

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
CARBON AND CERTAIN ALLOY STEEL) Investigation Nos.
WIRE ROD FROM BRAZIL, CANADA,) 701-TA-417 and
INDONESIA, MEXICO, MOLDOVA,) 731-TA-953, 954,
TRINIDAD AND TOBAGO, AND) 957-959, 961, and 962
UKRAINE) (Review)

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 UKRAINE) (Review)

Thursday,
 April 17, 2008

Main Hearing Room 101
 U.S. International Trade
 Commission
 500 E Street, S.W.
 Washington, D.C.

The hearing commenced, pursuant to notice, at
 9:32 a.m., before the Commissioners of the United States
 International Trade Commission, the Honorable DANIEL R.
 PEARSON, Chairman, presiding.

APPEARANCES:

On Behalf of the International Trade Commission:Commissioners:

DANIEL R. PEARSON, CHAIRMAN (presiding)
 SHARA L. ARANOFF, VICE CHAIRMAN
 CHARLOTTE R. LANE, COMMISSIONER
 IRVING A. WILLIAMSON, COMMISSIONER
 DEAN A. PINKERT, COMMISSIONER

Staff:

MARILYN R. ABBOTT, Secretary to the Commission
 BILL BISHOP, Hearing and Meetings Coordinator
 SHARON D. BELLAMY, Hearings and Meetings Assistant
 OLYMPIA HAND, Investigator
 JEREMY WISE, Industry Analyst
 AMELIA PREECE, Economist

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APPEARANCES: (Cont'd)

On Behalf of the International Trade Commission:

Staff: (Cont'd)

DAVID BOYLAND, Accountant/Auditor
MARC BERNSTEIN, Attorney
DOUGLAS CORKRAN, Supervisory Investigator

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

Kelley Drye & Warren LLP
Washington, D.C.

On Behalf of:

Gerdau Ameristeel US Inc.
ArcelorMittal USA, Inc.
Keystone Consolidated Industries, Inc.
Rocky Mountain Steel Mills

JIM R. KERKVLIT, Vice President,
Sales and Marketing,
Gerdau Ameristeel US Inc.

DAVID L. CHEEK, President and CEO,
Keystone Consolidated Industries, Inc.

ROBERT A. SIMON, Vice President and General
Manager,
Rocky Mountain Steel Mills

BILL GROOM, Director of Sales, Rod & Bar,
Rocky Mountain Steel Mills

HOLLY R. HART, Legislative Director,
United Steel, Paper and Forestry, Rubber,
Manufacturing, Energy, Allied-Industrial and
Service Workers International Union ("USW")

MICHAEL T. KERWIN, Senior Economist,
Georgetown Economic Services

GINA E. BECK, Economist,
Georgetown Economic Services

APPEARANCES: (Cont'd)

In Support of Continuation of the Antidumping
and Countervailing Duty Orders: (Cont'd)

PAUL C. ROSENTHAL, Of Counsel
KATHLEEN W. CANNON, Of Counsel
R. ALAN LUBERDA, Of Counsel
GRACE W. KIM, Of Counsel

Wiley Rein LLP
Washington, D.C.

On Behalf of:

Nucor Corporation
Cascade Steel Rolling Mills, Inc.
Republic Engineered Products, Inc.

MARK BRANDON, General Manager
Nucor Steel Connecticut, Inc.

ERIC NYSTROM, National Marketing Manager,
SBQ and Cold Finish Products,
Nucor Corporation

ALAN H. PRICE, Of Counsel

DANIEL B. PICKARD, Of Counsel

In Opposition to the Continuation of the
Antidumping and Countervailing Duty Orders:

Vorys, Sater, Seymour and Pease LLP
Washington, D.C.

On Behalf of:

The American Wire Producers Association ("AWPA")

KIMBERLY A. KORBEL, Executive Director, AWPA

WALTER ROBERTSON, III, President,
Johnstown Wire Technologies Inc.

ROBERT MOFFITT, Vice President, Purchasing
Heico Wire Group

H.O. WOLTZ III, President
Insteel Industries Inc.

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APPEARANCES: (Cont'd)

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

MIKE McCALL, Vice President
MMI Products Inc.

FREDERICK P. WAITE, Of Counsel
KIMBERLY R. YOUNG, Of Counsel

Illinois Tool Works Inc.
Glenview, IL

MICHAEL LYNCH, Vice President,
Government Affairs

Covington & Burling LLP
Washington, D.C.

On Behalf of:

The Lincoln Electric Company ("Lincoln Electric")

P. MICHAEL DeSHANE, Sourcing Manager, Steel &
Chemicals
Lincoln Electric

DAVID R. GRACE, Of Counsel

Hunton & Williams LLP
Washington, D.C.

On Behalf of:

Ivaco Rolling Mills 2004 L.P. ("IRM")
Sivaco Ontario (a division of Sivaco Wire Group 2004
L.P.) ("Sivaco Ontario")

KEVIN SHUDY, Vice President and CFO,
Metal Processing Group,
Heico Companies LLC

LUC LACHAPELLE, Director, Marketing and Sales
Ivaco Rolling Mills 2004 L.P. ("IRM")

DAVID GOLDSMITH, Consultant

Heritage Reporting Corporation
(202) 628-4888

APPEARANCES: (Cont'd)

BRUCE MALASHEVICH, President,
Economic Consulting Services, Inc.

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

JIM DOUGAN, Economist,
Economic Consulting Services, Inc.

PAULINE BEAUCHAMP, Manager, Trade Analysis
Ivaco Rolling Mills 2004 L.P. ("IRM")

WILLIAM SILVERMAN, Of Counsel
DOUGLAS HEFFNER, Of Counsel
RICHARD FERRIN, Of Counsel

McKenna Long & Aldridge LLP
Washington, D.C.

On Behalf of:

Hylsa, S.A. de C.V. ("Hylsa")

MICHAEL GUHL, Commercial Director
Ternium International, USA

JEFFREY WINTON, Of Counsel
ELISABETH CARRIGAN, Of Counsel

Greenberg Traurig, LLP
Washington, D.C.

