occasions, but
3 we've told them that, hey, if you guys fix the quality
4 issues, we will switch back to you immediately. We would
5 prefer to buy from them. It cost us a lot less money, in
6 addition to first -- Atlantic cost basis and a working
7 capital basis. It cost me two-and-a-half million dollars to
8 buy because of the extra six weeks on the water. So it's not
9 a small investment going overseas by any means. And then you
10 talk about the other advantages, which we thought it could be
11 made in America and then there's the national pride. I mean
12 -- and also people at Ellwood are pretty nice. I like
13 working with them.

14 So after having described to you the key features
15 of our fluid end blocks and the history of our commercial
16 relationships with both Ellwood and Italian suppliers, I
17 would like to present the main issues that ST9 experienced
18 with Ellwood. I believe that Ellwood's poor quality has
19 translated in two separate categories of failures. First,
20 there's what I would call pinhole failures, which are likely
21 caused by inclusions and they're the ones that are
22 potentially lethal and pretty scary. I'm going to actually
23 draw this. Is everyone able to see this? Can everyone see
24 the pictures?

25 MR. BISHOP: Yes. Are you able to make it full

1 screen, Nick?

2 MR. PORADEK: Yeah. Let's do this. Is this
3 better?

4 MR. BISHOP: Yes.

5 MR. PORADEK: This brings it in, I think. Okay.
6 Is that better? So this is an example of the pinhole
7 failures that we've had. And about three percent of the
8 blocks we purchased from Ellwood had this failure, which is a
9 statistically high amount considering the fact these are
10 potentially lethal. So bear in mind, these fluid ends are
11 about 1,200 psi, so it's scary. You know, the failures
12 continued, the presence of inclusions, and the fluid end
13 blocks, the result from the steel making process. In other
14 words, their failures are linked to the poor quality of the
15 steel. In the largest majority of cases, these are voids or
16 inclusions, shouldn't, in the internal structure of the steel
17 and thus such are not detectible through visual inspection of
18 the fluid end blocks. In simplistic terms, the presence of
19 voids allow the liquid to pump through the fluid end block to
20 find their way inside the steel structure and be injected at
21 extremely high pressure out of the fluid end block through
22 pinholes located in the external walls of the blocks. And
23 then obviously you can see an example. Now when that
24 pinhole, it does not have liquid spraying out of it. You
25 can't see it from the naked eye. It's that small.

1 So these pinhole failures are potentially lethal
2 and therefore they were extremely concerning. Indeed, the
3 injected liquid from the fluid end block at extremely high
4 pressures typical of fracking, which is around somewhere
5 between 9,000 and 13,000 psi typical of fracking are
6 literally capable of cutting most materials in two. Thus, we
7 take the issues very, very seriously. And just on a personal
8 note, I take it especially serious because I know a lot of
9 people in the field and I know a lot of guys that work on
10 these fluid ends and I actually, as an engineer, once upon a
11 time worked on the fluid ends and I understand the cost of
12 how dangerous these things are. I mean the fluid ends are
13 pressurized vessels. They're essentially a functioning bomb
14 and when you have unknown, you know, basically cracks or
15 pinholes, it's a scary thing especially when you don't know
16 when one is going to pop out.

17 So while these pinholes have occurred in relatively
18 no numbers in Ellwood's blocks when compared to the total
19 amount of fluid ends ordered, their percentage is still a
20 thing that came from an operational standpoint. And like I
21 said earlier, it's about three percent. These failures could
22 potentially entail serious liabilities for both ST9 and
23 actually now Liberty Oilfield Services and are absolutely
24 incompatible with the company's commercial position and
25 reputation in the market. Needless to say, ST9 notified

1 these pinhole failures to Ellwood and later in September,
2 Ellwood did conduct an in-depth study. So Ellwood cooperated
3 with the investigation, most simply by sending its inspectors
4 in September 2019 to test some blocks delivered to ST9. More
5 specifically, Ellwood's inspectors conducted spot checks on a
6 limited sample of fluid end blocks present in either ST9's
7 inventory or external machine vendors. Ellwood acknowledged
8 in their letter that they had voids in some of these blocks.
9 And then out of those nine blocks that they acknowledged they
10 had voids in, one did later convert to a pinhole failure.

11 While Ellwood suggested one block may have been
12 subject to a machining issue, Ellwood has openly been unable
13 to explain the reasons of the mysterious pinhole failures and
14 is unable to explain the vast majority of such failures. As
15 I noted earlier, the failures were caused by inclusions in
16 the steel attributed to defects in the steelmaking process.
17 Furthermore, ST9 has experienced multiple additional pinhole
18 failures since Ellwood's inspection in September.

19 In addition to these above-mentioned potentially
20 lethal issues, another category of failures, and ultimately
21 they all average in to the same category, but it was the low
22 average useful life of Ellwood. So at ST9, we track and
23 investigate and document the average useful life of fluid end
24 blocks manufacturers in close cooperation with our customers.
25 Typically, there's two customers that we have very close

1 cooperation with.

2 So this extremely low average useful life is
3 evidenced in a couple of distinct ways:

4 First, there have been instances of cracks in the
5 fluid end blocks at extremely premature stages of the
6 fracking activities. By way of background, crack failures in
7 fluid end blocks can simply be described as stress fracturing
8 that occurs within the steel and ultimately propagates until
9 the cracks are visible and performance impeding.

10 Cracks occurring at a later stage are typical and
11 usually resulting from some sort of fatigue. These fractures
12 will occur quicker in the presence of low-quality steel due
13 to the higher number of defects, which is by conclusion
14 voids, tears, pulls, et cetera in the steel.

15 More specifically, while crack failures in the
16 fluid end blocks are rather common events in the later stages
17 of the fluid end block life, a statistically meaningful
18 amount of Ellwood's blocks presented such failures in rather
19 early stages of their deployment. This has not happened with
20 the Italian fluid end blocks.

21 Second, already from the very early phases of
22 utilization of Ellwood's blocks in the fracking, I would say
23 around May or June of 2019 ST9 started to notice that these
24 blocks were not performing as we expected in terms of the
25 average useful life and hours when compared to the blocks

1 purchased from the Italian supplier. It was Cogne
2 previously.

3 This underperformance by Ellwood's fluid end blocks
4 became even more evident when the fluid end blocks from the
5 current Italian supplier were introduced and we reverted them
6 back to the higher life. A detailed comparative data on the
7 average useful life of the fluid end blocks purchased by ST9
8 will be included in Lucchini's post-hearing brief. So all
9 the data that you can ask for is going to be included in
10 there.

11 From the moment we were provided this data, the
12 average useful life of Ellwood's blocks has proved to be
13 about half of the Italian suppliers' blocks based on the data
14 from two different customers. So it's not just cherry
15 picking from one customer. It's two different customers with
16 over 500 blocks of data. The fact that the statistical
17 similar difference is documented by two different customers
18 clearly indicates it's not an anomaly or a one-off. It's
19 showing a very strong trend and then further I would say
20 corroborated by the fact that when we switched back to Italy,
21 that same problem went away.

22 This extremely reduced average useful life has
23 turned ST9's purchase of Ellwood's blocks into a commercial
24 liability. The sorts of issues ST9 has experienced and is
25 still experiencing in its use of Ellwood blocks never arose

1 from fluid end blocks supplied by Italian forgers. And I
2 want to point out here that the Italian forgers were provided
3 with the exact same specification as the U.S. Petitioners,
4 yet we have double the life and we don't have pinhole
5 failures with the Italian forgings. So I would say there is
6 a significant differentiation irregardless of specification.

7 I would like to conclude my testimony with a few
8 words actually on the fracking market. I understand that
9 everyone here would be aware of the fact that oil and gas
10 markets have decreased quite dramatically during the past
11 couple of years and this has obviously had a decisive impact
12 on the consumption of fluid into the United States. The
13 alloys deployed is decisive and can explain pretty much any
14 injury that's occurred to the domestic market. In this
15 already difficult context of decreasing demand, it is worth
16 noting the fracking market has suffered in recent years from
17 a chronic situation of oversupply in hydraulic fracturing
18 horsepower, an extreme since this oversupply of horsepower is
19 caused by two elements.

20 First, there's very low barriers to entry in the
21 fracking market, allowing any company that's pretty much
22 capable of investing about \$30 million to start fracking
23 operations, and there was a lot of them that jumped in,
24 especially around the 2014-2015 time period.

25 Since 2015, the operational efficiencies of

1 fracking services companies increased significantly, allowing
2 them to perform the activities with less fracking employees
3 compared to previous years. So you combine that with the
4 fact that everybody and their mother is able to jump into
5 this industry -- and these are my customers, these are the
6 end users of the fluid.

7 So combining that with the increase in overall
8 efficiencies previously acquired by horsepower from fracking
9 service companies did not simply vanish from the market.
10 Indeed, this equipment has approximately about roughly 10
11 years' useful life. In other words, fracking servicing
12 companies have more horsepower or equipment available than
13 they need to carry out their activities. Thus, it hampers
14 demand and ultimately it affects pricing.

15 The oversupply has decreased demand and has led to
16 fracking service companies to bid against each other for
17 projects at negative or zero margins, which has in turn
18 thrown many of them into bankruptcy. This market pressure
19 coming from the fracking services companies was essentially
20 transferred to fluid end block OEMs, which are in this case
21 the purchasers of fluid end blocks, and then suppliers of the
22 fracking services companies, companies like ST9.

23 More specifically, fluid end blocks were driven
24 towards increasing efficiencies in the manufacturing process
25 and providing new and better solutions for their fracking

1 service customers. As part of this process, fluid end blocks
2 imports in the investigated countries gained recognition and
3 market share. But, again, this is not due to the price, it
4 was due to the superior quality, which made them stand out as
5 compared to the Petitioner's products. But bear in mind,
6 when you're looking at total costs from our customers'
7 standpoint, right, the life of the fluid ends is extremely
8 important and the quality of those fluid ends is extremely
9 important.

10 So, if they are buying a fluid end that lives twice
11 as long, that means they're buying half as many fluid ends,
12 which means they're spending half as much essentially. So
13 it's a very good scenario to have a high-quality solution and
14 it's pretty much a requirement at this point.

15 And then, obviously, there was quite a few comments
16 that were mentioned previously that I'd like to address.
17 It's a long list, bear with me, I was handwriting as best I
18 could.

19 (Pause.)

20 MR. PORADEK: Is everybody still there?

21 MR. BISHOP: Yes. Did you want me to get rid of
22 the presentation, Nick?

23 MR. PORADEK: Yes. Thank you.

24 So the first one that I would like to address is at
25 what a low-price leader or a high-price leader, and in my

1 experience, they've been a low-price leader, so the first one
2 is they undercut Cogne and that's why we switched to Ellwood
3 to begin with.

4 In the second case, and which is actually something
5 they included in their presentation, or at least I believe it
6 is, I can't see it because it's blacked out, but if my
7 assumptions are correct, I would say that in that scenario
8 they were again the low-cost provider, and we'll provide a
9 ton of data, and bear in mind this is on a landed cost basis
10 because that's what I care about. I care about total cost.

11 So, if you look at that, which we'll provide in the
12 post-briefing, you'll see that they were again the low cost
13 provider in that scenario as well.

14 Ellwood has claimed that they have not been
15 decertified. However, that's not true because, in January of
16 2020, I called Kathy and told them we would no longer be able
17 to buy from them until they got their quality issues fixed.
18 I guess I didn't use the words decertified, but I would call
19 that a decertification.

20 Ellwood has not denied that there were quality
21 issues. However, they did go into claims, so if you notice,
22 they're very specific in all their wording and all things
23 they're going to submit they always say we met your
24 specification, but they never said there was no quality
25 issue, there was no defects. They always say we met your

1 specification. However, I'd like to point out that the
2 Italian forgers also meet the specification, but they lack
3 the quality issues.

4 In terms of Ellwood has only discussed a few
5 specific cases while ignoring many of their other broader
6 quality problems and complaints, so first off on this data,
7 I'm going to share this again, let's see here. I apologize,
8 I'm trying to --

9 (Pause.)

10 MR. PORADEK: Are you guys able to see this?

11 MR. BISHOP: Yes, we are.

12 MR. PORADEK: Perfect.

13 So I'm assuming you can see this is their Exhibit
14 12 where they claim that we really appreciate our
15 relationship. We absolutely sent them that. And in February
16 6, 2019, we absolutely did appreciate the relationship and we
17 didn't know the quality issues that were upcoming at that
18 point in time.

19 Then they go on to say that June 12, 2019, and they
20 do this Hello, Kathy and Tara, dot, dot, dot, is it possible
21 to get these blocks under.

22 Well, I'd like to point out first off, that email
23 that they're quoting was from 2018, June 12, not 2019, so
24 it's a bit of erroneous fact. Furthermore, it was taken out
25 of context. So I've got the email right here so that

1 everybody can see it. And it says, Hello, Kathy and Tara,
2 can you help me ballpark some numbers for the meeting next?
3 And we were trying to win a customer's business. And at this
4 point in time, it was early on in our development as a
5 company, so going from the 60 fluid ends per month, it was a
6 lot at that time. So we were trying to come in with our best
7 price to our customer so we could win the business. So we
8 asked them for a preliminary price, basically a ballpark as
9 we called it. And it says the deal won't start until the end
10 of the year. It's still priced the same. Is it possible to
11 get these blocks under 20K if you're awarded? No percentage.
12 Same part number and materials, that sort of thing. We just
13 asked for ballpark numbers, right? But bear in mind, they
14 put it at 2019. It was 2018.

15 I can't really speak to internal stuff. I can't
16 see it, so I don't know it. One thing I can say, though, is
17 that in June 3, 2019, we issued a large PO to Ellwood at that
18 point.

19 Now the other things they brought up, and we'll get
20 to the next slide,

21 (Pause.)

22 MR. PORADEK: So now they're saying, the question
23 was if we knew we had all these quality issues, et cetera, et
24 cetera, that why would we go ahead and offer 100 percent of
25 our North American business to them knowing that we had all

1 these quality issues.

2 Well, you can see, I said we started the
3 investigation, we started getting suspicious in May and June,
4 right, because that's when we started seeing the pinhole
5 failures. We hadn't concluded an engineering investigation.
6 We didn't complete it until September of that year.

7 Actually, it was near October, right at the end of September.

8 So we didn't know that we had all the issues and Ellwood was
9 our primary supplier. We had a good relationship with them
10 as far as we knew. And, of course, we would offer them the
11 100 percent chance for 100 percent of the business. Why
12 wouldn't we?

13 Now what I will say is that we did have suspicion
14 of, at that time, that we did think there was something
15 wrong, we just didn't know what and we didn't have enough
16 information to make a very full assessment yet.

17 Getting to the ST9 sales correspondence Q4 2019.
18 So then based on what Ellwood's saying is that they're saying
19 anytime someone gives them a quote or an offer, an RFQ, that
20 means that they are conforming, et cetera, et cetera. And
21 then that's the instance of performance.

22 Well, first off, by this time period, we had
23 actually ordered and we had in the field testing the trial
24 batches from the Italian supplier. Now bear in mind, we had
25 just gotten burned with quality issues for Ellwood, so we

1 were being very, very cautious in bringing back the Italian
2 supplier, even though we'd had good history with the Italian
3 suppliers in the past. So we had a five batch trial and then
4 we also, once that five batch trial seemed to cut past the
5 preliminary stages and seemed to be going very well, no
6 immediate preliminary failures or premature failures like
7 we'd had with Ellwood, then we started ordering more at that
8 point. And during this time phase is when it was ramping up
9 and changing.

10 So these are from actually one of our directors.
11 Her name's Janet. She works for Chris and I. And her job is
12 basically to ensure supplies so we don't run out of anything
13 because, guess what, if I run out of product, I can't sell, I
14 go bankrupt. So it's pretty straightforward. I have to have
15 supply.

16 So her job is she went and asked them about, it
17 looks like, a quote for quantities of two different style
18 fluid ends that we didn't currently make at the time. It was
19 for basically a GD3000 version and FMC, 2700 version, neither
20 of which we had produced before, and we had been asked to
21 quote on it by a customer. So, of course, she asked all of
22 our vendors, and there was no thought process to it. She
23 just asked all vendors that we currently bought from to quote
24 so we can do a cost work-up so that we could make a bid for
25 the job. It was pretty simple, pretty straightforward. I'd

1 say it's pretty normal supply chain to be honest.

2 And then she's talking about she had remind them to
3 actually respond. And then she said, I appreciate your
4 quoting, but this pricing is still high and the terms will
5 not work for us at this point. And my guess is at that point
6 in time it's probably because we'd already lost the bid
7 because we never ended up buying any of those anyway. So I'm
8 pretty sure we'd lost the bid at that point in time, and I'll
9 get you more information in the post-hearing brief because
10 the reality of it is I'm trying to react to this in real time
11 to give you the most accurate answers that I can. But we'll
12 get you full emails, fully transparent, everybody can see it,
13 ready for the post-hearing brief.

14 And then moving to another of the issues would be
15 that -- just, actually, back to the point of transparency.
16 You know, it would be really nice if Ellwood was going to be
17 just as transparent as we are, because I'm willing to provide
18 you full emails, I'm willing to provide you full data. You
19 can audit it, whatever you need to do with this information.

20 I'm happy to provide any of it. But it would be nice if we
21 could have similar reciprocity from Ellwood in terms of
22 providing transparency of information.

23 And then I think that I would say that's pretty
24 much, those were the major points. And, obviously, I'm open
25 to questions and any suggestions you might have for me.