On Behalf of:

DeAcero, S.A. de C.V. ("DeAcero")

JEFFREY S. NEELEY, Of Counsel

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P R O C E E D I N G S

(9:32 a.m.)

CHAIRMAN PEARSON: Good morning. This meeting of the U.S. International Trade Commission will now come to order.

I welcome you to this hearing on Investigation Number 701-TA-417 and 731-TA-953, 954, 957 to 959, 961 and 962, Review, involving Carbon and Certain Alloy Steel Wire Rod from Brazil, Canada, Indonesia, Mexico, Moldova, Trinidad and Tobago, and Ukraine. The purpose of these 5-year investigations is to determine whether revocation of the countervailing duty order on carbon and certain alloy steel wire rod from Brazil and antidumping duty orders on all countries previously mentioned would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

Witness lists, notices of investigation and transcript order forms are available the public distribution table. All prepared testimony should be given to the Secretary. Please do not place testimony directly on the public distribution table. All witnesses must be sworn in by the Secretary before presenting testimony.

1 I understand that parties are aware of the
2 time allocations. Any questions regarding the time
3 allocations should be directed to the Secretary.

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

8 Madam Secretary, are there any preliminary
9 matters?

10 MS. ABBOTT: No, Mr. Chairman.

11 CHAIRMAN PEARSON: Very well. Let us
12 proceed with opening statements.

13 MS. ABBOTT: Opening remarks in support of
14 continuation of orders will be by Paul C. Rosenthal,
15 Kelley Drye & Warren.

16 CHAIRMAN PEARSON: Welcome, Mr. Rosenthal.
17 We get to spend a lovely day together. It's glorious
18 outside, may it be as nice inside.

19 MR. ROSENTHAL: We'll do our best.

20 Good morning, Mr. Chairman and members of
21 the Commission. For the record, my name is Paul
22 Rosenthal with Kelley Drye & Warren. We represent the
23 domestic industry in this review along with our
24 colleagues at Wiley Rein & Fielding. We believe that
25 the record that your staff has compiled provides

1 compelling reasons to conclude that revocation of the
2 eight wire rod orders at issue would cause material
3 injury to continue or recur to this highly vulnerable
4 wire rod industry.

5 Let's review some of the basic statutory
6 factors. First, consider your prior injury
7 determination and the behavior of the imports before
8 these orders were imposed. Cumulative subject imports
9 were surging into this market at the direct expense of
10 U.S. producers who watched their market share fall and
11 suffered lost sales and price suppression at a time of
12 rising costs due to lower price imports. As a result,
13 the domestic rod industry suffered increasing
14 operating losses, laid off workers, and even shut down
15 many operations.

16 This highly injurious pre-order behavior is
17 likely to recur if the orders are revoked. The
18 subject producers have not closed down their
19 operations but have massive and even increased
20 capacity as well as substantial unused capacity that
21 collectively exceeds pre-order import volumes. These
22 wire rod industries are export oriented, continue to
23 have distribution outlets in the United States and
24 will have incentive to sell into this market if
25 revocation occurs.

1 Based on the price-sensitive nature of the
2 rod market, dumped imports will achieve inroads into
3 this market as they did pre-order by undercutting U.S.
4 prices. Given the industry's present condition injury
5 will continue and will get worse.

6 The second statutory factor is whether there
7 has been any improvement in the industry related to
8 the orders. Again the answer is yes. Once the orders
9 were imposed imports from every country declined from
10 pre-order levels. Some subject imports have returned
11 at lower volumes but none has shown an ability to sell
12 pre-order volumes at non-dumped prices or non-
13 subsidized prices. For Canada, the only country
14 selling at significant volumes post-order, the
15 domestic industry has benefitted from increased and
16 overselling prices by Canada post-order. These
17 changes in import behavior following imposition of the
18 orders benefitted the domestic rod industry.?

19 The industry earned significant profits in
20 certain years of the review period as well as
21 increasing sales and market share. These improvements
22 would not have been possible had these orders not been
23 in place.

24 The third statutory factor is one of the most
25 critical for the Commission's analysis here: is the

1 industry in a vulnerable position? Absolutely.
2 Despite some profitable years, various competitive
3 conditions have led to minimal operating profits in
4 recent years and profitability is on the order of
5 about 3 percent of sales. The industry has suffered
6 from declining demand for its product and
7 unprecedented cost increases. Although respondent
8 cites price increases for rods that have occurred in
9 recent months as a sign of health, in fact these
10 increases are merely covering increased costs and are
11 not leading to significant profits.

12 In response to this strong record evidence
13 on each statutory factor that supports an affirmative
14 finding here, respondents argue that the U.S. industry
15 is profitable, with significantly increasing prices,
16 is not able to supply the mark, has affiliations with
17 foreign producers that somehow preclude injury, and is
18 not likely to see any increase in dumped imports.
19 Let's take these one by one and we will stand on our
20 responses obviously this morning.

21 First, the industry's operating profits are
22 3 percent of sales, hardly a sign of health.

23 Second, the industry is increasing prices
24 significantly but those increases are driven completely
25 by unprecedented cost increases. Their profitability

1 is not getting better despite rising prices.

2 Third, as the staff report indicates, the
3 industry has operated with significant unused capacity
4 over the review period and continues to do so. Claims
5 of high supply relate more to customers' refusal to
6 pay increased prices or to commit to more than spot
7 buying, not an absence of U.S. wire rod capacity and
8 production.

9 Fourth, although there are still
10 affiliations between U.S. producers and foreign
11 producers, those affiliations do not preclude injury
12 from dumped imports. Indeed, the Commission has found
13 in many cases in which I have been involved that
14 injury was caused to a U.S. industry by a foreign
15 industry with producers that affiliated with a U.S.
16 producer.

17 Finally, as set forth in our brief and as we
18 will discuss further, numerous factors demonstrate
19 likely increased volumes of low-priced imports if
20 revocation occurred that would decimate an already
21 vulnerable industry.

22 Accordingly, we urge an affirmative finding
23 in this case.

24 Thank you.

25 CHAIRMAN PEARSON: Thank you, Mr. Rosenthal.

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1 MS. ABBOTT: Opening remarks in opposition
2 to continuation of orders will be by William Silverman
3 of Hunton & Williams.

4 CHAIRMAN PEARSON: Good morning, Mr.
5 Silverman. Good to have you here at the Commission
6 again.

7 MR. SILVERMAN: Thank you.

8 Today, Mr. Chairman, we will probably hear
9 many dire predictions from the domestic producers. We
10 heard a few already from Mr. Rosenthal. But I urge
11 the Commission to beware of these standard predictions
12 of impending doom. I say this because in the wire rod
13 case just two-and-a-half years ago these same
14 companies tried to persuade the Commission to accept
15 these predictions of doom. However, their major
16 predictions did not come true at all. In fact, you
17 can look at the data in the record in this proceeding
18 to see how wrong their predictions were.

19 For example, Keystone testified at page 22
20 of that conference, "If action is not taken to address
21 the unfair trading practices our selling prices of
22 wire rod will continue to drop, leading to financial
23 losses for my company and our industry."

24 Then Rocky Mountain testified at page 37,
25 without relief "we will continue to see lost sales and

1 declining financial performance as our market share
2 erodes further and further."

3 Connecticut Steel at page 42 said, "The
4 application of the antidumping orders against China,
5 Turkey and Germany is absolutely necessary to permit
6 my company and this industry to return to healthy
7 conditions."

8 Now these are just three samples of many
9 predictions. There are many more that were wrong and
10 unreliable. You have it in your record. Instead of
11 these unreliable predictions we urge you to listen to
12 the many witnesses today who will explain about the
13 shortages, the allocations and the record price
14 increases in this market.

15 Now turning to another matter, on March 9
16 the staff sent an e-mail to all the domestic producers
17 regarding the importance of submitting business plans
18 and other supporting documents. Major U.S. companies
19 have such documentation in their normal business
20 operations. Now, for some reason the domestic
21 producers, rod producers chose not to supply this
22 information to the Commission. Maybe they forgot that
23 the Commission can take adverse inferences from such a
24 refusal, as the Commission did in the uranium case and
25 a few years ago in the tart cherry juice case.

1 On the other hand maybe, maybe the domestic
2 rod producers in fact have no business plans. But if
3 that were true then they are running a business and
4 making major investments without a business plan could
5 explain their purported financial difficulties. Think
6 about it: running a business, making major investments
7 with no business plans or other supporting
8 documentation.

9 On the issue of causation the domestic
10 producers told the Commission in the 2005 case at page
11 23, this is very significant, that "non-subject
12 imports totaling 2.2 million tons at \$558 per ton did
13 not cause injury." That's right out of their brief,
14 page 23. But today they claim the imports in this
15 review, which are much, much lower and at much higher
16 prices, \$800-plus, somehow are causing injury.
17 Imports from Canada would have to go up fourfold to
18 even come close to the volume that they said was not
19 injurious just two-and-a-half years ago.

20 In short, they tell the Commission one thing
21 in the Chinese case and the exact opposite in this
22 case. This is a major flip-flop and I hope the
23 Commission will reject it.

24 Now, there are some striking facts in the
25 record that cannot be avoided, these are the 10 facts

1 that we listed in the beginning of the Canadian brief
2 under the heading "10 facts that will knock your socks
3 off." All of these are legally germane and
4 uncontroverted whether you look at Canada alone or
5 cumulated.

6 By contrast, the unreliable predictions from
7 the domestic industry that at some time in the future
8 the sky will fall do not outweigh these data and
9 documents in the record and they do not outweigh the
10 strong testimony you will hear today about shortages,
11 allocations and record price increases.

12 Thank you.

13 CHAIRMAN PEARSON: Thank you, Mr. Silverman.

14 (Witnesses sworn en banc.)

15 MS. ABBOTT: Will the first panel in support
16 of the continuation of the orders please come forward.

17 And, Mr. Chairman, the witnesses have all
18 been sworn.

19 CHAIRMAN PEARSON: Mr. Rosenthal, do you
20 have the privilege of kicking off this process?

21 MR. ROSENTHAL: Thank you, Mr. Chairman. We
22 have quite a few industry witnesses this morning. I
23 am not going to go into the introductions now because
24 that will eat into most of our time. We will just go
25 through this seriatim.

1 But before I begin I do want to respond to
2 Mr. Silverman's comment about predictions. I would
3 say our predictions are pretty good when we started
4 with 14 percent net operating profits and are down to
5 3 for the last couple of years with a number of
6 companies losing money. So our predictions are based
7 on real facts. And you can see them verified in the
8 data. They are not from fortune cookies. They are
9 not from Mr. Silverman's 10 facts you'd like to
10 believe are true. We will stand on the record in this
11 case.

12 With that I would like to begin with our
13 first witness Mr. Kerkvliet.

14 MR. KERKVLIIET: Good morning. My name is
15 Jim Kerkvliet and I am the Vice President of Sales and
16 Marketing at Gerdau Ameristeel. I have been at Gerdau
17 Ameristeel since 2004 and have been involved with the
18 wire rod business for over 23 years.

19 Gerdau Ameristeel supports continuation of
20 all of the outstanding orders against wire rod due to
21 the severe damage to our company and our industry that
22 would occur if the orders were revoked. This morning
23 I would like to discuss some of the market factors
24 that demonstrate the vulnerable condition of our
25 industry generally and my company specifically, as

1 well as the serious problems that would ensue if
2 subject imports resumed their dumping behavior in our
3 market.

4 As you know, before the orders were imposed
5 imports from these seven countries surged into the
6 U.S. market, undercut U.S. prices at a time of
7 increasing costs, and caused the domestic wire rod
8 industry to lose sales and profits. Once the orders
9 were imposed, subject imports declined significantly,
10 demonstrating their inability to sell into the U.S.
11 market without dumping.

12 As a result of this change in behavior the
13 condition and operating profits improved in 2004.
14 Unfortunately, due to declines in demand, massive cost
15 increases and competition from non-subject imports,
16 the industry's improvement was short-lived. Last year
17 our industry's operating profits were only about 3
18 percent of sales, a very poor return on our
19 investment.