1 MR. HEFFNER: Thanks. Next is Jean Paul.

2 MR. BETEMPS: Yes. Can you hear me?

3 MR. BISHOP: We sure can.

4 MR. BETEMPS: Thank you for this opportunity to
5 testify before you. So I'm Jean Paul Betemps, the CEO of
6 Cogne Specialty Steel USA Incorporated, a member of Cogne
7 Group. I've been CEO of the U.S. branch since 2015 and with
8 the company 23 years total.

9 Cogne USA is the U.S. distributing entity for Cogne
10 Specialty SPCA, a leading producer of stainless steel end
11 products worldwide. Cogne USA is incorporated in the U.S.A.
12 and operates warehouses and some shops in Illinois and
13 Houston, Texas, and normally employs U.S. workers.

14 Cogne took the challenge to provide the production
15 of stainless steel products in which we conduct the
16 production cycle, divided into four areas of fully integrated
17 vertical systems, a melting shop, a forging shop, an end
18 treatment shop, and a machine shop.

19 Given Cogne only produces the indivisible stainless
20 steel fluid end blocks for the U.S. market and does not sell
21 any alloy steel fluid end blocks in the U.S., knowing that,
22 you have already heard from other foreign producers and
23 customers regarding the shift in demand related to the 2009
24 declining oil prices. Cogne wishes to focus on the important
25 distinctions between alloy and stainless steel fluid end

1 blocks and how those distinctions have affected demand for
2 fluid end blocks in the United States.

3 Stainless steel fluid end blocks consumption began
4 to outpace alloy steel fluid end blocks consumption as early
5 as 2018. But the consumption of the stainless steel fluid
6 end blocks as in the standing in the market seems to be an
7 initial development in 2010. It is important to know that
8 demand and fulfillment took a fall in 2017, and the North
9 American shale oil and gas production continued a period of
10 sustained growth. In particular, in 2017, U.S. shale gas
11 outproduced by 31 percent. A key advantage of stainless
12 steel fluid end blocks over alloy steel fluid end blocks is
13 that they have a longer life span.

14 Thus, as the market shifted towards the stainless
15 steel fluid end blocks, demand gradually decreased in
16 subsequent years. U.S. fluid end block customers simply had
17 less need for fluid end blocks once they began employing
18 longer lasting stainless steel fluid end blocks in hydraulic
19 fracking pumps. U.S. producers were acutely affected by this
20 market switch to stainless steel fluid end blocks not because
21 of the lower pricing but rather because they were late
22 adopters of this product type.

23 Through this antidumping and countervailing duty
24 action, U.S. producers are now trying to place the blame for
25 the failure to develop these different types and see a

1 foreign producer like Cogne. However, it has been clear in
2 the industry for quite some time that stainless steel fluid
3 end blocks were not a passing fad. Again, the rise in
4 consumption of stainless steel fluid end blocks to the point
5 where they now outpace alloy steel fluid end blocks has been
6 taking place over 10 years, and this was not an unforeseen
7 shift in the industry. The U.S. industry has had ample time
8 to invest in and develop these technologies but failed to
9 make timely business decision to do so. Thus, they were
10 unable to respond at the factory when the lagging demand
11 resulting from increased stainless steel fluid end block
12 consumption coincided with the 2019 decline in oil prices.

13 As the fluid end blocks are produced and made to
14 exacting standards, having a good understanding and
15 capability to produce this product is necessary to assuring
16 market share. In particular, the advantages of the stainless
17 steel fluid end blocks require additional steps in procedure
18 not found in the production processes of alloy steel fluid
19 end blocks. Cogne takes quality very seriously and has
20 incrementally certified our systems for quality management
21 and to maintain customer participation.

22 In addition to its quality management system, Cogne
23 boasts more than 20 additional quality certification overall
24 and across the product lines. We have just heard directly
25 from Cogne's customer, ST9, regarding the importance of

1 quality and performance in their decision to source fluid end
2 blocks from Cogne over U.S. producers. ST9 felt badly with
3 the low quality they experienced when trying to source fluid
4 end blocks from U.S. producers over Italian producers to the
5 extent that U.S. producers of fluid end blocks were even too
6 dangerous to use in the fracking operation without risking
7 their employees' lives.

8 Faced with these various scenario, in 2018, ST9 had
9 no choice but to stop sourcing from U.S. producers and
10 returning to sourcing from Italian producers. Thus, we
11 believe that any effect related to the consumption of imports
12 from Italian producers in 2018 is directly related to
13 customer choices regarding quality and is wholly unrelated to
14 price.

15 To conclude, this issue can be fairly simply
16 Cogne's stainless steel fluid end blocks outperformed and
17 lasted longer than U.S. producers' alloy steel fluid end
18 blocks. Thus, the U.S. customers chose to buy the superior
19 product and subsequently, as less future need for
20 replacement, demand naturally declined.

21 Unfortunately, this decline is coincident with
22 another downturn in the market related to low oil prices,
23 thereby compounding the issue. These factors, not low-priced
24 imports, are the driving reason behind the state of the
25 market we have seen during the Period of Investigation.

1 Thank you, everyone. I'd pleased to answer to your
2 questions today.

3 MR. HEFFNER: This is Doug Heffner again from
4 Faegre Drinker. I'd like to now introduce Massimo Cocchi
5 from Metalcam. Massimo, please begin.

6 MR. COCCHI: Good afternoon, Commissioners. I am
7 Massimo Cocchi, Sales Manager for Metalcam S.p.A., a member
8 of the Metalcam Group. I've been sales manager since 2007
9 and with the company 18 years in total.

10 As a bit of background, the Metalcam Group has been
11 specializing in the production of high-quality open -- sold
12 ingot for over 100 years. Metalcam produces alloyed and
13 finished steel fluid end blocks and produces both rough
14 machined and finished machined fluid end blocks for the U.S.
15 market. Metalcam's steel mill allows the company to provide
16 customers with technical and metallurgical support beginning
17 with their material selection.

18 Further, the group's vertical integration allows
19 Metalcam to largely oversee the whole machine cycle before
20 suppliers fully finish the product to its customer. The key
21 features allow Metalcam to optimize product and process
22 engineering without sacrificing quality.

23 Of note here as well, Metalcam's diversified
24 product portfolio means that Metalcam is not dependent on
25 fluid end blocks to maintain overall capacity. A significant

1 amount of our business comes from other factors, not through
2 the steel block forgings.

3 Achievement of quality are important for all of
4 Metalcam products. However, customers in the oil and gas
5 industry who purchase the fluid end blocks are willing to pay
6 a premium for such features. It is largely due to the
7 downstream proposal of fluid end blocks which are used in
8 fracking operations. U.S. customers recognize that technical
9 or quality failures can lead to a expensive production delays
10 or even dangerous working conditions. Therefore, the
11 customers require producers capable of achieving the high
12 quality and specification standards.

13 Instead, Metalcam customers have expressed that the
14 pricing is not the most important factor in their decision to
15 purchase fluid end blocks from Metalcam. Rather, when making
16 purchasing decisions, they rely more heavily on Metalcam's
17 ability to produce high-quality fluid end blocks.

18 In its public statement made at the preliminary
19 phase of this investigation, Metalcam's largest U.S.
20 customer, Halliburton, spoke about innovation. Halliburton
21 stated that its criteria when purchasing fluid end blocks are
22 on-time delivery, quality, product performances, capacity,
23 capability, and payment terms. Halliburton has found that
24 U.S. suppliers are unable to meet those needs.

25 In addition to sourcing from Metalcam, Halliburton

1 does source from domestic producer Ellwood Group. However,
2 Halliburton has stated that Ellwood constantly underperforms.

3 Further, Halliburton has stated that the poor quality levels
4 of both products and service lead it to end its business with
5 Finkl and source completely. Thus, it's clear quality, not a
6 lower price, is ultimately the producer driving Halliburton's
7 purchasing decisions.

8 Halliburton has highlighted that Ellwood is the
9 most underperforming fluid end blocks supplier in
10 quantitative values. According to Halliburton, Ellwood has a
11 25 percent lower rate of on-time delivery. Ellwood has
12 double the rate of 40 percent. Ellwood has significantly
13 lower product life compared to foreign producers. In
14 contracts to Ellwood's shortfalls, Halliburton has discussed
15 the advantages of international suppliers. Halliburton has
16 stated on the record that international suppliers have been
17 more flexible in their ability to produce to suit the
18 situation within short lead times without any volume
19 commitment.

20 This flexibility is related to international
21 suppliers' choice to invest in their fluid end blocks
22 production capabilities. For example, Metalcam and other
23 international suppliers have invested in the capacity in the
24 capability to provide fully machined fluid end blocks for
25 Halliburton's high volume factory pump assembly. Ellwood has

1 not made a similar investment. Thus, Ellwood cannot provide
2 the fully machined fluid end blocks that Halliburton
3 ultimately requires. Halliburton must instead utilize
4 internally interparty machine capabilities to convert
5 Ellwood's forgings to finish its fluid end blocks, often at a
6 higher cost than sourcing the entire products from foreign
7 suppliers with integrated production like Metalcam. Such
8 flexibility is paramount, and the oil and gas industry is
9 particularly sensitive to market fluctuation.

10 Metalcam first began working with Halliburton in
11 2014, following a qualification project since the activity
12 commenced between the parties in 2015. Then, for the first
13 part of 2016, Metalcam experienced predicted needs from
14 Halliburton. However, Halliburton's demand decreased in the
15 second half of 2016 due to drop in the oil price and
16 consequent oil demand production.

17 Metalcam soon saw this cycle repeat in 2019 when
18 oil prices dropped following the highs in 2017 and 2018,
19 leading to a decrease in overall demand at the same time it
20 feels the contraction in demand by the limitation, by the
21 limited ability to sell product. This factor leads to
22 declines in the number of fluid end block use.

23 Finally, in 2019, the market also began feeling the
24 effects of an earlier industry shift away from alloy to
25 stainless steel fluid end blocks. Stainless steel fluid end

1 blocks last longer and result in lower basic demand over
2 time.

3 The Petitioner now claim that foreign producers
4 took advantages of the market situation in 2019 to unload
5 low-priced subject imports from inventory. However, it is
6 simply not the case. The Petitioner's argument fundamentally
7 obscures the nature of the problem at issue. Fluid end
8 blocks are a larger capital expenditure than the producer to
9 order. Metalcam produces each fluid end block itself in the
10 United States according to purchase order and sales
11 confirmation. Each purchase order and sales confirmation
12 outlines the high quality standard intended for specification
13 required by Metalcam customers. Therefore, Metalcam is not
14 in the business of maintaining large inventory of fluid end
15 blocks. Frankly speaking, to do so would not make sense at
16 all for a business strategy.

17 As Metalcam can rely on others to maintain
18 capacity, it has no need to maintain fluid end blocks
19 inventory. As stated in the Halliburton public statement,
20 any purchase by Halliburton from Metalcam had to do with the
21 quality of the Metalcam product and not with low prices. As
22 such, the contention that Metalcam flooded the market with
23 low-priced fluid end blocks from inventory is totally
24 unfounded.

25 Thank you for your time and attention, and, of

1 course, I remain at full disposal for any further questions.

2 MR. HEFFNER: Thank you, Massimo.

3 This is Doug Heffner again with Faegre Drinker.

4 I'd now like to introduce Tom Bell, Vice President of the
5 Americas for Groditz Steel North America. Tom?

6 MR. BISHOP: We're not hearing you, Tom.

7 (Pause.)

8 MR. BELL: Can you hear me now?

9 MR. BISHOP: Yes, I can.

10 MR. BELL: Great, thank you. I should be all set.

11 MR. BISHOP: I'm going to rename your caller.

12 MR. BELL: Thank you for your patience. We should
13 be connected now.

14 MR. BISHOP: Go ahead when you're ready.

15 MR. BELL: Okay, great.

16 Good afternoon, and thank you for this opportunity
17 to participate. My name is Tom Bell and I'm the Vice
18 President of Americas for Groditz Steel North America,
19 located just outside of Chicago.

20 My background extends over 25 years in experience
21 in specialty steel management, marketing and sales within the
22 sectors of automotive tooling, power gen, and oil and gas.

23 Schmiedewerke Groditz, known as SWG, is part of a
24 large, privately held German industrial company of GMH Group.

25 GMH Group has multiple facets of steelmaking including

1 casting, forging and customized forged products in both open
2 dye, closed dye and long products.

3 SWG's production facility in Groditz, Germany
4 extends over 240 years of steelmaking and forging. SWG has
5 been actively involved in the oil and gas sector to innovate
6 the application of stainless steel forgings, specifically for
7 fluid end blocks, otherwise known as FEB.

8 This innovation actually began back in 2012 in
9 getting the approval of two large OEMs that make fracking
10 pump units followed by supplying to machine service providers
11 as well. SWG has worked closely with our customers as
12 invited partners to our production facility in Germany to
13 maximize our products specifically for their application.
14 SWG has helped these FEB OEMs upgrade their product offering
15 from alloy steel to stainless steel, which ultimately
16 maximizes field applications.

17 Our proprietary integrated production methods using
18 our large EAF, electric arc furnace, followed by remelting of
19 ESR, then forging, machining and final ultrasonic testing
20 have helped us stay among the world's best and most
21 consistent producers of FEB. SWG's forging equipment
22 includes two large presses of 2700 ton and 6000 ton. And
23 besides our advanced equipment we're also proud to have some
24 of the best metallurgical talent to engineer our steel
25 grades.

1 A short example of this continuous improvement of
2 melting is our VOD or vacuum oxygen degassing equipment to
3 help make the best possible and cleanest 15-5 stainless steel
4 forgings. Forging of stainless steel is truly one of our
5 core competencies that the market has recognized not only in
6 oil and gas but also power generation.

7 Besides FEB, we also make rotors, shafts, disks,
8 dymal (phonetic) blocks, rolls for steelmaking, and high
9 alloy stainless steel rings. Many of these products are
10 produced on the same equipment that makes the fluid end
11 blocks although the fluid end blocks represent a very small
12 portion of our total output of our product portfolio.

13 We have an established presence in the United
14 States through Groditz Steel North America, an LLC which I
15 established in 2011. Our continued strategy is to act as a
16 long-term supplier to OEMs in need of best-in-class quality
17 FEBs as well as other forging products for automotive
18 tooling, power gen, transportation and mining.

19 We have future strategic investment plans for U.S.
20 service operations to facilitate a faster arms reach service
21 for our customers. We're proud to be one of the few
22 suppliers with deliveries within 100 percent specification
23 expectation which allows our customers to make competitive
24 fracking pump units within their timing demand and operate in
25 the safest manner for employees and their end user customers.

1 Based upon our market feedback we do not believe
2 the U.S. domestic producers have a comparable track record in
3 reliability. Moreover, we understand from our customers that
4 one of the main reasons they purchase from SWG is that
5 domestic producers could not meet the delivery or technical
6 requirements as consistently demanded for fluid end blocks.
7 Therefore, we do not compete on price but with quality and
8 technical expertise.

9 Finally and most impactful, since March 2018 we
10 have already been hindered by 25 percent under Section 232
11 steel tariffs. Any additional AD or CVD levies will
12 practically eliminate SWG from the fluid end block supply
13 chain and deprive our U.S. customers access to our high
14 quality products.

15 Thank you, and I'm prepared to take any additional
16 questions.

17 MR. HEFFNER: Thank you. That ends our opening
18 presentations.

19 VICE CHAIR STAYIN: Thank you.

20 Commissioner Johanson.

21 COMMISSIONER JOHANSON: I'd like to thank all of
22 you for appearing here today. WE appreciate it. I'd like to
23 begin, probably not too surprisingly, by raising the issue of
24 quality which is a subject discussed at some length this
25 morning and already by this afternoon's panel.

1 My first question is for Mr. Poradek. For Mr.
2 Brada's testimony this morning, did inadequate training of
3 ST9 employees result in damage to a fluid end block produced
4 by Ellwood? Also, did a failed tool at ST9's shop result in
5 a second fluid end block produced by Ellwood being damaged?

6 MR. PORADEK: So let me jump in there. So, first
7 and foremost, our employees don't actually operate the fluid
8 end blocks so it would actually be my customers' employees.

9 And more importantly, that occurs to everybody's
10 blocks irregardless of origin. That's one. There's always
11 going to be maintenance issues, especially in the fluid end
12 services. And there's typical failures that we're used to
13 seeing. We obviously know how to -- they'll be discretionary
14 between the two, right? Pretty simple.

15 Especially with odd failures like a pinhole. No
16 other block except Ellwood's blocks get the pinholes. So
17 it's obviously only Ellwood's blocks. It has nothing to do
18 with maintenance.

19 In terms of the machining issue, again, that wasn't
20 actually an ST9 failure. The third party vendor that we use,
21 actually Ellwood used them for their own sub-machining as
22 well. It's Ram Tool, and they're lovely people. Small
23 family owned company. Great people.

24 But the short and sweet of it is, it was a one-off
25 issue. I've got Ellwood who claims it was a tool crash when

1 they did a full study. Ram did the same thing, it's claiming
2 it's voids. Both of them battled it out and argued about it.

3 The reality of it is we caught it. I'm just glad we caught
4 it. And it was easy to catch because it was very obvious.

5 I'm going to submit the whole reports from
6 everybody with pictures, and you'll see that it's a very
7 obvious difference.

8 And if you want to see it now I'm happy to share a
9 little bit of it now if you'd like. I've got a couple of
10 pictures if you want to see them just so you can see the
11 difference.

12 COMMISSIONER JOHANSON: Yeah, why don't we do that.

13 (Pause.)

14 MR. PORADEK: Let me know when you can see it.

15 COMMISSIONER JOHANSON: Yes, yes, I can.

16 MR. PORADEK: So this would be the tool crash
17 failure, right, so it's -- it looks kind of scary obviously.

18 So when you see that, it looks like this massive
19 cluster of voids from the distance, and, you know, Ellwood's
20 claiming its tool crash, and Ram still claims it's a void. I
21 mean, both of them have arguments either way.

22 My thoughts are is it's -- we caught it. It's very
23 easy to identify, and I didn't make it to the field, which is
24 very fortunate. But, again, as visual as it is, they never
25 would have made it to the field.

1 The problem that we have is that you come over to
2 these, right, this is the Ram issue, it's a massive cluster
3 what looks like little specks, right. The picture that we
4 have is that -- and the pinhole issue is the biggest one;
5 that's the most systemic one that's specific to Ellwood, and
6 they're not visible.

7 You can't see them, and the only possible cause is
8 an inclusion, or a void in material because they're in
9 different locations all over the fluid, and ultimately
10 they're just simply small cracks that allows liquid to flow
11 out.

12 This is actually not under pressure at this point
13 in time. They'd actually turned it off when they took this
14 picture, but you can still see the liquid dripping out of a
15 hole you can't even see, and then when it fully drains the
16 liquid, you can't see the hole at all. So it's a very
17 different kind of failure, if that makes sense.

18 COMMISSIONER JOHANSON: With regard to these
19 failures, or these alleged failures of equipment supplied by
20 Ellwood, do you have any email communications going back and
21 forth describing your concerns about --

22 MR. PORADEK: Ellwood?

23 COMMISSIONER JOHANSON: -- Ellwood?

24 MR. PORADEK: Yeah, I'll dig up what I've got.

25 COMMISSIONER JOHANSON: I think that would be

1 helpful.

2 MR. PORADEK: I mean, I think it's pretty obvious
3 in the response too, right, they sent inspectors out to our
4 facility to investigate, so I would say it's obvious they're
5 aware of it; otherwise, you don't send inspectors.

6 COMMISSIONER JOHANSON: Okay. And I know you've
7 already spent some time talking about the quality issues.
8 Let me dig in a little bit more. Could you please respond to
9 petitioners here in Exhibit -- Slide 18, which is compilation
10 of data suggesting that -- suggesting that regarding -- with
11 regard to quality material, petitioners in their
12 questionnaire responses reported comparability between
13 domestic product and subject imports.

14 MR. PORADEK: You're talking about -- it's from the
15 overalls, right, from the overall summaries, from everybody's
16 definition?

17 COMMISSIONER JOHANSON: Slide 18.

18 MR. PORADEK: Oh, Slide 18, I'm sorry. I was
19 looking at Exhibit 18. Yeah, what purchasers reported,
20 right?

21 COMMISSIONER JOHANSON: Correct. They talk about
22 purchasers.

23 MR. PORADEK: This is how you define comparability,
24 right? And the way the Commission defined it, it was a
25 geometric definition, so are they the same machining? Yes,

1 the same exact design in terms of geometric. If you measure
2 them, they measure identical.

3 So, I think -- I think it's more of -- of course
4 they're interchangeable to not respect it. Are we talking
5 about equivalent life? No, absolutely not.

6 COMMISSIONER JOHANSON: Okay. Let me on to
7 something else then about beyond quality.

8 MR. PORADEK: Actually, if you don't mind me --

9 COMMISSIONER JOHANSON: Go ahead.

10 MR. PORADEK: I didn't explain it when -- from Guy
11 Brada mentioning earlier, he was asking -- he was saying that
12 we refused to send the block back to him. The reality of it
13 is, and this is what happened, when you have a customer, the
14 customer owns the block, and they notify us of an issue.
15 Typically it's after the block has already been packed, and
16 when they have a block that fails, they scratch them; they
17 scrap them for cash.

18 So when we called and asked for the block to be
19 returned to us, and we told them we'd pay for the scrap value
20 of it, they'd already scraped it. So there isn't much we can
21 do about that.

22 And then I know that he said it was maintenance
23 related, but, I mean, it's pretty obvious it's not. If it
24 was maintenance related, the equivalent across everything, we
25 wouldn't have seen the light jump back up as soon as it went

1 back to Italy.

2 COMMISSIONER JOHANSON: So, can you explain as to
3 -- the whole issue of maintenance related? Can you repeat
4 that, please?

5 MR. PORADEK: He was saying that he was -- people
6 in the field creating maintenance issues that would cause the
7 fluid to fail, right, that was what he stated, or roughly,
8 and the reality of it is, yes, maintenance issues can fail
9 the fluid end, absolutely. In fact, they often do, but they
10 fail everybody's fluid ends.

11 The maintenance issue is in the sealing surfaces so
12 it's very easy to identify where they've had a maintenance
13 issue because it's the same location every time, and then at
14 the same time, it happens again to everybody's blocks, so
15 when we're talking over a spread of over 500 fluid ends that
16 we've got data on, you know, that are specifically ST9 fluid
17 end, you would see that spread across everybody's stuff,
18 right. It's statistically going to spread. It's very, very
19 simple.

20 And if it was just a -- if it was just a one off,
21 and Ellwood, you know, had bad luck, right, I could
22 understand if it was a sample of ten, but now the sample in
23 that particular case, I believe, is over 400 Ellwood blocks,
24 so it doesn't make sense for that to be statistically
25 relevant at that point.

1 COMMISSIONER JOHANSON: Okay.

2 MR. PORADEK: Does that make sense?

3 COMMISSIONER JOHANSON: Yeah, I'm sorry, you
4 mentioned 400 Ellwood blocks?

5 MR. PORADEK: Yes, we have in just one of our
6 customer's databases, yeah.

7 COMMISSIONER JOHANSON: Okay.

8 MR. PORADEK: And it's a failure database. Every
9 time a failure occurs, and you're going to get -- you're
10 going to get a report from this database, and that's post
11 hearing. It's a little hard to look at one item and infer
12 them all right now.

13 COMMISSIONER JOHANSON: So you're saying there's
14 400 blocks with quality issues?

15 MR. PORADEK: That failed. Every block fails at
16 some point, right?

17 COMMISSIONER JOHANSON: Okay, right.

18 MR. PORADEK: So there were 400 blocks failed, so
19 it wouldn't say every single one had a quality issue, but,
20 unfortunately, a large portion of them did.

21 COMMISSIONER JOHANSON: Okay. If you could break
22 that -- break out how large a portion that was, that would be
23 the issue.

24 MR. PORADEK: Yes. So, for pinhole failures it's
25 about three percent. For premature cracks, it was about ten

1 percent. So, I got 13 very comfortably. It's very easy to
2 identify.

3 COMMISSIONER JOHANSON: Okay. Thank you. I'm
4 going to move onto -- sorry, that's my dog busting in the
5 room.

6 Moving onto another issue, does the fact that U.S.
7 forgers and finishers, U.S. shipments declined by more than
8 occurring U.S. consumption, and that the domestic industry
9 lost market share of accumulated subject imports over the
10 period for which data were collected indicate that the
11 domestic industry was adversely impacted by something other
12 than just declining demand?

13 MR. PORADEK: I know in my case I purchased over a
14 thousand blocks in 2019 from domestic, and I'm not purchasing
15 any more, so I'm guessing that impacted it quite
16 significantly, and I can tell you it was quality.

17 COMMISSIONER JOHANSON: Okay.

18 MR. PORADEK: The other factor would have been
19 quality in that scenario.

20 COMMISSIONER JOHANSON: Okay. Anybody else have
21 anything to add?

22 Okay. My time is about to expire. I appreciate
23 your responses.

24 VICE CHAIR STAYIN: The next person is going to be
25 Commissioner Schmidlein.

1 COMMISSIONER SCHMIDTLEIN: Okay. Thank you. I'd
2 like to thank all the witnesses for being here this
3 afternoon.

4 So let me just follow-up a little bit with Mr.
5 Poradek from ST9. I just want to make sure I understand
6 because you did put the emails that the petitioners had
7 referenced this morning, and sort of walk through them, and I
8 don't -- because we're not at the office, I have all of
9 these documents up on my screen sort of trying to keep them,
10 you know, straight, so forgive me if I'm not exactly accurate
11 in my summary here.

12 But, I think, I heard you say that in 2019, at some
13 point in July to September of 2019, you became aware that
14 there were pinhole problems with Ellwood's fluid end blocks,
15 is that right? Was that not until sort of July that you
16 started to suspect there was a problem, but by September you
17 definitely knew there had been failures.

18 MR. PORADEK: Yes. So the first -- and bear in
19 mind, the very first one we weren't really sure what was
20 happening, but, yeah, the very first one, I believe, occurred
21 on June, and probably within a margin of three days, so
22 forgive me, but I believe it was June 29th was the very first
23 pinhole failure that we observed.

24 And then, of course, we find out because, again,
25 this is with our customers, so we find out a little bit after

1 that, but that would be when we first became aware of a
2 pinhole, and that was concerning, right. It was one, but it
3 was one, so it wasn't -- it wasn't super concerning because,
4 you know, we've got quite a few blocks at that point that we
5 purchased.

6 The problem is that we started seeing more over
7 that time period, and then we continued to see more even
8 after they sent out inspectors, and I've got multiple
9 failures from pinholes from Ellwood blocks even this year.

10 COMMISSIONER SCHMIDTLEIN: And, so these blocks
11 that are in service are blocks that you purchased how long
12 ago?

13 MR. PORADEK: We would have purchased those in
14 2019.

15 COMMISSIONER SCHMIDTLEIN: I see. Okay. So --

16 MR. PORADEK: You've got the whole cycle from --
17 you know, bear in mind from the time that the forger ships
18 it, it goes through the machinist, it goes to the post
19 processing, it gets delivered to us, that's probably a month,
20 or two roughly, right, and then, of course, we have first in,
21 first out inventory. So we have to keep very large coffers
22 of inventory obviously to cover extra, we're able to supply
23 everybody, and sort of create the ramp-ups or ramp-downs, so
24 we keep a lot of inventory.

25 And, so depending on the demand draw, it can take a

1 while to pull that through inventory as well, and then from
2 there you even have time in the field, and these things can
3 live -- you know, they can very comfortably live six months
4 to a year depending on the fluid end, and then in some cases,
5 for some of the Ellwood ones, we had almost 30 hours, for
6 example.

7 COMMISSIONER SCHMIDTLEIN: But all the problems
8 with Ellwood's products didn't become apparent until mid-
9 2019.

10 MR. PORADEK: That's when we first started getting
11 suspicions, but it was one of those scenarios where you have
12 a suspicion, but we didn't have a lot of data, or proof at
13 that point, and, so we collected data, and we collected
14 information up until about September, and then that's when we
15 actually had the machining issue that looks like a void, and
16 that Ellwood is saying is a tool crash. One of them is
17 right.

18 But the point is is that then that kicked off --
19 then that kind of spiked what we thought was a void as well,
20 and like, okay, that explains everything we're seeing, right,
21 that explains all of the issues. It explains the lower
22 light, everything we're seeing, it kind of makes sense if
23 it's void to that nature. So that's when, of course, they
24 come down, and they're investigating for the pinhole
25 failures, and any other failures.

1 And, you know, the only thing we could give them to
2 say at the end of the day was it met our specification. We
3 couldn't give them to say there was no quality issues; we
4 couldn't get them to take any sort of risk off of our plate.

5 It was just it met our specification, but at the end of the
6 day, it's living half as long, and it's got failures I can't
7 explain because it's not occurring to any other -- any other
8 supplier.

9 COMMISSIONER SCHMIDTLEIN: And, remind me, we you -
10 you weren't buying from Ellwood prior to 2019.

11 MR. PORADEK: We were buying from Kanye at that
12 point, yes.

13 COMMISSIONER SCHMIDTLEIN: In 2018, and, I guess --

14 MR. PORADEK: I believe -- I believe we -- I think
15 we started ordering from Ellwood maybe before 2018, I believe
16 is when that relationship started, and I've got a timeline
17 I'll put together so you all see exactly every detail.

18 COMMISSIONER SCHMIDTLEIN: And once this meeting --
19 you had this meeting in September, I guess, where they came
20 to do the inspection, at that point did you decide not to
21 buy, not to continue to buy from Ellwood?

22 MR. PORADEK: At that point we talked internally.
23 So Chris and I obviously run the company, and we decided that
24 we were going to continue on pushing forward with the
25 Italians, and no longer push from Ellwood at that point,

1 which is why you don't see any additional orders to Ellwood
2 at that point. Actually, we didn't have anything since June
3 to Ellwood.

4 COMMISSIONER SCHMIDTLEIN: And, so did you inform
5 Ellwood of this in -- so you didn't issue any RFQ's to
6 Ellwood after September of 2019 then?

7 MR. PORADEK: I believe Janet did, our director. I
8 believe she did, but she was told to keep Ellwood happy, to
9 keep them on the book because, bear in mind, we just got
10 burned with the quality issue with Ellwood, right, so we
11 started transitioning to the Italians, but we're trying to
12 make sure that we don't have another quality issue.

13 So we kind of did it -- we did it slowly, and
14 safely, so we did a trial batch, and we slowly ramped them up
15 as well just to be careful, and at the same time, you know,
16 you can't go and tell Ellwood, hey, your product is horrible,
17 and we're not ever going to buy from you again because then
18 what happens if it turns out that, you know, Lucchini's stuff
19 was horrible, and we couldn't use it, then we're stuck,
20 right. So we were --

21 COMMISSIONER SCHMIDTLEIN: Well, this is where I
22 think I'm not quite understanding because as you mentioned,
23 right, there's 12,000 pounds per square inch going through
24 these things. It's like operating a bomb essentially.

25 It happens my dad was in the oil and gas pipeline

1 business.

2 MR. PORADEK: Okay.

3 COMMISSIONER SCHMIDTLEIN: All his career, right,
4 laid natural gas pipeline, that's what he did. So I'm pretty
5 familiar with the dangers that people who are out there
6 putting that kind of pipe in the ground are facing.

7 So I don't understand when you say this is
8 incredibly dangerous to have this type of thing, and these
9 were very poor quality, but we didn't tell the company that
10 we weren't going to buy from them anymore, and, in fact, we
11 continued to issue RFQ's to them even after we knew of the
12 poor quality.

13 How is it that we can buy from them if they were
14 such poor quality, and it could have been -- it essentially
15 puts people's lives at risk, right?

16 MR. PORADEK: So bear in mind, the RFQ's that were
17 issued to them were fluid -- for a type of fluid, and we did
18 not currently make, and we never did end up buying those
19 types of fluid, or at least not in that time period. I think
20 eight months later we ended up working on making one, and we
21 had some prototypes for it, and that was Janet, right. So
22 Janet was told to keep a good relationship with them, keep
23 them happy, but don't issue them any --

24 COMMISSIONER SCHMIDTLEIN: I don't understand what
25 "keep them happy" means. What does that mean? Like we're

1 not going to tell you that we -- that you have poor quality;
2 we're going to continue to --

3 MR. PORADEK: Well, we did -- we did tell them they
4 had poor quality; that's why they sent inspectors.

5 COMMISSIONER SCHMIDTLEIN: Do you think it's mixed
6 messaging though to say we're going to continue to send
7 requests for quotes? Internally we've never made the product
8 we're asking for a quote on.

9 I mean, that would suggest -- if I were on the
10 receiving end of that, I think that would suggest to me that
11 I was -- that, you know, whatever quality issues there were,
12 they certainly weren't serious enough, or fatal to the
13 relationship because the company is continuing to ask me to
14 quote, no?

15 MR. PORADEK: No, I understand where you're coming
16 from. At the same time, I don't -- from my perspective, bear
17 in mind, I've already got a supply coming in now at that
18 point from Italy, right, and I'm ramping up to that. I'm
19 hedging my bets because we got burned by switching too fast
20 to Ellwood the first time, so I'm trying not to get burned
21 again by switching back to Italy too fast.

22 So Janet's job is keep everybody happy, keep
23 everybody going on. If there's nothing going on, and bear in
24 mind, Barry told us that -- we already talked to him about
25 having quality issues, and their response was, in a legal

1 letter, by the way, that they would only be able to say it
2 was up to our specification.

3 So, I mean, we could argue with them all day long,
4 but there's no point to it, and we could have tried to refuse
5 blocks, you know, because we still had P.O.'s that they were
6 delivering on too as well, and we could have been -- of
7 course refused those blocks, and end up being sued for breach
8 of contract like one of my competitor's is being sued by
9 Ellwood right now for refusing to take blocks.

10 So we -- there's a variety of scenarios that we
11 could play, but our best bet was if they do so, be careful,
12 and go forward, and then we have the supply up and running,
13 and we felt very comfortable with Italy, right. I called and
14 told them that we wouldn't buy from them anymore until they
15 got their quality issues fixed.

16 COMMISSIONER SCHMIDTLEIN: And when was that?

17 MR. PORADEK: That would have been, I believe, the
18 beginning of January, and I'll get a call log, and I'll get
19 you an exact date for that.

20 COMMISSIONER SCHMIDTLEIN: Okay. In 2020, you
21 mean, yeah.

22 MR. PORADEK: In 2020, yeah.

23 COMMISSIONER SCHMIDTLEIN: Okay. That would be
24 helpful. Thank you.

25 All right. Let me shift gears a little bit. I'm

1 almost out of time, but let me shift gears just a little bit.