20 Contrary to arguments by some respondents,
21 our industry is not in a healthy or strong condition
22 today. The poor condition of the U.S. industry and
23 market is of significant concern to my company. Since
24 the orders were issued Gerdau Ameristeel has invested
25 heavily in the U.S. wire rod business. Gerdau

1 Ameristeel is a fully integrated company that produces
2 wire rod in Perth Amboy, New Jersey; Jacksonville,
3 Florida and Beaumont, Texas.

4 Members of your staff had an opportunity to
5 visit our Beaumont facility earlier this year. As
6 they saw on that tour, our Beaumont facility is well
7 situated to supply the market through rail, trucks and
8 barges. And that facility produces a wide range and
9 type of wire rod.

10 Our Perth Amboy plant supplies higher end
11 types of wire rod products, including cold heading
12 quality or CHQ rod.

13 And our Jacksonville plant produces
14 industrial quality wire rod.

15 In recent years Gerdau Ameristeel has
16 undertaken significant capital investments to upgrade
17 its facilities and improve productivity, including a
18 recent expansion of capacity and production at our
19 Jacksonville facility. Despite these efforts, we
20 continue to struggle as demand for our product
21 declines and our costs soar.

22 Demand for wire rod has declined over the
23 past few years driven largely by erosion of our
24 downstream customer base. Downstream U.S. industries
25 such as those producing nails, wire hangars,

1 galvanizing wire, stucco netting and P.C. strand are
2 being increasingly displaced by imports from China and
3 other low-price sources. It was not long ago that
4 imports of wire rod from China were surging into this
5 market. If those imports pick back up, as well they
6 might once the buildup of infrastructure for the
7 Olympics is completed later this year, the outlook for
8 our industry in terms of demand will be even more
9 dismal.

10 On the supply side, the over the past five
11 years our industry has operated for the most part with
12 significant unused capacity. Although there have been
13 temporary periods in which production quantities were
14 limited, such as when the hurricanes hit and when we
15 had shutdowns due to labor negotiations in 2005, those
16 periods were limited. For the most part, Gerdau
17 Ameristeel has had ample capacity to supply the
18 reduced demand in the market over the review period.

19 In recent months of 2008, supplies of wire
20 rod have tightened in the U.S. market due largely to a
21 drop in imports of wire rod from China. In order to
22 meet the increased spot orders for our products by
23 purchasers we have increased overtime shifts. We are
24 currently able without adding additional capacity to
25 ramp up production even further. In total, throughout

1 our rod production facilities we could produce an
2 additional 550,000 tons per year by staffing up
3 appropriately.

4 To justify ramping up production, however,
5 we need commitments from customers to buy more
6 frequently than on a spot basis. In recent years our
7 customers would place import orders for a significant
8 portion of their production needs and use the domestic
9 mills to "fill out" their needs or to buffer delays in
10 import arrivals. Culturally, Gerdau Ameristeel does
11 not believe in hiring personnel to increase capacity
12 for a short period of time with the intention of
13 laying them off later. We cannot afford to commit
14 resources and personnel by adding more shifts to serve
15 just a sporadic demand for our product that subsides
16 once import offers lower prices. The discontinuation
17 of the orders would allow this to happen.

18 I must emphasize here, however, that any
19 question of available supply must be considered in
20 conjunction with price. At Gerdau Ameristeel we have
21 offered to supply wire rod to customers who have
22 turned us down because they do not want to pay the
23 prices at which we need to sell the rod to cover our
24 increased costs. If we could receive commitments to
25 pay reasonable prices for our product over a prolonged

1 period, Gerdau Ameristeel would readily add another
2 shift to its workforce. Given the paltry profits of
3 the industry as you see from your database,
4 economically we cannot justify ramping up production
5 and experiencing higher fixed costs unless we
6 anticipate that we will be able to sell that increased
7 production at a profit.

8 I see from the respondent briefs that they
9 have accused us of significantly and frequently
10 increasing prices in recent months. They are
11 absolutely right that significant and frequent price
12 increases in our industry have occurred. However,
13 these price increases have been completely driven by
14 globally dictated cost increases, largely by massive
15 increases in the cost of scrap. I have been in this
16 industry a long time and have never seen increases in
17 the cost of raw materials of the type we have seen in
18 the past six months.

19 At Gerdau Ameristeel, although we have
20 increased our prices our scrap costs have increased by
21 a similar order of magnitude. And these cost
22 increases I am citing do not even include energy
23 costs, alloys, refractories, electrodes and
24 transportation costs which have risen substantially in
25 recent months as well. Our industry is not engaged in

1 price gouging, as our minimal profit levels indicate.
2 We are struggling to keep pace with cost increases
3 never before experienced in this industry, increases
4 that face all other steel producers as well.

5 The wire rod industry is in a vulnerable
6 condition based on its profit levels, its soaring
7 costs, and declines in demand. We are currently
8 producing both rebar and wire rod. If you compare
9 rebar and wire rod, rebar is considered a very basic
10 product, simple to produce, no real bells and
11 whistles. Wire rod by contrast is a more
12 sophisticated product and is also more expensive to
13 produce than rebar. As such, you would expect rod to
14 be sold for significantly more than rebar and that
15 companies would shift as much production as possible
16 to wire rod and away from rebar, and in the past that
17 is exactly what happened.

18 Amazingly enough, in recent years the price
19 of rebar has actually exceeded the price of wire rod,
20 something we never thought possible. As a result, we
21 have found it more profitable to produce rebar than
22 rod because of the depressed pricing in the U.S. rod
23 market. If we are able to increase prices for rod to
24 cover our actual costs and permit a reasonable profit
25 return, however, as we are trying to do now, we could

1 shift further production to wire rod and additional
2 U.S. rod will become available.