2 This is a question for Mr. Heffner. This is a question for
3 counsel.

4 One of the arguments that you make in the pricing
5 section is that we should give little weight to the
6 commercial pricing data because in your all's view, there
7 aren't enough examples of head to head competition, and there
8 are quarters where -- you know, there aren't enough quarters
9 where both U.S., and all four subject countries have
10 shipments.

11 And, I guess, very quickly, my question for you was
12 we see this a lot, especially in multi-country cases, right,
13 and in cases where you have fairly specific specifications,
14 and there are a lot of versions, you know, a lot excused, as
15 we say, right.

16 Do you know the case where the Commission has said
17 we're not going to really give much weight to the pricing
18 data for the reasons that you argue in your brief which
19 discounts -- that seems to be because of those reasons?

20 MR. HEFFNER: This is Doug Heffner. I think it's
21 just one of the factors that you have to look at. We're not
22 saying that you discovered it all together. We're saying
23 that the probative value may not be that great.

24 You have the purchase cost data that -- you know,
25 that also shows that there isn't a lot of underselling. You

1 have the normal data, quarterly data that the Commissioners
2 collect, and that doesn't show a lot of -- it shows a mixed
3 pattern, I would say, but at the same time, there are large
4 gaps in the amount of coverage.

5 I mean, and, so, it's just one of the things that
6 we're asking you to look at that say -- there are lots of
7 things. We're going down dramatically. There's quality
8 issues. There was these pricing -- you know, on one set of
9 pricing data we're really not overpricing. Another set we're
10 -- I mean, one set we're overpricing, another set it's mixed,
11 but there's a lot of variation. So it's just one of these
12 things that you should take into account, we believe, when
13 you're looking at all of this.

14 And I would also say that contrary to what the
15 petitioners were saying this morning, we did put in honest
16 suggestions for the Commission to use, and those are products
17 that we sell a lot of. So we thought we were doing the right
18 thing by putting in that type of data. So it isn't likely
19 we're trying to, quote/unquote, "game the system" that they
20 talked about this morning.

21 COMMISSIONER SCHMIDTLEIN: Okay. All right, thank
22 you. My time's expired for this round.

23 CHAIR STAYIN: Commissioner Karpel?

24 COMMISSIONER KARPEL: Yes, thank you. I guess I
25 wanted to ask, over the period of investigation, should we

1 expect to see that the amount of stainless FEBs being
2 imported is increasing relative to the non-stainless, the
3 alloys that are being imported?

4 MR. HEFFNER: Do one of our customer witnesses want
5 to address that?

6 MR. PORADEK: So, I would say, as a general rule,
7 you will probably see -- it's a bit confusing on that,
8 because you will see a higher volume from alloy for the same
9 work, because the alloy lives a lot less time, right? So,
10 one stainless steel fluid end will live somewhere between
11 three and five times as long as one alloy block, in general,
12 right? Now there are some design differences. For example,
13 Halliburton, because they have their own vertical
14 integration, they don't have to live to kind of a standard
15 design. They have a very, very big fluid end, and then that
16 allows them to get away with using the alloy steel versus the
17 stainless steel a little bit better than a lot of our other
18 customers.

19 COMMISSIONER KARPEL: Right. But I guess I'm
20 thinking over time, right, about the transition to stainless,
21 so, did it complete prior to the period of investigation
22 starting, such that we can expect to see the same mix of
23 stainless and alloy coming in, in terms of imports, or is
24 that transitioning continuing, such as the relative share of
25 stainless coming in versus alloys that's continuing to grow?

1 MR. PORADEK: I would think directionally, from
2 what I know, I would say you would probably see the trend
3 continue; however, if memory serves, the period of
4 investigation is from 2017 forward, you would have seen a lot
5 of it converted by then, at that point. So, heat conversion
6 occurred in 15 and 16 and it started in 14 but really big in
7 15 and 16, because we had a major oil and gas downturn, in
8 fracking at that point in time, so people got really smart
9 with how they spent money, and they really dove in to the
10 life of their products and in the total cost of ownership of
11 those products, or at least our customers did. So, obviously
12 when a product lives five times as long or three times as
13 long, it doesn't cost three to five times as much, it's going
14 to have a better total cost to ownership and they were able
15 to come to, you know, come to that conclusion and many of
16 them converted heavily during the downturn.

17 COMMISSIONER KARPEL: And Mr. Bell, do you have
18 views on that?

19 MR. BELL: Yeah, I would share the same, that, can
20 you hear me okay Commissioner?

21 COMMISSIONER KARPEL: Yes, absolutely.

22 MR. BELL: Okay, great. The same for us. We saw
23 an early -- obviously when we first got into it, 2011, 2012,
24 it was almost exclusively alloy and then really the two major
25 OEMs that we were engaged with gradually were convinced that

1 stainless were of value, so over the years this transition
2 occurred -- I don't know that it was really a linear scale,
3 but gradually they converted once they were convinced that
4 the stainless was a better product in the field.

5 COMMISSIONER KARPEL: Okay, so, I guess, anyone
6 else have views on that?

7 MR. GIRIVETTO: Yeah, this is Giulio Girivetto, of
8 Cogne. I am the director for Stainless Steel Bars and Oil &
9 Gas. I started this business in the fluid ends in 1912
10 (sic), and I remember at the time that we were one of the
11 first producers of stainless of steel bars in the market, and
12 the share between the stainless steel and alloy steel was 10
13 percent or probably less than 10 percent to 90 percent in
14 alloy steel, and the main fact that moved the fluid end block
15 producer was exactly the life of the block, because the
16 problem was that in the field to change fluid ends after only
17 800 hours working was a problem, not from a position of money
18 but a position of time.

19 So the reason why they moved from alloy steel to
20 stainless steel was only the fact that the stainless steel,
21 after the first test, the result was no life, and this was
22 also a cause of some that say a wrong projector, a wrong
23 forecast of the life of the fluid end stainless steel. And
24 that they stopped the purchasing people to buy a lot of fluid
25 end stainless steel thinking that it was lasting double,

1 instead. And the reality in the end they found that the
2 stainless steel fluid ends was lasting 5 times, so they
3 bought too much, and this caused a reduction in market demand
4 in, say, 1916, 1915 (sic).

5 COMMISSIONER KARPEL: You mean 2015 or? I'm sorry.
6 The decline happened when?

7 MR. GIRIVETTO: I believe, if I remember, it was
8 2015.

9 COMMISSIONER KARPEL: 2015, so, yeah.

10 MR. GIRIVETTO: Yeah.

11 COMMISSIONER KARPEL: Okay. So, I guess I'm trying
12 to get a sense that there's been a change in the mix of
13 stainless and alloys in terms of imports or in terms of
14 consumption in the US or in terms of US production. It
15 sounds like generally the biggest transition to stainless in
16 the market happened before 2017, although there may be a
17 little bit of more uptake of stainless versus alloy as we go
18 through 2017 to 2020. Does anyone disagree with that, sort
19 of, summation of what people have said?

20 MR. PORADEK: Yeah, I would say probably 60 percent
21 of the conversion occurred in sometime, you know, 2016 and
22 before, and then the other -- because I mean, aside from
23 Halliburton, nobody else uses alloy steel blocks, not really,
24 so that being said, probably 25 to 30 percent occurred over
25 the period of inquiry.

1 COMMISSIONER KARPEL: Okay.

2 MR. BETEMPS: If I can add. I'm here in the US, we
3 had branches in Germany in 2015, and I remember that that
4 period was bad for the crude oil value, and so we had a bad
5 year in oil and gas, but in 2016 we saw a difference though
6 in fluid end blocks, in particular in stainless steel,
7 because we never participated too much in this business.

8 COMMISSIONER KARPEL: Okay. And I want to ask
9 another question. So, in terms of the prices for fluid end
10 blocks, how much does the current state of demand for end
11 blocks, fluid end blocks, affect prices? So, we had this
12 exchange with petitioners this morning about elasticity, and
13 if demand is inelastic, does that tend to signal that prices
14 aren't expected to be much different in times of low demand
15 or is, in fact, there a big difference in what purchasers are
16 willing to pay for FEBs in a time of low demand?

17 MR. PORADEK: So, I would say, demand is actually
18 very important to the pricing and it directly affects it.
19 And then I would also say that I think we need to make sure
20 we understand the definition of how demand is driven. So,
21 obviously there is horsepower demand, but at the same time
22 there has been pricing implications for our customers, for my
23 customers

24 But the biggest issue that we have, like I said a
25 little bit earlier, is that the horsepower market, which is

1 my customers, is really oversupplied. It is almost like 50
2 percent oversupplied, and so, of course, you've got 50
3 percent of the market pretty much bidding on work and the
4 other 50 percent is winning the work. The problem is that
5 there's pretty much no margin, which means, they call me up
6 and they beat me up, and then when demand drops, they really
7 take advantage to beat me up at that point, which then means
8 I beat everybody else up. It's pretty basic supply and
9 demand, and so the reality of it is, of course, we see a
10 decreased and lower demand. Everybody, when oil and gas is
11 bad, people don't even pay their bills in oil and gas when
12 it's bad. I mean that's how bad it gets, right? You'll go a
13 year without people paying you. That's how bad it gets. But
14 during that time period people that are actually willing to
15 buy, they expect a deal. They do. It's pretty normal in oil
16 and gas that when demand is really low, and then people that
17 actually are willing to buy anything, they expect a very good
18 deal for that effort and it's pretty normal.

19 COMMISSIONER KARPEL: Thank you. Do others have
20 perspectives on that? Mr. Bell?

21 MR. BELL: I would echo what Nick has commented on,
22 just, a further extension of that is that we all as steel
23 makers have high fixed costs and existing equipment
24 installed, so when we see a higher volume available,
25 certainly that entices us to offer a more competitive unit

1 cost for our capacity utilization compared to a smaller
2 amount of volume available, we would look upon that
3 differently, just in terms of efficiencies and yield.

4 So, for steel making, I think we all have the same
5 effects of cost at some point, even though there may be
6 different displacements among those cost factors, but when we
7 see a bigger volume, that is really what steel makers look
8 for in terms of maximizing their process and lowering unit
9 costs, if the volume is higher. I hope that confirms what
10 Nick had said.

11 COMMISSIONER KARPEL: Okay. Anyone else have
12 views?

13 MR. COCCHI: This is Massimo Cocchi from Metalcam.
14 I wanted only to mention that it is clear that where we are
15 crossing -- or with global economies crossing, it is a
16 difficult period from a business perspective; there is high
17 pressure also on price to sustain the supply chain, but we
18 should not forget that the drop- down, for example, on the
19 process costs that the steel mill, has to sustain it, are not
20 comparable to the drop-down of the price, for example, for
21 oil. So, we can say that price also, in this critical
22 period, has been more stable comparing other features, oil
23 for example.

24 COMMISSIONER KARPEL: Okay. Thank you all for your
25 answers. My time is up.

1 CHAIR STAYIN: Thank you. My turn. Would you say
2 that when you argue that quality and non-price factors grow
3 your sales, would you agree that price is an important factor
4 to FEB customers in purchasing decisions, even if not the
5 most important factor?

6 MR. PORADEK: If everything else was fully
7 equivalent and truly equal, then of course the only thing
8 left is price. The problem is that it's not all fully
9 equivalent and fully equal.

10 CHAIR STAYIN: Which brings me to another matter in
11 the staff report. On table II, roman II - 12, on the staff
12 survey, found, and this is with respect to the ability of US
13 producers to meet minimum quality specifications and the
14 United States was the one that always had the ability to meet
15 minimum quality specifications. The United States had seven,
16 China had four, Germany had four, India had three, Italy had
17 zero, and non-subject was two. So our own investigation
18 basically comes up with the fact that US producers are
19 thought and believed to meet the minimum quality
20 specifications. Does this undermine your position that the
21 US producers are not capable of providing a quality product?

22 MR. PORADEK: I think it's a matter of --

23 (Simultaneous discussion.)

24 MR. FERRIN: Sorry. Commissioner Stayin, this is
25 Richard Ferrin at Faegre Drinker. If you're looking at table

1 II-12, just to make a small point, if I'm looking at the
2 ability to meet minimum quality specifications by source, for
3 Italy it was not zero always, it was nine always, so they
4 were more able to meet minimum quality specifications than
5 any other single source.

6 CHAIR STAYIN: I'm sorry. I misstated that. I
7 misread it, sorry.

8 MR. PORADEK: But just to answer your general
9 point, though, the issue we've had -- and it's something I
10 was talking about earlier -- the specifications don't really
11 determine, at the end, quality.

12 A lot of people can make and meet our
13 specifications. The problem is that there's a huge
14 difference in quality in between the individual providers of
15 the forgings. I mean, like I said. It's very, very obvious
16 when you have failures that don't occur with anything but one
17 and you literally have a double-life difference, in terms of
18 life of a product, right? But they're both made to the exact
19 same specification. The only difference between the two
20 products -- same machinist, same post-processing, same
21 assembly, same parts going in it put in both of them -- the
22 only difference is who forged it.

23 MR. HEFFNER: And this is Doug Heffner from Faegre
24 Drinker also. If I can just add, if you look at the
25 narrative responses and the questionnaire responses for

1 purchasers, you will see that's a fairly consistent theme,
2 even though the US producers may be able to meet minimum
3 specifications, there's a lot of purchasers that discuss the
4 fact that quality was a big issue. So, they may be able to
5 meet the minimum specifications, but that doesn't mean that
6 they're preferred, because of quality issues or other issues.

7 CHAIR STAYIN: All right. Thank you. Anybody else
8 want to comment?

9 MR. BELL: Yes, I would Commissioner. This is Tom
10 Bell from Groditz. I'd like to illustrate and earlier today
11 it was mentioned that quality seemed to be more of a binary
12 term. In my experience, based on what my customers have told
13 me on the feedback of both our output and performance as well
14 as competitors, it can be seen also as a linear expression,
15 in that you can meet the quality but can you meet it
16 consistently? Can you meet it in a reliable fashion, to meet
17 their schedules?

18 And I'll illustrate one small logistical example.
19 We get an RFQ for 100 blocks, 25 blocks per month beginning
20 in April, May, June, July. The customer will look upon our
21 track records and our ability to deliver those 25 blocks when
22 they need it, not before and not later. So, quality really
23 has to do with how consistently you're able to meet that
24 volume requirement within the time frame and not have lower
25 yields, late deliveries and so it goes to the point of

1 meeting a spec is one thing but doing it consistently and
2 being able to do it without scrap, yield fallout, and lower
3 performance rating I think is what the customers look at on a
4 buying factor besides price.

5 CHAIR STAYIN: Okay. On the substitutability
6 issues, our staff concluded that there was a high degree of
7 substitutability between the product being made in the United
8 States and those from the importers. What is your view with
9 respect to substitutability?

10 MR. HEFFNER: This is Doug Heffner again from
11 Faegre Drinker. It's the same comment, I mean,
12 substitutability goes to the fact that you can use it in the
13 same application but it goes, if you again read all the
14 purchaser questionnaire responses, it really gets into the
15 quality differences amongst them and why they are purchasing.

16 So, can you literally substitute one product for the other
17 in the field? Yes, because they meet the minimum
18 specifications. But are there quality issues with one
19 company versus another? What we're seeing in the
20 questionnaire responses and from your purchasers here today
21 is that there are a lot more quality issues, delivery issues,
22 reliability issues with regard to Ellwood and Finkl versus
23 the subject countries.

24 CHAIR STAYIN: All right. Any other comments?
25 With respect to the interchangeability between the US product

1 and the imports, it was found that basically the product made
2 in the United States is interchangeable with the products
3 that are made in the other countries? What are your thoughts
4 on that?

5 MR. HEFFNER: This is Doug Heffner again from
6 Faegre Drinker. Same comment. I don't want to be a broken
7 record here but it is exactly the same thing. Literally they
8 can be interchangeable in the field, but the question is
9 whether there are quality issues associated with it and, yes,
10 there are, and we heard today from the representative from
11 ST9 that some of those are very, very bad failures in the
12 field and quality issues are definitely important here. And
13 how long they last in the field.

14 So, Nick, I don't know if you want to add more to
15 that.

16 MR. PORADEK: you know, I think -- I agree with you
17 absolutely, Doug. I think it's pretty much, you know -- it's
18 like -- it's similar to saying, you know, you've got to get
19 somewhere point A to point B driving a car, right? So, you
20 can drive a Ferarri, or you can drive Toyota. It's two very
21 different experiences, and two very different, you know,
22 realities. But they're both cars, and they're both
23 interchangeable because they both get you point A to point B.

24 MR. GIRIVETTO: This is Giulio Girivetto from
25 Cogne. I just would like to add a remark why the market went

1 from stainless -- from alloy steel to stainless. Because of
2 the longer life. I mean, you can use any fluid end in the
3 field, and they do the same job for you. One fluid end
4 wouldn't last ten hours. The other one lasts two-thousand
5 hours. Of course, this is the difference. Besides the
6 quality, sure, or something else. I mean, certainly if the
7 material that is making is lasting longer, I believe that the
8 customer like Halliburton, like ST9, where we are all -- or
9 Groditz would choose to have a good material that lasts
10 longer than another.

11 MR. PORADEK: And just to follow up on that real,
12 real fast, my customers measure me on my performance. So, if
13 my fluid ends don't last as long as one of my competitors, I
14 don't get the business.