3 So, again you see the relationship between
4 our returns and our production of wire rod. It is not
5 true that our industry has insufficient capacity to
6 produce wire rod. We have plenty of capacity, either
7 by adding shifts or shifting production from rebar to
8 wire rod, a product that should be more expensive and
9 more profitable. We are in the business to produce
10 wire rod and to make money. If our customers will pay
11 the prices we need to cover our costs and earn
12 reasonable returns, Gerdau Ameristeel has and will
13 continue to increase its rod production to supply
14 these needs.

15 Finally, please remember that what you are
16 seeing in the market today in terms of supply and
17 demand is a temporary situation. We are projecting
18 that by this summer there will be no tightness of
19 supply. What is less clear, however, is whether the
20 increased prices that the industry has been forced to
21 announce to cover cost increases will stick. We are
22 struggling today to pass along these cost-driven price
23 increases to our customers. If the orders are lifted
24 and dumped imports from seven countries are permitted
25 to return to this market we have no real hope of being

1 able to cover these cost increases. A continued
2 inability to cover our costs due to low price import
3 competition will place this industry quickly back in
4 the red in terms of profits, causing further declines
5 in U.S. production and layoffs of U.S. workers.

6 Our only real hope of surviving as an
7 industry lies in maintaining fair trade conditions in
8 the U.S. For the sake of the continued viability of
9 the U.S. wire rod industry as a whole we urge you to
10 maintain these orders.

11 On behalf of Gerdau Ameristeel and its
12 employees, thank you.

13 MR. ROSENTHAL: The next witness will be Mr.
14 David Cheek.

15 MR. CHEEK: Good morning. My name is David
16 Cheek and I am the President of Keystone Consolidated
17 Industries, Incorporated. I have been with Keystone
18 for nine years and have served as president for the
19 last five years. My company was one of the original
20 petitions in this case in 2001. We demonstrated that
21 the unfair trade practices of wire rod for the uses in
22 the subject countries permitted the subject imports to
23 undercut our prices at a time when our costs were
24 steadily increasing.

25 The Commission found that the imports had

1 created a cost/price squeeze for our industry,
2 suppressing our prices and leading to significant
3 declines in our industry's financial performance, and
4 issued an affirmative injury finding.

5 We are again experiencing a time of rising
6 costs for the industry, much more so than we faced in
7 2001 or 2002. Global scrap prices have gone up
8 exponentially over the last year. Energy prices and
9 transportation costs have also increased. As a
10 consequence, the industry has had to raise prices on
11 wire rod commensurate for those cost increases as a
12 matter of survival. If we cannot raise prices to
13 cover these cost increases we will continue to
14 struggle financially as an industry.

15 The price increases that the industry has
16 had to employ in recent months have been an attempt to
17 keep pace with rising costs and maintain a reasonable
18 profit. The Commission has data on our profitability
19 as an industry. Profitability has fallen
20 significantly since 2004.

21 Our industry has only been treading water
22 with just over 3 percent operating profits for the
23 last two years. And both Keystone and the industry
24 have lost ground since 2004. Taken in context, broad
25 industry price increases have been defensive in

1 nature. Wire rod is still a commodity product sold in
2 the U.S. market largely on the basis of price.

3 At Keystone we sell commodity grades of wire
4 rod, focusing on low to medium carbon industrial and
5 standard quality rod but also selling an increasing
6 amount of higher level grades. The products we make
7 are produced by all the subject producers in this
8 case. If the volume of imports is increased
9 significantly, wire rod prices will soften and we will
10 not be able to cover the rising cost of raw materials
11 we face. That is precisely what happened in the
12 original investigation.

13 The orders provide a significant
14 disincentive to the subject countries shipping
15 additional quantities at dumped prices to this market
16 and they maintain a necessary discipline on those who
17 continue to ship wire rod here. If those orders are
18 removed, subject imports will increase. Like
19 Keystone, these subject producers have high fixed
20 capital costs and their goal is to fill their capacity
21 to lower unit costs and increase profits. Those
22 producers have past experience with this market and
23 most have current ties in the U.S. market.

24 The customers across the room who will
25 testify this afternoon want access to the large wire

1 rod capacity in these subject countries with the
2 expectation of being able to leverage lower prices.
3 If the orders on rod are removed they expect more
4 imports and lower prices. If that happens, however,
5 the wire rod industry will quickly face very serious
6 problems.

7 I empathize with their desire for unfettered
8 access to dumped and subsidized imports even if I
9 cannot agree with it. That result will only lead to
10 further harm to the wire rod industry and ultimately
11 reduce domestic capacity available to them.

12 The wire products producers have also taken
13 steps to protect their interests. Our company
14 testified on behalf of the nails industry in their
15 effort to get relief from injurious dumped imports
16 even after Keystone stopped producing nails because we
17 strongly believe that both the rod industry and our
18 customers should not have to face unfair import
19 competition. The United States wire rod industry has
20 the capacity to serve market demand. While Keystone
21 sells rods to affiliates for wire production, we sell
22 more for producing into the commercial markets than to
23 affiliates. We have often found ourselves unable to
24 get sufficient orders to fill our mill.

25 The current situation of tight supply is

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1 recent and short-term in nature. In the last few
2 months, demand for downstream products has changed for
3 some customers and we have all faced the issue of the
4 huge increase in raw material costs. These and other
5 factors have led to a short-term period of adjustment.
6 Such periods of tightness and adjustment have occurred
7 before to resolve themselves. There is no evidence of
8 a fundamental shortage of wire rod in the market. If
9 there were a shortage, prices would be consistently
10 rising in excess of the rising costs, and that has not
11 happened.

12 Keystone's customers that have bought from
13 us over time are generally having their needs met at
14 prices that reflect our costs in this market. We
15 remain willing to sell rods to new and existing
16 customers willing to commit to working with us over
17 the long term. If the orders are removed, however, my
18 company and this industry will continue to deteriorate
19 financially. History has taught us that this turn can
20 come very quickly, and we remain very vulnerable to
21 it.

22 Over the period of review, Keystone went
23 through a bankruptcy, and the Georgetown mill also
24 closed for a period during this bankruptcy. Many of
25 these same customers complained then about shortages

1 due to these circumstances. Thanks in large part to
2 the market discipline these orders provided, both
3 mills worked through their difficulties and the supply
4 tightness proved temporary. It is therefore in
5 everyone's interests, including our customers'
6 interests, that the domestic wire rod industry remain
7 viable. Commitments from our customers that allow us
8 to use all of our capacity over the long term would
9 help us to keep pricing as reasonable as possible at a
10 time when our costs are rising and will assure the
11 maintenance of this critical domestic capacity.

12 It is the condition of the wire rod industry
13 rather than the wire industry that is at issue today.
14 And the evidence shows that we continue to need these
15 orders. If these orders are revoked, imports will
16 increase and our ability to cover rising costs will
17 end very quickly, leading to financial losses for my
18 company and our industry and threatening domestic
19 capacity. On the heels of what have been too many
20 past years' financial problems for Keystone
21 individually, and for the industry as whole, it is
22 critical that these orders be maintained.

23 Thank you.

24 MR. ROSENTHAL: The next witness is Rob
25 Simon from Rocky Mountain Steel Mills.

1 MR. SIMON: Good morning, members of the
2 Commission. My name is Rob Simon and I am Vice
3 President and General Manager of Rocky Mountain Steel
4 Mills. Prior to this petition I was operations
5 manager which included overseeing manufacturing,
6 costing, industrial engineering and environmental
7 issues.

8 I have been with Rocky Mountain Steel for
9 almost 14 years since it was acquired by Oregon Steel
10 Mills in 1993. Controlling interest in Oregon Steel
11 Mills was purchased by the Everast Group in 2007 but
12 our management team has remained intact throughout
13 this period.

14 Rocky Mountain Steel Mills is a highly
15 competitive wire rod producer and produces all types
16 of carbon wire rod products, including rod for welding
17 wire, music wire, pipe wrap, specialty rope grade,
18 tire bead and tire cord. Rocky Mountain Steel Mills
19 was not one of the original petitioners in this case
20 but we have supported the orders since they were
21 established because we have seen that they returned
22 some order to the marketplace after the chaos of the
23 1999 through 2002 period.

24 The orders imposed discipline on the
25 producers in the subject countries who had injured the

1 domestic industry. These orders and their positive
2 impact on the market are one factor that allowed Rocky
3 Mountain Steel Mills to invest substantial capital in
4 our melt shops to improve our ability to make many of
5 the value-added grades of wire rod. During the review
6 period we spent significant capital to build a new
7 electric arc furnace and upgrade our caster to give us
8 enhanced capability to produce the range of wire rod
9 products sold in the market, including tire cord and
10 welding wire rod products.

11 Despite these upgrade, many customers still
12 preferred to purchase imported rod at lower prices,
13 including from the subject countries. After the
14 orders went into effect, one wire rod purchaser went
15 to Congress to attempt to legislatively remove a
16 particular type of wire rod from the orders without
17 ever attempting to purchase from Rocky Mountain Steel
18 Mills. Fortunately, the industry learned of it and
19 objected. Rocky Mountain Steel Mills was ultimately
20 given a chance to supply that customer and we have
21 done so successfully. There simply isn't much that
22 the domestic industry cannot or does not make.

23 Even with these improvements to our
24 facilities to broaden our product range we have not
25 run at capacity for the last several years due to a

1 lack of orders and poor pricing in the rod market we
2 even diverted rod capacity to other products we
3 manufacture, including cold rebar markets. Cold rebar
4 is an easier and cheaper product to make than wire rod
5 and it traditionally is priced lower than rod
6 products. More recently, however, cold rebar has had
7 higher pricing than wire rod. Because our mill and
8 our marketing approach has been to target higher
9 value-added rod product we would prefer to run wire
10 rod products.

11 The market for rod has become temporarily
12 somewhat tighter this year which in many respects has
13 been a fortunate thing for the wire rod industry.
14 Without this tightness I don't think that the industry
15 would have been able to obtain the necessary price
16 increases to attempt to cover rising costs. The
17 tightness in the market is in fact related to these
18 rising costs for scrap, other raw materials and energy
19 in late 2007 and early 2008. Wire producers and other
20 purchasers saw the price of imports and domestic rod
21 rising in line with these increasing costs. As a
22 result, many companies that relied on imports to a
23 significant degree elected not to purchase imports to
24 draw down inventory. Sometimes you can wait out blips
25 in the market but there is a risk in doing so if you

1 rely on imports because imports have to be purchased
2 three to four months in advance.

3 As scrap prices continue to escalate and
4 inventory fell, those companies suddenly needed to
5 purchase more rod immediately. These companies could
6 not get instant access to imports based on orders
7 today so they turned to the domestic sources. That
8 has created a tightness. Based on history, this is a
9 temporary event and will likely resolve itself by
10 summer.

11 Rocky Mountain Steel Mills has worked with
12 our regular customers to make sure heir needs are met
13 and we are also supplying new customers that want to
14 make a commitment to work with us over the long term.
15 Those who have been committed to imports in the past
16 will want to return to imports if they can because
17 they are used to paying lower prices. Neither the
18 orders nor the value of the dollar has completely
19 stopped the imports from coming in. The orders do not
20 preclude participation in the market but they do
21 provide discipline so that the injury to the domestic
22 industry will not return.

23 When subject imports have been uncontrolled
24 in the past the domestic industry has been materially
25 injured. If these orders are removed, subject imports

1 will increase. That is the history of this market.
2 The AWWA knows that if these orders are lifted the
3 subject imports will return in large number, prices
4 will fall, and Rocky Mountain Steel Mills' ability to
5 increase prices to cover our increasing raw material
6 costs will evaporate. That is the history of the wire
7 rod industry.

8 On behalf of more than 1,000 employees in
9 Pueblo, Colorado, I ask that you please do not allow
10 history to repeat itself. Thank you.

11 MR. ROSENTHAL: The next witness is Eric
12 Nystrom.

13 MR. NYSTROM: Good morning. My name is Eric
14 Nystrom and I am the National Marketing Manager for
15 wire rod, SBQ, cold finished products for Nucor
16 Corporation. Nucor has two wire rod facilities, one
17 in Nebraska and one in Connecticut which we acquired
18 in 2006. I appreciate the opportunity to speak with
19 you today to discuss why the orders for wire rod are
20 critical for the future stability and health of the
21 domestic industry.