15 VICE CHAIR STAYIN: Okay. Any other comments? All
16 right. My time is running out. Commissioner Johansson,
17 please.

18 COMMISSIONER JOHANSON: Okay. I have a few more
19 questions for you all. I'm going to bring up the subject of
20 underselling versus overselling, which is something that you
21 all addressed pretty extensively in your prehearing brief. I
22 just wanted to, maybe, dig into a bit of that right now. If
23 subject imports are superior in quality to domestically
24 produced fluid end blocks, why did the collective pricing
25 data show much more underselling than overselling, whether

1 measured by quarterly comparison or volume? And this is
2 shown at Table V-16 at the staff report that shows 28
3 instances of underselling, covering 4100 units, versus 13
4 instances of overselling, covering 1200 units. Why would a
5 superior product be priced lower?

6 MR. FERRIN: Commissioner Johansson, this is
7 Richard Ferrin at Faegre Drinker, I can take a shot at that
8 question.

9 COMMISSIONER JOHANSON: Certainly.

10 MR. FERRIN: Table XVI, I believe, is the
11 underselling regarding the comparisons of the commercial
12 sales. This does not take into account the second data set
13 which is the price-cost comparisons. And this reflects the
14 fact that the fluid end blocks are going to two different
15 channels. It's either going from the U.S. producer or
16 subject imports to somebody who is an intermediate, who then
17 resells it to somebody else. Or, they go to somebody who is
18 immediately a consumer, and the Commission collected two sets
19 of data on this.

20 Now, it is true that for the commercial sales,
21 where the importer resold it to some other independent entity
22 that then resold it, that there was somewhat more instances
23 of underpricing than overpricing. But you saw just the
24 reverse on the price-cost data. Seems to me that you look at
25 all the data together, it's more of a wash.

1 The second point is is that keep in mind the point
2 that we were talking about, about comparability. And it's
3 interesting, if you look at the margins of underselling and
4 overselling, in many cases these are very huge margins. In
5 fact, much larger margins than even what petitioners were
6 claiming this morning, as far as what they had claimed as far
7 as amounts of underselling. I think it's much more so than
8 you see in most cases, and I suspect a lot of that has to do
9 with the fact that we're talking about a comparison of apples
10 to oranges.

11 Remember, in this case, what petitioners are
12 talking about is situations where there were bids -- RFQs, or
13 bids -- that were sent out to a lot of purchasers. And
14 somebody won the bid, and someone didn't win the bid. The
15 Commission in this case did not do a bid comparison; talking
16 about strictly apples to apples on the same RFQ. We're
17 talking about what transactions actually occurred. The
18 situations where the U.S. actually won the sale versus the
19 situations where subject imports actually won the sale.

20 And for fluid end blocks because, as all the
21 testimony has indicated all day, that everybody reduces to
22 very specific specifications by the end users, there are
23 going to be wide differences in the products. And that's
24 going to be true even within the various pricing products.
25 It seems to me that that should give the Commission a lot of

1 pause on how much weight they're going to give to the pricing
2 comparison data. So, there are two things. There's the
3 comparability in the pricing series data, and secondly, you
4 can't just look at the commercial price -- overselling and
5 underselling -- but you also have to look at the cost data,
6 underselling and overselling.

7 MR. PORADEK: I think we need to follow up on that.
8 When we talk apples to apples, obviously, when I directly
9 compare bids, I've had zero instances of the Italians, which
10 is the only other ones I buy from -- I guess, from an import
11 standpoint -- undercutting the United States, in terms of a
12 land-to-cost basis. I have had instances of the United
13 States undercutting the Italians, and I'd like to point out
14 that especially when we consider what I'm spending today,
15 it's a huge difference. I'm spending a lot more on Italian
16 product now, partly because, you know, you've got the huge
17 difference on the Euro to USD. That has really cut in. And
18 then when we start toppling in the tariffs I'm going to start
19 paying, it's going to be even more. So, I am paying quite a
20 premium for Italian product.

21 COMMISSIONER JOHANSON: Okay. Thank you. Does
22 anybody else have anything to add on that? I'm going to move
23 onto something else then. One thing that I have not brought
24 up today is the whole issue of stainless-steel fluid end
25 blocks. This is something that caught my interest when I

1 first started reading this. It would make a lot of sense to
2 use that product in this industry. On page 6 of the joint
3 prehearing brief, you claim that domestic pushes latecomers
4 into the stainless-steel sector -- fluid end block sector --
5 and they struggle to adapt. However, appendix E of the
6 prehearing brief -- prehearing report -- shows that a
7 substantial percentage of the domestic producers -- U.S.
8 shipments for stainless-steel fluid end blocks. In light of
9 this information, would you agree the domestic industry is
10 now adapted to the demand for stainless-steel fluid end
11 blocks in the U.S. market?

12 (Pause.)

13 MR. FERRIN: Nick, do you want to take that?

14 MR. PORADEK: Yeah, sure. I would say that -- I
15 mean, I don't have that data in front of me, so I can't give
16 you any sort of detail on the numbers. But what I can say is
17 that from a perspective of, can the U.S. make stainless-steel
18 blocks? They can now, yes. And some of them, they've only
19 been able to make it pretty recently, and then some of them
20 have been making them a bit longer. Obviously, Ellwood has
21 been making it a bit longer. But what I can also say is that
22 they don't make them to the same level of quality. So, until
23 they do, I wouldn't really call them equivalent.

24 COMMISSIONER JOHANSON: And I assume the demand for
25 stainless-steel end blocks really came to fluid with

1 fracking, is that correct?

2 MR. PORADEK: Yeah. Fluid end blocks are pretty
3 much exclusively used in hydraulic fracturing.

4 COMMISSIONER JOHANSON: Okay.

5 MR. PORADEK: I think, somehow, mud pumps got
6 included in this, but it's pretty minimal in terms, I think,
7 the dollar amount. Because mud pumps, the fluid ends hold
8 for a very long time because it's not nearly as harsh of an
9 application.

10 COMMISSIONER JOHANSON: Okay. So you would use
11 non-stainless steel for that block?

12 MR. PORADEK: Yeah. I think there's actually a
13 mix. I think some mud pumps actually use stainless-steel,
14 but yeah. It's a mix for both. But the point is is that the
15 majority of fluid end frack blocks are hydraulic fracturing
16 related, not necessarily mud pump related. Even though they
17 kind of got lumped together in his hearing.

18 COMMISSIONER JOHANSON: Okay. Okay. Let's move
19 onto something else. And this is a question I asked if you
20 were here this morning. I'm just, kind of, curious about
21 your thoughts. Is the lower volume of cumulative subject
22 imports in January through June 2020, compared to January
23 through June 2019, partially explained by post-petition
24 effects?

25 MR. PORADEK: I wouldn't say that, no. I'd say

1 it's more related to changes in quality. And then also, I
2 think, for parts of June, you would have seen, probably, some
3 COVID-related down imports as a result of COVID. So
4 obviously, I know that, for example, my demand during April,
5 May, and June, was practically zero. For example, from March
6 to April, my sales were down 97 percent. So obviously, my
7 demand for blocks obviously decreased as well.

8 COMMISSIONER JOHANSON: Was that less activity in
9 the field, or just lower purchases of oil and gas products?

10 MR. PORADEK: It was significantly less activity in
11 the field. And the activity in the field still has not
12 recovered to what it was just in March of 2020. Today, that
13 is. And so it was obviously much worse in the throes of
14 COVID. Nobody knew what was going to happens, so things
15 essentially shut down.

16 COMMISSIONER JOHANSON: Right.

17 MR. FERRIN: I'm sorry, Commissioner. This is
18 Richard Ferrin, again, from Faegre Drinker. I don't have any
19 specific empirical data on post-petition effects or not, but
20 one thing you may want to keep in mind is to remember that
21 this case is unusual insofar as you have three of the major
22 producers that had a zero-dumping margin. So, it's hard to
23 see that much of a post-petition effect from companies that
24 have a zero-dumping margin. And for those three companies, I
25 believe -- I counted the net subsidy margin -- was pretty

1 small. Does that negate a post-petition effect? I don't
2 know. But it's something to keep in mind.

3 COMMISSIONER JOHANSON: Okay. Thank you, Mr.
4 Ferrin. Thanks.

5 MR. PORADEK: If I understand the concept of that
6 question, one thing I would say is that, for example, I still
7 buy crankshafts from Ellwood crank. So, I still buy a lot of
8 product -- millions of dollars a month -- from Ellwood crank.
9 And I'm going to continue to because they make a great
10 crankshaft. So, I have no reason not to. But I would just
11 say -- if I understand the point of that question, it's
12 basically, was there harm or some sort of adverse effects as
13 a result of them filing the petition, is what my guess that's
14 supposed to mean. I would say, no because if there was, I
15 wouldn't be buying cranks from them, like I was trying to
16 punish them or something.

17 COMMISSIONER JOHANSON: Okay. All right. Thanks
18 for your responses so much. My time has expired.

19 VICE CHAIR STAYIN: Commissioner Schmidtlein.

20 COMMISSIONER SCHMIDTLEIN: Okay. Thank you. I
21 wanted to go back to the question of (garbled transmission)
22 in the argument. I know that you don't have the confidential
23 information that's in the staff report in front of you all,
24 but when I look at the numbers -- we collected information on
25 U.S. importers, U.S. shipments from all subject countries and

1 broke it out. And looking at that compared to U.S. forgers,
2 finishers, U.S. shipment, starting in 2017, U.S. producers
3 shipped more in 2017, in 2018, in 2019, of stainless-steel
4 than all of subject imports combined in each of those years.
5 And including in the interim period in 2020, U.S. has shipped
6 more by a substantial margin, I would say. So, I just want
7 to understand the argument with regard to stainless steel. I
8 thought the argument was U.S. was slow to that type of FEB,
9 and they lost out because of that -- that they didn't adopt,
10 or adapt to the use of stainless-steel. But when I look at
11 these numbers, it looks like they've been shipping this since
12 2017, which is as far back as we go with regard to the data.

13 So, can you reconcile that for me? Why do we see
14 the U.S. shipping more than all the subject countries
15 combined with the argument that the U.S. wasn't producing
16 stainless-steel?

17 MR. PORADEK: So, I can't really argue before 2017
18 since my company didn't exist then, but what I would say is
19 that, I would -- I don't have the data in front of me, so I
20 can't really give you great answers.

21 First, I would ask is there a way I can have access
22 to the data to give you a better answer, would be my first
23 question. And then my next question would be is that in this
24 scenario, I would make sure we're talking like-for-like frack
25 blocks. Making sure that it's not, like, for example,

1 there's like -- you can have mud pumps, for example, just to
2 throw this out -- there's a lot of factors in there that
3 could be distorting this. Then on the other side of it too
4 is how the subject import is broken out. I think there's
5 quite a few factors in there that I would have questions on
6 before I could give you a much better answer, to be honest.
7 So, I'm sure one of my colleagues can probably help better
8 than that.

9 COMMISSIONER SCHMIDTLEIN: Maybe one of the counsel
10 can, since you have access to the APO information. But how
11 does this square with your argument, given the number of
12 stainless-steel FEBs that are being shipped?

13 MR. HEFFNER: This is Doug Heffner from Faegre
14 Drinker. We'll take a look at that for post-hearing and
15 address it.

16 MR. BELL: This is Tom Bell from Groditz out of
17 Germany. It could be, hypothetically, the impact of section
18 232 being applied March of 2018 -- that when the importers
19 saw that coming, the pull-back occurred, and then the
20 increase from the domestics were just out of default. I'm
21 just putting that out there as a hypothetical from the time
22 period of March 23rd, 2018 and beyond, when everything
23 through customs was hit 25 percent from that effect.

24 COMMISSIONER SCHMIDTLEIN: Okay. Well, that might
25 make sense, except for U.S. --

1 (Simultaneous discussion.)

2 MR. BELL: It doesn't explain 2017, though.

3 COMMISSIONER SCHMIDTLEIN: Yeah. It was more in
4 2017 by a substantial margin, and then -- I'm looking for the
5 total subject here. Hold on. Here we are. Yeah. Total
6 subject went up in 2018, from 2017. And U.S. was still
7 higher in 2018. So, this is my point. U.S. was shipping more
8 than all the subject countries combined in every single year.
9 So, how does that square with this argument that, well, the
10 U.S. wasn't shipping, wasn't selling, wasn't making
11 stainless-steel? You couldn't get stainless-steel from the
12 U.S. Happy to invite you to answer that in the post-hearing.

13 MR. PODAREK: Yeah. I guess my only question would
14 be then, is were they losing market share then, in that
15 scenario? They're shipping more than everybody else and
16 continue to ship more for each of the years.

17 COMMISSIONER SCHMIDTLEIN: This is just of
18 stainless-steel.

19 MR. PODAREK: Okay.

20 COMMISSIONER SCHMIDTLEIN: Not total.

21 MR. PODAREK: So, does that mean stainless-steel
22 fluid didn't lose market share?

23 COMMISSIONER SCHMIDTLEIN: Let me see. I don't
24 know that they've broken it out by market share. I don't see
25 that. I see share of percentage of their total shipment, but

1 I don't see -- I'd have to go back and look in the -- if
2 apparent U.S. consumption is broken out by type. I'm not
3 sure. Maybe one of the counsel know off the top of their
4 head.

5 MR. HEFFNER: I don't know that off the top of my
6 head. This is Doug Heffner.

7 COMMISSIONER SCHMIDTLEIN: Okay.

8 MR. HEFFNER: But we can put our heads together.
9 Let's see whether we can figure this out for the
10 post-hearing.

11 COMMISSIONER SCHMIDTLEIN: Okay.

12 MR. GIRIVETTO: I will add just one -- I don't have
13 the confidentiality numbers. I would just lecture to support
14 that 2017 and 2018 were two years where the market was
15 booming in these fluid end markets. So, I believe that the
16 U.S. producer of fluid ends was worried about capacity
17 available outside. And so, they tried to invest in the U.S.
18 producer in order to have more capacity available in a
19 situation where the market was demanding a lot.

20 COMMISSIONER SCHMIDTLEIN: Okay. The point of this
21 particular fact goes to the argument with regard to the U.S.
22 not being in the business of making stainless-steel. That's
23 where the question is coming from.

24 MR. PODAREK: I would say that, I think, Ellwood
25 has been in this business for quite a good while. I think it

1 was more Finkl that really just -- they weren't making their
2 own ingots. I would think that was probably more of the
3 issue and where that direction came from.

4 COMMISSIONER SCHMIDTLEIN: Okay. Okay.

5 MR. PODAREK: So, I think it's more about you've
6 got some petitioners that were fully in it and some that
7 weren't. So, from my own personal perspective, I'm not sure
8 how you can find damages if you couldn't do exactly the same
9 thing. Maybe that's my misunderstanding.

10 COMMISSIONER SCHMIDTLEIN: Okay. Okay. Let me
11 shift gears here. I have a question on -- back to the
12 pricing data. I was listening to your answer, I think, Mr.
13 Heffner, on this question of the underselling, and why are
14 they underselling if the quality is superior. And you had
15 given me this answer before when we were talking about
16 pricing data, and that it's not an apples-to-apples
17 comparison. And it occurred to me, wouldn't that argument
18 also apply to the purchase cost data? Because the purchase
19 cost data are based on the same product definition as the
20 traditional pricing data. So, wouldn't your argument that
21 the traditional pricing data aren't prohibitive because it's
22 not an apples to apples -- these aren't bids, right? These
23 are based on a timeline. This isn't based on the same RFQ.
24 Wouldn't that apply to the purchase cost data as well?

25 MR. FERRIN: This is Richard Ferrin at Faegre

1 Drinker. I think that's a fair point. I mean, that's a
2 problem with all of the data.

3 Now, you may have -- and I've got to be careful
4 about confidential information here -- you may have some
5 differences insofar as there are a certain finite number of
6 big users who purchase the fluid end blocks and consume it
7 themselves, and then would be giving the cost price data.
8 Whereas you may well have a greater variety of smaller
9 companies that are importing the product and reselling it.
10 But I haven't looked at that in any great detail.

11 Nevertheless, I think that your point is somewhat
12 fair, that there are some issues with using any of the
13 pricing data. But to the extent that you're going to use the
14 pricing data, I think, in the end, you're going to have a
15 mixed result because you have one data set that shows more
16 underpricing by imports, and another one that shows more
17 underpricing by the domestic industry.

18 COMMISSIONER SCHMIDTLEIN: Right. Okay.

19 MR. PODAREK: I think a simple way to maybe help
20 solve some of that is, obviously, I'm going to provide direct
21 quotes for my bidding process for multiple bids that we've
22 had, and that'll help give you more insight apples to apples,
23 same part numbers exactly. And then maybe some of my
24 competitors can hopefully do the same, and that maybe gives
25 you more direct insight.

1 COMMISSIONER SCHMIDTLEIN: Sure. We welcome you to
2 put, you know, anything on the record. We are careful not to
3 just -- this isn't just about one company, obviously. It's
4 about the entire industry. But, if you'd like to put
5 something like that on it, I would certainly be happy to have
6 you do it. Okay. At the moment, I don't think I have any
7 other questions. My time is up anyway, so thank you. I may
8 have one more in the next round.

9 VICE CHAIR STAYIN: Commissioner Karpel?

10 COMMISSIONER KARPEL: Yeah. Thank you. I just
11 want to understand something about what's in a spec in a
12 request for quotes. So do the specs cover defects, like
13 setting a minimum amount of defects or flaws or pinholes or
14 what have you could be in it? Or is it strictly limited to
15 it needs to be this size, of this kind of steel, with these
16 kind of attributes? What's the overlap between the sort of
17 level of tolerance for imperfections and specs?

18 MR. PODAREK: That's actually a really good
19 question. If anybody else has anything to say, please speak
20 up. But, from my perspective, what we do is we provide a
21 specification with material yield strength. So you have
22 basically material characteristics that they have to hit, and
23 that essentially defines the type of material, right? So
24 different types of materials have different strengths, for
25 example. And then, of course, from there, there is some

1 cleanliness spec to it. There is some heat treat
2 requirements. So, for example, we have a heat treat process
3 that we require that they can be a little different than some
4 others. And then, of course, there's also, you know, basic
5 dimensional aspects to it. And that would be in the
6 specification, all right?

7 And then, of course, on the RFQ, the RFQ will
8 typically consist of basically a part number, and that part
9 number, bear in mind, is what the specification is written
10 for. So the specification applies to a part number, and that
11 RFQ will request, you know, let's say, I want 10,000 of X
12 part number over this time frame. That's how much an RFQ
13 would basically specify. So the specification is basically
14 what defines the overarching theme of the material, and then
15 the RFQ is basically kind of the economics side of it, what
16 are we requesting.

17 COMMISSIONER KARPEL: Okay. But in terms of you
18 said there will be some cleanliness, I don't know, attribute
19 specified in the spec, cleanliness, I think you said earlier,
20 refers to these small little imperfections, is that right?

21 MR. PODAREK: It does. And then there's also
22 within that, how do you inspect that cleanliness? What's the
23 cluster of them? What's the ratio and size of them? For
24 example, you know, we'll have a maximum inclusion size
25 allowable, right? And then, as long as they're under that

1 size, it passes. What it doesn't account for in that
2 particular scenario is how many are under that size. It
3 doesn't account for how many of what size that are under that
4 size. Does that make sense?

5 COMMISSIONER KARPEL: Wait, say that again.

6 MR. PODAREK: So let's just say -- and I'm going to
7 give you some very arbitrary numbers that are not quite 100
8 percent real-world, but they'll make it easy to understand.
9 So let's say I've got a inclusion of one inch, for example,
10 right? We would specify that no inclusions of one inch in
11 size are allowed. So that would be a giant inclusion. But
12 what that would then mean, technically, they could have
13 inclusions of .95 inch, right?

14 And so, yes -- and I think this is the big
15 difference. Honestly, this is my personal suspicion, that
16 the difference is to, one, inspection capability, how they
17 inspect them, and then two -- by the way, on the inspection
18 process, they define and the orders require you to define a
19 size you're willing to inspect with. So, for example, 1/16th
20 of an inch, 1/8th of an inch, you have to define that in your
21 inspection process, and that's defined in ours. And I think
22 the reality of it is that some basically hold themselves to a
23 lower end of that spec. Does that make sense?

24 So we have people that are providing us with a lot
25 less inclusions and a lot less -- or I guess a lot smaller

1 inclusions when they do have them. And then, yes, they go
2 through the spec, but one's providing a better quality at the
3 end of the day. I think that's where a lot of the variance
4 comes from. And I'm sure one of the forgers is going to
5 correct something I've said. But none of them will tell us
6 because they don't want us to know their secrets. But I
7 think that's what it basically boils down to, is that, yes,
8 they both hit specifications, but one's providing a better
9 version and a higher quality material.

10 COMMISSIONER KARPEL: Okay. Mr. Bell, do you have
11 something to add?

12 MR. BELL: I would agree with Nick's comment. But
13 just to extend it further from a forger perspective and
14 steel-making, we find the OEM specification is variable
15 depending on the OEM's experience or how stringent or how
16 relaxed they are to certain components within the spec. So
17 the spec could be 10, 15 pages long, and it's really
18 cornerstoned on chemical ranges within the steel pipe, a low
19 and a high allowable, cleanliness level, as Nick described,
20 which usually limits the inclusion detection, and then also
21 hardness range, which affects machining. And then there's
22 multiple other facets that they want documentation or
23 certification that validates that the spec can be met.

24 But it's important, as Nick was alluding to, there
25 are some output or finished products that are very, very

1 close to meeting the spec or just barely meet the spec. And
2 this is where we get into a gray area of good enough. It's
3 on that lower end of the cleanliness. Let's get it through.

4 Let's ask the customer if they can accept. And a lot of
5 this dialogue sometimes takes place at the point of getting
6 approval. Once it's approved, that manufacturing process
7 plan is set at the steelmakers and cannot be deviated in that
8 it's frozen, so to speak, that we must follow that path and
9 meet this criteria.

10 So the only gray area is each OEM has a certain
11 focus that they fixate on, and then the subcontractors
12 usually follow what that OEM wants to write originally.

13 COMMISSIONER KARPEL: Okay. So why not define are
14 these specs -- these specs are specific to each OEM. They're
15 writing their own specs. So why are they writing them sort
16 of with these ranges or not with higher levels, you know,
17 higher standards for cleanliness then so they can cut out
18 those folks that, you know, maybe are on the low end of that
19 if that's a concern in terms of their performance or the
20 safety of the block?

21 MR. BELL: Yeah. And that's a great question that
22 I wouldn't, I guess, directly be qualified as an OEM to
23 answer. I can speculate the reason why they have ranges are
24 they want a broad enough batch of choices of suppliers. And
25 if they constrict those specifications to only the cleanest,

1 only the tightest range of chemistry, you're limiting your
2 supply base and obviously impacting cost, which is why I
3 think they make exceptions in some areas of broadening their
4 own specs. That's a general answer to why they might have
5 differences from OEM to OEM.

6 MR. GIRIVETTO: I would like to add -- Giulio
7 Girivetto from Cogne -- I just would like to add one thing.
8 You have to consider that in the real life, some
9 imperfections you always have. So the reason of the
10 specification is to try to limit this kind of imperfection.
11 But, if you have clean steel, you don't have to worry about
12 it because you'd never be in this problem. If you have a
13 steel that is not so clean, depending also where the
14 imperfection -- even though it is in the specification -- but
15 if the imperfection is located to in a critical point where,
16 after machining come out, you can have an imperfection that
17 cause a failure, is the problem.

18 So, if you have a clean steel, it's okay. If you
19 have a clean steel but not so much, it can be in the
20 specification, but you have more chances to, let's say, find
21 some imperfections also in the specification, but in the
22 situation -- in the part of the fluid end that can be
23 dangerous for the life of the fluid end.

24 MR. PODAREK: Yeah. And, to follow that up,
25 specifications have to have a range if it's reasonably open

1 because otherwise nothing can ever be manufactured, right?
2 In manufacturing, there's always variance to everything
3 that's manufactured. So we have to allow for that variance,
4 of course.

5 And then, to Giulio's point, there are some people
6 that are more consistent in keeping it on the better end of
7 the spec, right? They never even come close to approaching
8 the limits. But then there's some that have wide variance,
9 will come very close, and some days they'll have bad days,
10 and some days they'll have very good days, right? And then
11 there's some that will just hit head to toe that line.
12 Technically, they all pass the spec. Technically, from our
13 ability to inspect them because, bear in mind, you have to
14 have very specialized equipment to inspect all of these
15 blocks, right? It's not simple stuff. So, from our ability
16 to inspect it, they all seem the same, right? However, you
17 put them in the field, and the performance is vastly
18 different.

19 COMMISSIONER KARPEL: All right. So another
20 related question, I guess this may be for Mr. Heffner. I'm
21 looking at Table 210 in the staff report, and I think I heard
22 you correctly earlier. You were suggesting that, well, one
23 reason that may explain the different responses we're getting
24 in this table versus some of the narrative responses we're
25 hearing from purchasers that you've quoted in your prehearing

1 brief is that, well, of course, everybody meets specs, and so
2 they're interchangeable or considered comparable. But, as we
3 just had this conversation, there's a difference between
4 meeting specs and then sort of at the high end of that spec
5 or the low end, and that can be the quality difference.

6 But the question in Table 210 is asking if the
7 quality meets industry standards and if quality exceeds
8 industry standards. So is your view that purchasers would
9 interpret this question as simply, you know, that this is a
10 question about specs, whether they meet or exceed specs, or
11 are they really looking at this as that quality question that
12 we were just differentiating between in the last
13 conversation?

14 MR. HEFFNER: I would think it's just whether they
15 meet minimum specs. I mean, I think that's what they're
16 going at there. You know, it's hard to differentiate these
17 different concepts. But I think, when you look at what they
18 wrote in their narrative responses, that gives you a better
19 feeling in order to get at what the issues are as opposed to
20 just checking a box, you know, for that.

21 COMMISSIONER KARPEL: Yeah. It's just striking
22 here that, like for quality exceeds industry standards, I
23 mean, the purchaser indicating that they're comparable, and
24 so that doesn't seem to square with some of those narrative
25 responses. So we'll have to sort through, I guess, as the

1 Commission, what we make of this conflicting data.

2 MR. HEFFNER: Right. Nick, do you have any other
3 thoughts on that?

4 MR. PODAREK: I would say that I did come, when I
5 was filling out the form myself, I did come to the -- there
6 were some parts where I was kind of thinking there should
7 have been more options in terms of the questioning or some
8 more detail. And, of course, everybody's going to say that.

9 I'm not trying to complain about the form. But I would say
10 that I think where we were allowed to actually, you know,
11 express exactly what we're seeing was in the commentary,
12 right? We were able to give detailed accounts or more
13 detailed accounts -- I don't know -- can't speak to what
14 everybody filled out. But that's where we're really able to
15 define what we see and what we're experiencing, right?

16 The other ones were a bit more limited because, you
17 know, for example, if I was going to compare, you know, the
18 U.S. to, I don't know, let's say -- we'll call it Russia, for
19 example, in terms of making blocks, right, well, I would say
20 the U.S. is far superior, and I would say the U.S. is capable
21 of meeting minimum specification, whereas Russia probably
22 isn't. I've never tried to order blocks. I'm just taking a
23 guess there, but you get the point, right? So I think it's
24 the variance, right? You know, you've got pretty much a
25 yes-no-maybe, and you don't really -- it doesn't really

1 account for any significant differences on the yes, they hit
2 minimum, but do they exceed or not.

3 COMMISSIONER KARPEL: Okay. My time is up.

4 MR. FERRIN: Commissioner?

5 COMMISSIONER KARPEL: Oh. Yeah?

6 MR. FERRIN: Commissioner? This is Richard Ferrin
7 again. Just looking at this, I mean, keep in mind, I don't
8 think our assertion has always been that for 100 percent of
9 the users that they think that the quality is terrible for
10 the U.S. and great for the subject imports. It's not that
11 way at all. But there are instances where there are -- there
12 are a non-zero number of instances where the customers are
13 saying that the subject imports are superior.

14 If you look over on the quality meets industry
15 standards and quality exceeds industry standards, as I'm
16 looking at it, there's not a single customer that said that
17 the U.S. was superior. There are some numbers -- there's one
18 on U.S. versus China that said that China is superior. One
19 on Germany, two or one on India -- says India is superior --
20 two for Italy, and those are the comparisons to the U.S.
21 versus others. So, you know, even if it is a minority of
22 them, I think it's certainly still a significant number of
23 customers that have expressed in here even under the survey
24 that they think that the quality is superior of the subject
25 imports.

1 MR. PODAREK: And then maybe another point to that
2 too is then look at the size of the customers that are saying
3 it too, right? So, for example, if we talk about top three,
4 it'd be, right now, in terms of fluid in the market, it's
5 Gardner Denver, myself, and Halliburton. We're all in the
6 top three at the moment, right, in terms of fluid and
7 manufacturing. So, you know, between the three of us, we
8 have a huge portion of the market. And then, of course, what
9 information does that OEM have? So I have the blessing of
10 being owned by Liberty, who's a hydraulic fracturing company,
11 and they provide me with very, very good data, right? I
12 remember being at Weir, for example, and it was much more
13 difficult to get that data. So it's about kind of what does
14 the OEM have in terms of information in front of them as
15 well.

16 COMMISSIONER KARPEL: All right. Thank you.

17 VICE CHAIR STAYIN: Thank you. I guess it's my
18 turn again. I'll go back to where Commissioner Karpel was on
19 Table Roman II-10. There are two different questions on
20 quality three, but, basically, it says quality meets industry
21 standards, quality meets industry standards, quality exceeds
22 industry standards. I don't think that the idea here was
23 that we were saying that you're looking at some specs and
24 you're saying, oh, yeah, that spec meets that spec. That's
25 not what this question is getting at.

1 The question is do you -- and this is to purchasers
2 -- do you as a purchaser think that the quality, meaning
3 industry standards, and that's your experience, and then
4 compare it. For example, with respect to Italy, the majority
5 said that they were comparable. Seven said comparable, two
6 said inferior. Quality exceeds industry standards, eight
7 exceeds industry standards. So, I mean, I think I leave it
8 to you, counsel, to deal with this in your brief. You know,
9 this is kind of a questionnaire that we put out on a regular
10 basis, and I'd like to get -- you know, I really would like
11 to get your advice here because I think we need to get clear.

12 We're looking for whether the product is a quality product
13 or not. Do the purchasers think it is? That's what it's
14 intended to do. But, counsel, you know, let us know what
15 your thoughts are.

16 With respect to questions, please identify
17 differences between the fluid end blocks that are produced in
18 the United States and subject countries, differences in how
19 they're produced. Probably the gentleman from Italy might be
20 best able to answer that, but any of the rest of you, please
21 do.

22 MR. PODAREK: Maybe, Giulio or Jean Paul, want to
23 take a stab at that?

24 MR. GIRIVETTO: Can you repeat the question?
25 Because I --

1 VICE CHAIR STAYIN: Yeah. Are there any
2 differences in how you make a fluid end block than the way
3 it's produced in the United States? Are there two different
4 ways, or do you produce it the same way?

5 MR. GIRIVETTO: Okay. I don't know how they
6 produce in the United States. I can tell that this kind of
7 steel can be made in different ways. You can start from
8 scrap, and then you have the AOD converter after the
9 electrical permits. This is just on the melting practice.
10 You can start from scrap. After the electrical permit, you
11 can use the VOD, the vacuum oxygen, the gases. I mean, there
12 are many, many ways to produce this kind of steel.

13 Certainly, Cogne, it is critically the only
14 stainless-steel producer, so we do produce only
15 stainless-steel and nickel alloy. We are able to do it very
16 well because it's our job. We are not making only fluid end
17 blocks because the fluid end blocks are practically 2 percent
18 of our total turnover, so it's not really a huge business for
19 us. I mean, other producers, especially -- I don't know. I
20 don't think of because I visit them many years ago, they use,
21 for example, the VOD, I believe, to make this kind of steel.

22 I don't know at Ellwood what they use, if they use VOD or
23 AOD.

24 But then, certainly, another very important area
25 where you can make quality is the heat treatment. So this

1 material is very sensible to heat treatment, and this kind of
2 heat treatment can cause also failure on the quality of the
3 blocks if you are not used to it.

4 CHAIR STAYIN: Go ahead.

5 MR. BETEMPS: Jean Paul Betemps with Cogne USA.
6 Just to add a couple of other things to what Giulio said.
7 Another important aspect of where you can make the difference
8 is during forge operation, okay.

9 So, our experience allow us to decide what kind of
10 amount is the best to get the best yield out of the process
11 -- that means when you get a very few drops of material that
12 you produce, so the best yield is the less cost at the end,
13 so we work a lot to obtain the best yields, on every ingot we
14 use, and we choose a specific amount to get the best result,
15 and this will change a lot in present age and improve our
16 internal cost.

17 I don't know, of course, the petitioner, what they
18 do. They have opinions, of course, but this is what we do,
19 and we do.

20 CHAIR STAYIN: Thank you very much. The Baker
21 Hughes Rotary Rig Count for November 2020 showed a total of
22 310 rigs, a total of 310 rigs, down 93 rigs from one year
23 ago. How have the most recent oil and gas industry trends
24 affected the market for fluid end blocks?

25 MR. PORADEK: Very simply, decreased demand, and

1 there is a decreased demand for fluid end blocks for the most
2 part.

3 But like I said, at the primary times of COVID,
4 there was very little to no demand at all, no matter how much
5 market share you had, because the market was practically
6 nonexistent for a while there. And it slowly crept back up
7 as the markets, you know, regained confidence and things
8 built back up, but it's not to where it was.

9 CHAIR STAYIN: What is the likelihood of recovery
10 in 2021?

11 MR. PORADEK: That's a good question, and I wish I
12 actually had a very good answer for that, because I would
13 very, very, very wealthy if I could give a very good answer
14 for that.

15 CHAIR STAYIN: What do you kind of think it might
16 look like? I don't expect you to have --

17 MR. PORADEK: We think generally, we think it's
18 going to end up being better but the big question for us is
19 going to be geopolitical events, because there is a lot of
20 geopolitical risk out there that could drastically affect it.

21 For example, you know, happenings with Iran, you know. If,
22 for example, let's say, we reenter the nuclear agreements
23 with Iran, then, of course, they're going to open the markets
24 up to Iranian oil, which is going to cause the price of oil
25 to dive and which of course will decrease demand, and so,

1 those are the kinds of geopolitical events we know are an
2 option but we don't know if they are going to play out.

3 CHAIR STAYIN: Yeah. Thank you. Does the level of
4 demand have a potential impact on product mix? For example,
5 does weaker demand change the attractiveness of high price
6 stainless steel fluid end blocks compared to non-stainless
7 alloy steel fluid end blocks?

8 MR. PORADEK: I think that's a bit of a loaded
9 question, and the fact that pretty much the primary user of
10 alloy blocks at this point is just Halliburton, which is
11 vertically integrated. So, I mean, for example, as an OEM, I
12 don't sell to Halliburton because they make it themselves, so
13 that I guess would be -- you know, based on how much market
14 share they take during that time period is going to affect
15 their demand, if that makes sense.