22 The wire rod industry is one of the weakest
23 segments of the U.S. steel industry. Over time the
24 rod industry has been decimated by imports which
25 greatly contribute to our consistently low rates of

1 return. As you know, our Chairman and CEO Dan Damico
2 is a very candid individual. He has not been shy
3 about pointing out the unsatisfactory rates of return
4 for our limited wire rod operations at our general
5 manager's meeting. Compared to the rest of the
6 company's products, returns on wire rod have been
7 extremely poor. Even in 2007, when the steel industry
8 generally obtained strong profits, our wire rod
9 operations barely remained in the black.

10 As for our industry as a whole, the wire rod
11 sector has long suffered from fierce import pressures
12 which has hampered our ability to achieve acceptable
13 returns. After receiving relief in 2002, conditions
14 improved in 2004 and the rod industry began obtaining
15 profits on par with other segments. By mid-2005,
16 however, the U.S. market was flooded with low-priced
17 Chinese imports which had built up in the market
18 during 2004. From 2005 to 2007 and due to imports and
19 reduced demand, supply vastly exceeded U.S. demand and
20 depressed our prices. As a result, the industry's
21 operating margins declined dramatically. We are
22 finally seeing a decline in Chinese imports and we
23 should be reaping the benefits of the orders in place
24 on wire rod.

25 With these orders in place we expect to see

1 an eventual improvement from the inadequate 2007
2 profit levels. The current industry operating margin
3 of 3 percent is simply not a healthy rate of concern.
4 Because of its consistently poor performance, high
5 levels of imports and, frankly, lack of customer
6 loyalty to the domestic industry, Nucor has avoided
7 many investment opportunities to produce wire rod. By
8 2006 most steel mills were selling for a substantial
9 premium over the replacement value of their assets.

10 In this context it is important to note that
11 we purchased a Connecticut facility in 2006 for only
12 \$42 million, a fraction of the price of the
13 replacement value of the assets. This was a
14 distressed price. There were two motivating factors
15 behind this purchase. At the time we were building
16 supply to Connecticut and we viewed the acquisition
17 largely as a defensive move to preserve our required
18 offtake of melt in order to maintain capacity
19 utilization levels at our other facilities.

20 Second, we were attracted by the downstream
21 capabilities of the Connecticut mill, not its wire rod
22 business. While we did not anticipate extremely high
23 profits, our board expected to receive a 12 percent
24 return on our investment. However, due in part to the
25 presence of Chinese imports in the U.S. market our

1 Connecticut mill has consistently failed to meet
2 projected returns in 2006 and 2007. Even the recent
3 increases in wire rod prices are a function of the
4 global increase in the cost of raw materials and are
5 not evidence that the industry is obtaining healthy
6 profit levels. With scrap and energy costs soaring,
7 if dumped and subsidized imports are allowed to
8 reenter the U.S. market, our industry will be faced
9 with a cost/price squeeze that will prevent us from
10 fully recovering manufacturing costs.

11 It is unfortunate that so many of our
12 customers have ignored costs in their calculations and
13 want to continue this cost/price squeeze which
14 threatens the health of the entire industry. Indeed,
15 if our profit level were higher we would likely
16 achieve rates of return that would justify new
17 investments in additional capacity. Year in and year
18 out history has taught us that any perceived tightness
19 in supply is usually short lived. Currently we are
20 not running at full capacity and we would produce more
21 wire rod if it made financial sense to do so.

22 In fact, we have repeatedly solicited orders
23 from our customers in proposed binding agreements in
24 September and October of last year when supply was
25 very high. At the time, many of our customers did not

1 want to commit to contracts locking in tonnage. Once
2 the new year started, though, customers showed up all
3 at once to place orders. Even with this rush we have
4 honored the tonnage requirements of our traditional
5 customers while also taking on new customers despite
6 the lack of formal commitment on their end.

7 In addition, in an effort to meet our
8 customers' demand we have offered to purchase more
9 billets if the customers are willing to make a long-
10 term commitment. Thus far, however, customers have
11 been unwilling to make the long-term commitment
12 necessary to secure these billets. Any customer
13 complaints about supply have been based on a lack of
14 cheap wire rod, not a supply shortage generally.

15 The point that I am trying to make is that
16 there is not a structural problem with our ability to
17 supply customers with wire rod. Just as I mentioned,
18 there is supply available if customers are willing to
19 commit to long-term supply agreements and if it is
20 profitable for us to produce more wire rod. Thus,
21 much of the perceived market tightness is about price
22 and not about actual supply.

23 Second, our returns affect our ability to
24 fund projects and invest in additional capacity. If
25 the returns on our wire rod operations were adequate

1 we would install a reheat furnace and a roughing mill
2 at our Connecticut facility which would increase our
3 capacity while also improving the quality of our
4 products and billet availability. It is a simple
5 business model: any new investments depend on our
6 ability to generate returns on those investments for
7 our shareholders. If financial indicators are poor we
8 will be unable to make additional investments in
9 capacity.

10 Finally, I would like to address the
11 potential impact on our industry if these orders were
12 to be removed. My understanding is that the
13 Commission is supposed to evaluate the effects of
14 revocation of the orders over a reasonably foreseeable
15 time. It is also my understanding that for the steel
16 industry this Commission usually looks forward about
17 two years from the vote day. Any short-term
18 evaluation of the impact of removal of the orders
19 would be imprudent because initially it will take at
20 least a quarter for foreign producers and importers to
21 react due to normal production runs. Any perceived
22 shortage of low-cost supply will likely be eliminated
23 shortly.