16 CHAIR STAYIN: Okay, yes. Okay, thank you. I
17 think that, I guess the question is not whether Halliburton,
18 but rather as demand increases are higher priced stainless
19 fluid end blocks more likely to be sold than non-stainless
20 alloy steel fluid end, end blocks?

21 MR. PORADEK: The answer is, on a total market
22 share basis, yes, in terms of volume, because the alloy
23 blocks do not live as long as the stainless steel, so you may
24 buy three alloy blocks for every one stainless steel
25 equivalent, so it will look skewed if you are looking at data

1 if that makes sense. You would almost need to adjust it for
2 life.

3 CHAIR STAYIN: Okay, thank you. How has COVID-19
4 impacted production and consumption of fluid end blocks to
5 date and what are the expected impacts of COVID-19 on
6 production and consumption of fluid end blocks over the
7 course of 2021?

8 MR. PORADEK: It did affect us, absolutely.
9 Obviously, I think it affected most people in the economy
10 aside from some companies who were very fortunate but, and of
11 course, Cisco, I think did pretty well with Webex, but I
12 would say most companies were affected, including us, during
13 COVID. I would say, looking to 2021 that obviously the
14 consumption is going to kind of somewhat be dependent on how
15 many more lockdowns we have. So, if the vaccines work and we
16 can release them fast and we don't have a ton of lockdowns,
17 obviously we are going to have more demands and we are going
18 to have more fluid end sales. If the alternative happens,
19 then it's going to be less demand and we will have less fluid
20 end sales.

21 CHAIR STAYIN: All right. Anyone else have any
22 responses or thoughts?

23 MR. BELL: Yeah, just that -- this is Tom Bell from
24 Groditz, I think Nick has addressed the demand side, which of
25 course impacts all of us, but in terms of production

1 capacity, we stand prepared to make these blocks. We have
2 not been affected negatively in terms of staff levels or
3 production output. We follow protocols with Germany and we
4 were able to maintain our employment levels and continue to
5 be ready to make forgings wherever they might be needed.

6 MR. PORADEK: And actually that's a good point,
7 because I should mention that our production was affected
8 some here in the United States and one of our smaller machine
9 shops had an outbreak of COVID and most of their machinists
10 had to go home and that, of course, delayed production, but I
11 would say that as an overall trend it wasn't too bad because
12 they were one of the smaller shops.

13 CHAIR STAYIN: I think others have had that
14 experience as well.

15 MR. PORADEK: Yeah.

16 CHAIR STAYIN: All right, I have no further
17 questions. Commissioner Johanson?

18 COMMISSIONER JOHANSON: I have no further questions
19 but I appreciate you all being here today. Thank you.

20 CHAIR STAYIN: Commissioner Schmidtlein?

21 COMMISSIONER SCMIDTLEIN: I have no further
22 questions, either. Thank you all for being here today.

23 CHAIR STAYIN: Commissioner Karpel?

24 COMMISSIONER KARPEL: Thank you. I just have a few
25 things I would like to ask you to follow up on in your

1 post-hearing brief. On page 32 of Petitioner's pre-hearing
2 brief, they discuss the purchase cost data and they cite a
3 particular response that they say is flawed or erroneous. If
4 you could respond to that claim and their corresponding
5 argument about how that changes the overall findings of the
6 purchase cost data comparison, okay?

7 And I would also like you to make an effort at
8 responding to Tables V and VII, in Petitioner's Pre-hearing
9 Brief. This is their analysis of underselling, which is
10 Table V, and their analysis of price trends, and just to save
11 us time here, I had some exchange with them about both of
12 those tables in the morning session, basically questioning
13 whether they had come up with a good way of analyzing the
14 price trends or not and whether they have come up with a good
15 way of analyzing the level of underselling, in particular the
16 claim that it had intensified from the beginning to the end
17 of the POI.

18 MR. HEFFNER: Will do, thank you.

19 COMMISSIONER KARPEL: And then finally, is just a
20 question about their slide 19, which is, I guess a summary of
21 their quality rating with Halliburton, which seems to
22 conflict with some of the quotes you've included in your
23 brief from Halliburton about quality. So, do you want to
24 respond now? You can, or if you want to give that some
25 thought and take it up post-hearing, I'm happy either way.

1 MR. HEFFNER: I think it would be better to take up
2 post hearing.

3 COMMISSIONER KARPEL: Thanks. That's all I have.
4 I really appreciate everyone being here and for your
5 testimony and helping us understand several issues much
6 better than we did at the beginning, so thank you very much.

7 MR. HEFFNER: Thank you.

8 CHAIR STAYIN: I have no further questions. Thank
9 you all very much for being here and participating and
10 appreciate your candid responses.

11 Does the staff have any questions for this panel?

12 MR. CORKRAN: Douglas Corkran, Office of
13 Investigations. Thank you, Vice Chairman Stayin, staff does
14 have one question I would like to turn to Ms. Pamela Davis,
15 our economist, to pose the question. Thank you.

16 MS. DAVIS: Hi. Good afternoon, thank you so much
17 for your participation in today's hearing. I wanted to ask
18 Mr. Poradek regarding the statement that a lot of firms jump
19 into the industry. You mentioned that everybody Halliburton
20 now has gone into stainless steel. Are you aware of any
21 market entrants that have gone into allow? And more than
22 that, are you aware of the structure and ownership of any of
23 these market entrants affecting pressure on how and at what
24 price they sell their fluid end blocks.

25 MR. PORADEK: I would say that when I was talking

1 about market entrants, I was talking about hydraulic
2 fracturing companies, so my customers, and in general, they
3 don't vertically integrate and make their own blocks. They
4 buy them from OEMS like myself. As far as any new entrants
5 in the OEM space, that are focussed on alloy blocks,
6 specifically and only alloy blocks, as a primary focus, I
7 don't know of any that are successfully selling a ton of
8 alloy blocks.

9 MS. DAVIS: That's very helpful, thank you.

10 CHAIR STAYIN: Do you have any more questions.

11 MS. DAVIS: I don't. That's all for me. Thank you
12 very much.

13 CHAIR STAYIN: All right. Thank you.

14 MR. PORADEK: I have an awkward question.

15 (Simultaneous discussion).

16 MR. PORADEK: What's that picture of in the
17 background?

18 CHAIR STAYIN: What?

19 MR. PORADEK: The picture you have in the
20 background. I'm sorry, it's a very odd question.

21 (Simultaneous discussion).

22 MR. PORADEK: I've been staring at it for like the
23 last hour and a half.

24 CHAIR STAYIN: Which one?

25 MR. PORADEK: The very large one with it looks like

1 a swoosh of orange, darker orange and blue.

2 CHAIR STAYIN: It's a canoe on the ocean on a
3 seaside in Spain.

4 MR. PORADEK: Oh wow.

5 (Laughter.)

6 MR. PORADEK: It's beautiful.

7 CHAIR STAYIN: It puts me in a good mood every day.
8 Okay. To those in support of the imposition of anti-dumping
9 and countervailing duty orders have any questions for this
10 panel?

11 MR. LEVY: We have no questions, Vice Chair Stayin.

12 CHAIR STAYIN: We will now turn to closing and
13 rebuttal statements. Those in support have 28 minutes.
14 Those in opposition have 16 minutes.

15 MR. BISHOP: We thank this panel very much for
16 participating today. You can go ahead and turn off your
17 webcams. Providing rebuttal and closing remarks on behalf of
18 petitioners will be Jack A. Levy of Cassidy Levy Kent (USA).

19 Jack, you have a total of 28 minutes. Welcome.
20 Please turn on your webcam and mike and begin when you're
21 ready.

22 MR. LEVY: Thank you very much. Again, this is
23 Jack Levy for Petitioners. I guess I have 28 minutes.
24 Hoping not to use it all but I did want to take some time to
25 kind of recap where I think we are in this case, maybe to

1 start with the easy stuff.

2 Where is there no dispute? It would appear that no
3 parties are disputing accumulation. That subject imports
4 from China, Germany, Italy and India should be accumulated
5 and looked at on that basis.

6 Similarly, I don't think any party is arguing like
7 product issues. I think there is a consensus view that the
8 like product in this case is coterminous with the scope. At
9 that point I think perspectives begin to diverge, but let me
10 talk again at a high level about volume and price and impact,
11 and if I can, let me refer back to one of our exhibits to
12 talk about volume, exhibit 15.

13 So, this is a good visual depiction of what's
14 happening in terms of apparent domestic consumption and
15 subject imports during the period of investigation, and it's
16 a point that I want to underscore here, because it really is
17 a tale of two periods. You've got 2017 and 2018, when demand
18 is fairly stable or strong, and then 2019 and entering 2020,
19 when demand gets weaker and at exactly the same time, there
20 is a sharp and significant increase in market share by
21 subject imports. Non-subject imports are a trivial presence
22 in the market, so this came almost entirely at the expense of
23 domestic producers.

24 So, again, you sort of have these two periods, 2017
25 to 2018, where things are relatively stable, and then 2019

1 and entering 2020, the second period, where at the same time
2 that demand is decreasing you have a significant market share
3 loss to subject imports.

4 How did subject imports manage to capture all this
5 market share in a declining market? Well, I think
6 Commissioner Johanson had it right when he asked this
7 afternoon of the respondent, why would a superior product be
8 priced lower? And the answer, of course, is there was
9 nothing superior about the subject imports. They captured
10 market share the good old- fashioned way, through low price
11 leadership, and that is what you see in the pricing products.
12 The regular quarterly pricing data for shipments, for the POI
13 as a whole, shows a think 68 percent underselling in terms of
14 the frequency, but importantly, if you look at what happens
15 in 2019 and entering 2020, you see pervasive underselling at
16 a much higher degree, and similarly, if you look at the
17 direct import data and the quarterly pricing there, and focus
18 again on this 2019 entering 2020 period, here again you see
19 pervasive underselling.

20 So I think that the record is clear that this
21 significant shift in market share was accomplished through
22 underselling. And, you know, I think that we have some work
23 to do explaining to you in a more transparent way why we
24 think there was some price depression during the POI but
25 setting that aside there is no question that there was also

1 price suppression by reading those subject imports.

2 During the period you heard testimony about rising
3 raw material costs and, oh, by the way, when demand is down
4 and production is down, your fixed-unit costs go up, so COGS
5 is rising during this period, and at the same time that COGS
6 is rising, what's happening? Prices are going lower because
7 of underselling. So, the COGS to sales ratio bespeaks a
8 cost-price squeeze and there are unquestionably adverse price
9 effects by reason of subject imports.

10 And I think is illustrated at the end of the day by
11 reference to Exhibit 16, and if we could just pull that up
12 for a second. And this comes through in terms of the
13 financial performance of the US industry, where the domestics
14 were in the black in 17 and 18 and then boom 2019, losing
15 money, and that continuing into entering 2020.

16 Now respondents say, aha, that demand is the sole
17 cause of the problem, but as I pointed out that's just not
18 right. Whatever demand is, subject imports are taking share
19 and they are underselling, which means they are also
20 responsible for adverse price effects, and if you look back
21 to what you have in 2016, you have a similar demand
22 environment to 2019, but very different track record in terms
23 of domestic industry financial performance.

24 So, clearly, the notion that what's happening on
25 demand explains entirely the change in the financial

1 performance of the domestic industry, is just belied by the
2 record evidence.

3 I think we can take down the exhibits for a minute
4 and I would just like to talk to you a little more about some
5 of the other arguments we heard from respondents. Some of
6 them it's pretty clear they're just throwing spaghetti at the
7 wall.

8 We heard this argument that domestics were somehow
9 late to the dance in offering stainless steel FEBs, and I
10 think Commissioner Schmidtlein correctly observed that if you
11 look at what is in the record, there is just nothing to that.
12 Companies like Ellwood and Union Electric and even Finkl were
13 supplying stainless steel FEBs well before the POI and, you
14 know, frankly, they remain significant suppliers of stainless
15 grades throughout the POI.

16 So, it's also important to note -- didn't hear much
17 of this from respondents today but a lot of the injury, if
18 you will, is concentrated in the alloy segment of the market,
19 and we didn't hear much about that today, did we? You know,
20 alloy producers, like Metalcam in Italy and Bharat Forge in
21 India, who didn't think to show up today. You know, they're
22 responsible for a lot of the import injury and they are
23 focussed in our experience on the alloy segment. So, I just
24 wanted to call that out.

25 This is not a story that revolves around stainless

1 to the exclusion of all else. Frankly it's just a
2 mischaracterization of the record.

3 I talked a little bit about demand but I would also
4 recall on demand what Mr. Poradek said: He said that when
5 demand is down in the oil and gas sector, he gets a lot of
6 pressure in terms of what he charges for fuel, fluid, and
7 nozzles (phonetic), so what does he do? He says, I beat up
8 by FEB suppliers. Well, okay, that seems understandable. If
9 he's getting beat up by his customers, he wants to beat up
10 his suppliers. But how does he do that? Well, the way he
11 does it is leveraging low-price imports. That's how he beats
12 them up. Unfairly traded imports, and that fundamentally is
13 the problem here. And then, where does that leave us? It
14 leaves us with the one final effort of respondents to break
15 the causal nexus between low-priced imports and the injury
16 that the domestic industry is experiencing and that is the
17 quality argument.

18 And, again, Fordac and ST9 are trotted out as the
19 poster child for this argument here at the hearing. I wonder
20 why there are no other purchasers that show up here. ST9 is
21 a start-up. They only went into business in the middle of
22 2017 according to their testimony. Just sort of really
23 getting started in the middle of the POI. They're just one
24 company. And I think, as Commissioner Schmidlein noted,
25 it's incumbent upon you to look at what's happening in the

1 industry as a whole.

2 And so, on that point, maybe we can refer briefly
3 to Exhibit 18. And I don't want to belabor this, but if you
4 look at the industry as a whole and you look at what
5 purchasers are telling you, whether the metric is
6 availability or finishing, or product consistency, or quality
7 meeting standards, or quality exceeding standards,
8 reliability of supply, steel type, technical support and
9 service, the preponderance of the record shows you that
10 domestic suppliers are by and large comparable.

11 And I think you heard testimony that when there's
12 comparability on quality and there's comparability on
13 availability, then competition boils down to price. That's
14 exactly right. And on this record, there is comparability on
15 quality. There is, if not comparability, then, frankly,
16 superiority from the domestic industry on availability. And
17 so, yes, there's price-based competition in this market, and
18 that is exactly what you've heard from our industry witnesses
19 this morning. We can take down the exhibits again.

20 So I've said that the industry as a whole, the
21 prevailing view is that domestic industry quality is
22 comparable. But we have to deal with what Mr. Poradek has
23 said because it has taken up so much of the oxygen in the
24 room today, and so I will address it even though he is only
25 one player in the industry.

1 And, first, I think what Mr. Poradek's saying was
2 that, you know, he's a real patriot and he likes to buy
3 American whenever possible. But, as far as I know, he never
4 picked up the phone once to call Finkl or Union Electric
5 Steel, who melts their own stainless, or Scott Forge or Forge
6 Products, Inc. No, but the conversation seems to dwell on
7 just one domestic producer, Ellwood, who, for purposes of
8 today's hearing, was the boogieman.

9 And what have we heard? Well, ST9 says they're all
10 about quality and consistency and reliability, and they say
11 that Ellwood just can't hack it. And remember, this is
12 Ellwood, Ellwood that has been around for more than a
13 century, Ellwood, that day in and day out is producing to
14 Defense Department specifications, aerospace specifications
15 for decades on end. Is it really credible to believe that
16 Ellwood doesn't know how to melt steel to specification or
17 forge it to specification? They wouldn't be a defense
18 supplier for very long or an aerospace supplier for very long
19 if that were the case.

20 Could it be, could it just be that ST9 as a
21 start-up, a young company, with a new design for its fluid
22 end module, is still playing it by ear and trying to dial in
23 what spec they really need for their performance? That
24 Ellwood is just dutifully meeting their specification which
25 might have been wrongheaded but was nonetheless their

1 specification?

2 Let's walk through some of this information. Let's
3 go through the timeline. I think we heard from Mr. Poradek
4 that in the May, June timeframe, they first identified
5 concerns about longevity, that there was somehow this
6 longevity deficit when their modules had Ellwood blocks in
7 them. And you'll recall Mr. Brada's testimony that he asked
8 for samples, none were provided. He asked for data, none
9 were provided. Apparently, now we're going to see data in
10 the post-hearing, but he never thought to share it with his
11 supplier, who was, you know, eager to address and understand
12 any issues, never shared it.

13 And then I think we heard that beginning in June,
14 there were more substantive issues or concerns around
15 inclusions. I think he used the term "pinholes" today,
16 equating inclusions with pinholes. Well, as far as I know, I
17 never heard the word pinhole out of their mouth before this
18 week. But, if we're going to equate this to inclusions,
19 okay, they had concerns in this time period from May to June
20 and then clearly by the end of June.

21 And, against that backdrop, what did they say? And
22 I have to apologize, I put up slides this morning and one of
23 them had a clerical error in terms of the date. So I don't
24 want you to rely on my summary of the e-mail. I'm going to
25 put up the actual e-mails right now for your reference

1 because, obviously, you deserve that.

2 So I hope everyone can see this. This is an
3 e-mail, remember, so, in May and June, they had concerns
4 about longevity. In June, concerns about inclusions, which
5 could, in their view, lead to voids or what they're calling
6 now pinholes. Well, the next month, what are they saying?
7 This is July 15, 2019, next month. "Good morning, ladies.
8 As Cathy mentioned last week, we need to issue POs for Q4
9 forgings. Can you please give me an idea if your pricing is
10 going to stay at \$18,800 delivered, or is there anything you
11 can do on that pricing?"

12 This does not to me suggest a company that has
13 concerns about quality, consistency, and reliability. This
14 is a company that's concerned about price. And so then, a
15 few days later, if you look at the bottom of this e-mail,
16 it's from Janet Hoffman on July 18, 2019. "In all honesty,
17 we are still in discussions at ST9 as to details on how to
18 move forward. At \$16,400, we will happily give you 100
19 percent of our North American business." So, again, in an
20 environment where they have apparently emerging concerns
21 about quality, their response is lower your price and we'll
22 happily give you 100 percent of our North American business.

23 And if that isn't enough to induce you to get there, here's
24 something to show you. Here's the quote we got from Mamé.
25 Where are they? They're at \$15,000 and change. So, if you

1 can get to \$16,400, which I assume, you know, equates for
2 differences of movement expense, he'll be there. But, if
3 you're back here at \$18,800, you know, you're not going to
4 get 100 percent of our North American business. This is a
5 price negotiation pure and simple.

6 And, you know, I think we heard from Mr. Poradek
7 that he's never had a situation where the Italians go lower
8 price than Ellwood. But I'd ask you to simply look at the
9 back and forth here. You have ST9 telling you if you back up
10 here that Ellwood is at \$18,800. You have ST9 telling you
11 that you need to be at \$16,400 and you win the business. And
12 why? Because look here, ST9 is showing you Lucchini Mamé's
13 quote at \$15,000 and change. This is price-based negotiation.
14 They are not talking about quality. They are talking about
15 price. Now let me see if I can stop sharing this.

16 So the plot thickens a little bit in September.
17 What happens in September? Well, in September, there's an
18 Ellwood block at a machine shop, it was called Ram Tool and
19 they saw that visible void. You saw the picture. And ST9
20 said, a-ha, now we can see a problem. It's visible. Ellwood
21 is at fault. So what does Ellwood -- and by the way, they
22 put a temporary hold on all Ellwood blocks, and for good
23 reason, because if there was a problem of this nature, it
24 could be a safety issue. It's no joke. Ellwood immediately
25 dispatched inspectors and they did two sets of things. One

1 was to look at the actual physical sample that had the void,
2 but the other was to look at everything in inventory they
3 could sample. So Ellwood sent inspectors to look at more
4 than 100 blocks and did ultrasonic inspection of those
5 blocks.

6 And what did they find? Well, they found in five
7 blocks they saw indications of inclusions less than 1/16th of
8 an inch. And for another nine blocks, and I think you heard
9 this from Mr. Poradek, for nine blocks, they found
10 indications of inclusions between 1/16th and 1/8th of an
11 inch.

12 Now here's the point, and I think, Commissioner
13 Karpel, you were getting at this in your Q&A. What was the
14 ST9 spec? The ST9 spec was that your inclusion should be no
15 greater than 1/8th of an inch. So what did Ellwood say?
16 They said we've done our analysis. Everything complies with
17 your specification. Any inclusions that we see indicate less
18 than 1/8th of an inch. And so what happened in October? And
19 this is important. What happened in October? We'll give you
20 paper post-hearing. Well, ST9 said, okay, we are lifting the
21 hold. Keep shipping.

22 If you had a bonafide safety issue, would you do
23 that? No. They were satisfied. Maybe, just maybe, ST9's
24 spec was wrongheaded, but it was ST9's spec and ST9 wasn't
25 concerned because why? Well, Ellwood asked them if they

1 wanted to dial in their spec and make changes, and they never
2 took Ellwood up on the offer. And with regard to that one
3 block that had a visible void, Ellwood did an independent
4 exhaustive analysis. We'll give it to you post-hearing, a
5 big PowerPoint deck, and it concluded that it was a problem
6 in the machine shop.

7 The ST9 machine shop had this Ram tool and it was a
8 failure with the carboid tool and you could actually see bits
9 of the carboid tool in and around what appeared to be a void.

10 And this is what Mr. Guy Brada testified to this morning.
11 It wasn't a difference of opinion at the end of the day. Why
12 wasn't it a difference of opinion? Because ST9's own
13 director of technology, Mr. Beguski (phonetic), said that the
14 iron doesn't lie. He agreed that what looked like a void
15 turned out not to be a void. And so, after all of that, ST9
16 had been satisfied that this visible void had nothing to do
17 with the block that Ellwood delivered and that all the other
18 concerns about potential voids, well, they were tested and
19 they were confirmed to be all within the ST9 specification so
20 much so that the hold was lifted.

21 And so that is how things transpired and that takes
22 you to December. And what happens in December? Well, what
23 happens in December is that there's another RFQ. It started
24 on November 18. Ellwood was prompted for more pricing
25 information on December 2. And on December 5, 2019, the

1 feedback was, and this was in our exhibit, "Hi, ladies. I
2 appreciate you re quoting this, but the pricing is still
3 higher and the terms will not work for us at this point."

4 So, after all this is over, the temporary hold was
5 lifted, their director of technology was satisfied that what
6 looked like a void was actually a problem with the machine
7 shop and they're soliciting more requests for quotes and
8 being told yet again their price is too high.

9 Now the final event, and this was in January. Mr.
10 Poradek's partner, Chris Buckley, informs Ellwood that he has
11 no intention of buying from Elwood ever again. Now is this
12 because of quality? No. I would submit it's because of this
13 case. He was an angry, angry man when he learned this case
14 was filed on or around Christmas in 2019, and he told Ellwood
15 reportedly that he would sooner operate his own forge shop
16 than do business with Ellwood ever again because they had the
17 gall, the chutzpah to actually want to enforce their rights
18 under the U.S. trade law.

19 And so could it be just maybe that ST9 was a start-up
20 struggling to dial in the right specs. They had performance
21 problems just as they were getting acquired by Liberty. It
22 was very embarrassing and just maybe they needed a scapegoat.

23 And then maybe it was awfully easy to demonize Ellwood when
24 Ellwood had the gall to enforce their rights under the trade
25 law. I submit to you that this story around ST9, while an

1 unfortunate one, is basically the story of one lone purchaser
2 with bad blood. And what we will show you in the
3 post-hearing by reference to the record as a whole is that
4 the balance of the information confirms that the domestic
5 industry does produce quality product. They produce to spec.

6 And what happened was they lost to subject imports on the
7 basis of price.

8 I don't think there's much more to say than that.
9 And I really do regret having to spend so much time rebutting
10 one company that's really the tail on the dog of the
11 purchaser community. But there you have it. We felt it was
12 necessary to defend Ellwood's honor. And please, as you're
13 reviewing the record, don't forget Finkl, Finkl who testified
14 that they literally invented stainless steel technology. Did
15 ST9 pick up the phone and call them? No, because there was
16 no problem with Ellwood meeting spec. The problem might very
17 well have been the spec itself.

18 So I think, with that, we'll just leave you with
19 the record, the record that shows a significant volume of
20 imports taking shares from domestic producers, a record that
21 this is accomplished through import underselling, resulting
22 in a cost price squeeze, and a record of a deteriorating
23 financial performance that, without doubt, translates into
24 material injury. And in the absence of antidumping and
25 countervailing duty orders, the future portends continued

1 material injury to this industry. This is an industry that
2 has a proud history of innovation in supporting the oil and
3 gas industry and they deserve a chance to compete on a level
4 playing field.

5 So, with that, I think we'll close our remarks. We
6 look forward to our post-hearing submission and the
7 opportunity to address some of the questions you've raised.
8 But, for today, we'll thank you again for your time and
9 attention.

10 MR. BISHOP: Thank you, Jack.

11 Providing closing and rebuttal remarks on behalf of
12 Respondents will be Richard P. Ferrin with Faegre Drinker
13 Biddle & Reath. Richard, welcome. You have a total of 16
14 minutes for your rebuttal close. Please activate your webcam
15 and mike. You may begin when you're ready.

16 MR. FERRIN: Hello. This is Richard Ferrin at
17 Faegre Drinker Biddle & Reath, and I'm going to try to be
18 short because, if I have time left, I'd like to also ask Mr.
19 Poradek to speak on some of these allegations.

20 In general, I can say after hearing a lot of the
21 testimony, particularly the questions and answers, that there
22 has been a lot of illuminating testimony here today and the
23 Commissioners will have between today's testimony and the
24 post-hearing briefs plenty of time to assess the credibility
25 of the main witnesses for both sides. On our side, of

1 course, the main witness was Mr. Poradek, and, of course, on
2 the other side, the main witness in terms of speaking time
3 was Mr. Levy. And so they can determine who was more
4 credible, Mr. Levy or Mr. Parodek.

5 Going to some of the arguments in particular, I'd
6 like to first note that there is -- we're talking about
7 decertification of domestic producers, yet, in fact, there
8 was more than purchaser that is decertified domestic
9 producers. It's not just ST9.

10 I'd also like to point out that for the
11 underselling analysis, you need to consider the purchase cost
12 price data and the data, the purchase cost pricing data,
13 which shows actually predominant overselling rather than
14 underselling. If you look at the overselling and the
15 underselling data total, both sets, I think it definitely
16 does not establish any sort of "pervasive" underselling
17 pattern that Mr. Levy claims, but, at best, it shows a mixed
18 pattern. And I think the purchase cost pricing data better
19 reflected how the purchases were made in industry for reasons
20 we stated in our prehearing brief.

21 Now the Petitioners themselves stated that in 2019,
22 their profitability was adversely affected by the increase in
23 raw material costs and the inability to pass the cost
24 increase to the customers. That's a reason unrelated to
25 subject imports. Going to Table 7 in Petitioners' brief,

1 that table concerns U.S. producer prices, and it showed a
2 large percentage of price drop for domestic fluid end blocks.

3 That table is misleading. The staff report shows
4 that the U.S. shipment unit price actually went up during the
5 Period of Investigation.

6 A few other points in general. Obviously, quality
7 is a critical issue in this case, and, again, you can look at
8 the -- compare the credibility of Mr. Poradek to the
9 credibility of Mr. Levy on this, as well as examining the
10 data that will be shown in the post-hearing briefs. In fact,
11 Petitioners themselves acknowledge the issue. One thing that
12 is clear is -- from all of this on quality is there's lots of
13 back and forth on the technical details of whose fault it was
14 that certain end blocks failed. But the one thing that the
15 Petitioners cannot deny is that there were a lot of
16 complaints that were being made by Ellwood and made
17 repeatedly to -- being made by, excuse me, by ST9. They were
18 made to Ellwood, and Ellwood was certainly aware of the
19 quality complaints.

20 Now, ultimately, the bottom line is this is at
21 worst a perception problem by ST9. ST9 did not -- they were
22 not satisfied with the quality, and to the extent that they
23 were not satisfied with the quality of Ellwood, they decided
24 to return to the Italian suppliers for non-price reasons.

25 Now Ellwood has come up with essentially a

1 fictional narrative in their presentation with respect to the
2 email exchanges. We've addressed those emails in the hearing
3 and will provide additional details in our post-hearing
4 brief.

5 The other critical issue is the huge shift in the
6 market that include the decline in demand and decreased
7 consumption. Petitioners have not really squarely addressed
8 this other than acknowledging it. But they have not squarely
9 addressed this change in the market, and the huge drop in
10 demand is the cause of any injury, this in combination with a
11 failure to adapt to the changing market and the increased
12 need for quality.

13 A few other points, again talking about the
14 specifications, because the other side, Mr. Levy keeps
15 talking about, oh, it met the minimum specifications. Keep
16 in mind that just because something meets the minimum
17 specifications does not mean the quality of the products are
18 the same. That was demonstrated and explained in great
19 detail by Mr. Poradek.

20 I would also note that the tail end -- in the year
21 2019 is particularly due to the fact that ST9 didn't purchase
22 anything after June. By contrast, they started purchasing
23 from Italy. In terms of pricing, again, ST9 discussed
24 pricing and they said at least for their instance, their
25 situation, they switched not because of pricing but for other

1 reasons, the quality.

2 Another point is that the Commission does have
3 plenty of evidence on the record that the AUVs went up over
4 the entire Period of Investigation. The pricing data do not
5 show price depression or suppression.

6 Regarding the financial performance of the U.S.
7 industry in 2020, at that point, keep in mind that imports
8 are almost completely dried up completely. It makes no sense
9 for Petitioners to argue that somehow imports are the cause
10 of any harm to the domestic industry at a point in time where
11 the subject imports rapidly decreased in volume and decreased
12 to practically nothing by the end of the Period of
13 Investigation.

14 So these are the points that I have. I don't know
15 if Mr. Poradek has any particular additional points that he
16 would like to make.

17 MR. PORADEK: Sure. I apologize, there's a bit of
18 an echo and then some. Is there a bit of an echo in here or
19 is it just me. Anyhow, so on a couple things. First off, I
20 think they were saying that I guess I'm un-American because I
21 didn't call Finkl. Well, my perception of Finkl is from 2013
22 when one of our customers had to write off \$13 million of
23 blocks that they bought from Finkl. So that was my
24 perception of Finkl's quality, and so why would I call
25 someone who I am understanding to have worse quality than

1 Ellwood. But I did know in that scenario would I ever go
2 make the effort to call them.

3 And then I'd like to point out that it sounds petty
4 and I can't believe we're even discussing it, but they
5 haven't called me either. Typically, in sales, the sales guy
6 calls the customer, but, you know, maybe that's my confusion.

7 The other one is, is that in terms of I guess some
8 clerical issues that they had, I would say that one thing
9 that was consistent, I don't see how it would be clerical, is
10 that they took it entirely out of context. You know, maybe
11 they were off by a year by accident. I guess that's the
12 same. But I don't know how you can accidentally take
13 something out of context entirely, so that's another one.

14 In terms of our quality, I think we beat this dead.

15 You know, we're both saying the same thing now. I'm not
16 going to hash that out. From our point, we've made our
17 arguments on that.

18 And then, in terms of I would say the overall
19 market, you know, there was a mention earlier and I'm
20 probably going to get yelled at for saying this. But there
21 was a mention that no, it may be a difference to split out
22 China or anything. Well, first off, I would have if I'd
23 known that was an option. Secondly, they made the comment
24 that it seems that stainless steel blocks were not as guilty
25 in terms of pricing differential or negative pricing

1 scenarios as alloy blocks. So, in that scenario, why
2 wouldn't you then differentiate stainless steel from alloy?
3 Why would you group them together if there's such a
4 difference? That would just be another basic question I
5 would ask. But I don't have the answers, you guys are much
6 smarter than I am. But that was just some basic
7 observations.

8 And then, in terms of a closing, I would say thank
9 you very much for your time. And my biggest suggestion is
10 I'm going to provide a lot of data, and I hope that the
11 Petitioners do the same, because I think transparency is how
12 we get to the real root of this.

13 MR. BISHOP: Does that end your closing, Richard?

14 MR. FERRIN: It does, although there is one last
15 point that I did want to touch on briefly that I forgot to
16 touch on before. And that is in his close, Mr. Levy is
17 complaining that the only purchaser that was here today was
18 ST9. Well, I can tell you this. There are reasons that
19 there are other people that are not here today. And in many
20 cases, there are situations where a particular buyer doesn't
21 want to testify in person because they don't want to publicly
22 get in the middle of a dispute, what they view as a dispute
23 between two other parties, and so they choose not to air
24 their laundry in such a public form.

25 Nevertheless, I think the Commission can and should

1 go back and take a look at the questionnaire responses of
2 some of the big players as the ones that they said that
3 weren't here today, such as Halliburton and Gardner Denver,
4 and take that into account. In fact, in the preliminary
5 phase, Halliburton did have a lot to say in its
6 post-conference submission. And I think the Commission well
7 should take that into account as well and that there should
8 not be any suggestion that the only party here that had any
9 problems with the quality of product from Ellwood or Finkle
10 was ST9. I don't think that's a fair inference to draw at
11 all.

12 Looking at the case from the overall altitude from
13 a high altitude, you've got a situation here where it is
14 clear from the data on the record that this is -- that any
15 harm to the U.S. industry came from a dramatic drop in
16 demand. The pricing information is mixed at best, and
17 there's simply not enough on this record for the Commission
18 to make an affirmative determination. Thank you.

19 MR. BISHOP: Thank you, Richard and Nick.

20 Mr. Chair, that concludes rebuttal and closing
21 remarks.

22 VICE CHAIR STAYIN: Thank you. On behalf of the
23 Commission, I want to thank all of the witnesses for
24 participating in today's hearing. For post-hearing briefs,
25 statements, responses to questions, and requests of the

1 Commission, and corrections to the transcript are due no
2 later than 5:15 p.m. on Thursday, December 10, 2020. The
3 Commission appreciates everyone's patience and flexibility in
4 adapting to our modified procedures during this time.

5 Seeing no further business to come before the
6 Commission, this hearing is adjourned.

7 (Whereupon, at 4:29 p.m., the hearing in the
8 above-entitled matter adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Fluid End Blocks from China, Germany,
India and Italy

INVESTIGATION NO.: 701-TA-632-635 and
731-TA-1466-1468 (Final)

HEARING DATE: December 1, 2020

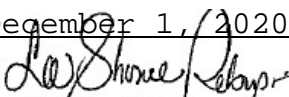
LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary Conference

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

DATE: December 1, 2020


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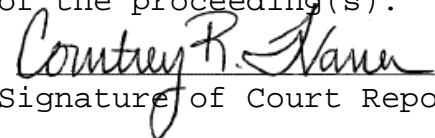
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