24 If the orders are revoked, I expect dumped,
25 subsidized imports to surge into our open and

1 attractive market just as they had prior to the orders
2 in 2002. Since January, ocean freight costs have
3 declined by 30 percent. The G-7 finance ministers
4 also just met to address the sagging U.S. dollar and
5 signaled that the U.S. dollar likely will recover
6 soon, making our market all the more attractive.
7 These recent trends make it even more likely that if
8 the orders are removed and dumped and subsidized
9 imports re-enter the U.S. market, U.S. prices will
10 decline dramatically and operating margins for wire
11 rod will plummet.

12 Additionally, we will likely have to reduce
13 our production which will harm our workers and hinder
14 our ability to raise the capital necessary to proceed
15 with any new investments. Essentially, subject
16 imports will once again destabilize our already
17 fragile industry. To avoid the dire conditions that
18 have historically plagued the wire rod sector and
19 enable our industry to finally attain healthy profit
20 levels it is critical that dumped and subsidized
21 imports do not re-enter the U.S. market.

22 On behalf of Nucor and all of our employees
23 I urge the Commission to leave the orders for wire rod
24 in place.

25 Thank you.

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1 MR. ROSENTHAL: The next witness will be
2 Holly Hart from the United Steelworkers.

3 MS. HART: Good morning, Mr. Chairman and
4 members of the Commission. My name is Holly Hart and
5 I am the Legislative Director of the United
6 Steelworkers. The United Steelworkers is the largest
7 industrial union in North America and we have over
8 850,000 active members. Our union has been fighting
9 on the front lines against foreign governments and
10 companies seeking to gain unfair advantage by
11 violating the rules of trade. These anti-competitive
12 actions have had an enormously corrosive effect on the
13 union's manufacturers -- on the nation's
14 manufacturers, I'm sorry, and the union and its
15 workers.

16 As to the carbon steel wire rod sunset
17 review at issue here, the Steelworkers represents over
18 1,300 workers in this industry, including the workers
19 at ArcelorMittal USA, Cascade Steel Rolling Mills,
20 Incorporated, Gerdau Ameristeel US, Republic
21 Engineered Products, Rocky Mountain Steel Mills, and
22 Sterling Steel Company. I am here today to speak for
23 those member workers as to why it is essential that
24 all of the orders be continued in this case.

25 too long ago the U.S. carbon wire rod industry

1 was devastated by the onslaught of unfairly traded
2 imports from the subject countries. This onslaught
3 destroyed the economic livelihoods of hundreds of our
4 members. Over the 3-year period of the original
5 investigation, which was 1999 to 2001, more than 800
6 of these highly skilled, hard working employees in
7 this industry lost their jobs. Numerous others
8 suffered as well from reduced work hours and shrinking
9 paychecks as their employers were forced to cut back
10 production in the face of continued lost sales and
11 revenue as a result of unfair imports.

12 Since the orders were imposed the union and
13 its members have worked closely with the domestic
14 producers in their recovery efforts so that the
15 domestic industry can remain globally competitive. As
16 an industry, the total number of works has declined
17 further since the orders were imposed and remain
18 significantly below the 3,000 average number of
19 workers employed during the original investigation.
20 It is often easy to gloss over numbers, but I just
21 want to emphasize that these numbers do, what they are
22 are issues of human beings, real live important
23 industries, family-supporting jobs and their
24 communities.

25 The union and its members have done all we

1 can to ensure the viability of the industry. We have
2 taught tirelessly to save U.S. jobs and to give our
3 remaining workers a chance to secure some benefits for
4 our many retirees who were so inequitably stripped of
5 the benefits they earned over a lifetime of hard work
6 and work that was performed in a very challenging
7 environment.

8 In closing let me make it clear that these
9 orders have been and continue to be very important to
10 the U.S. steelworkers. There is no doubt in my mind
11 that if the orders did not stay in place the job
12 losses and harm to our members would have been much
13 more severe. In addition, if the orders are not
14 maintained I strongly believe that the domestic
15 producers will not be able to make the types of
16 capital investments, both physical and human,
17 necessary to remain competitive. As a result, their
18 existence as U.S. manufacturers will be jeopardized.

19 On behalf of our members and their families
20 I hope you will do the right thing and continue all of
21 the antidumping and countervailing duty orders.

22 Thanks very much.

23 MR. ROSENTHAL: Thank you. Our next witness
24 is Kathy Cannon.

25 MS. CANNON: Good morning. I am Kathleen

1 Cannon with Kelley Drye and I would like to address a
2 couple of legal issues beginning with the cumulation
3 of subject imports.

4 In this case the statutory predicates to a
5 cumulative analysis are met and the conditions of
6 competition for imports similar for all seven
7 countries. Imports from each of the subject countries
8 will have at least a discernible adverse impact if the
9 orders are revoked as discussed in our prehearing
10 brief. Mexican producers DeAcero and Hylsa have
11 argued that there would be no discernible adverse
12 impact from Mexico for various reasons, including
13 growing home market demand for rod in Mexico. What
14 they fail to acknowledge is that capacity in Mexico
15 has surged in recent years and that substantial unused
16 capacity continues to exist that could and likely
17 would lead to increased U.S. exports but for the
18 orders.

19 Each of the factors that the Commission
20 traditionally considers to find a reasonable overlap
21 in competition is met in this case. Information
22 gathered by your staff indicates that there is a high
23 degree of substitution between domestic rod and
24 subject imports where identical forms of rod exist.
25 The prehearing report further indicates a significant

1 overlap in sales based on type of rod sold as well as
2 common channels of distribution and likely similar
3 geographic markets and temporal sales among subject
4 imports and the U.S. produces as was true pre-order.

5 In determining whether to exercise its
6 discretion to cumulate the Commission also has
7 considered whether common conditions of competition
8 exist. For example, where competition occurs largely
9 on the basis of price, as is true in the wire rod
10 market, the Commission has found common competitive
11 conditions in some cases present that support
12 cumulation. In other cases the Commission has
13 considered common trends or projected behavior.
14 Subject imports here share common trends with import
15 volumes from all subject countries declining after the
16 orders were imposed, while their average unit values
17 all increased.

18 What is more important to a cumulative
19 assessment, however, is not a review of period trends
20 but whether the common volume of pricing behavior is
21 anticipated if revocation occurs. Canadian producer
22 Ivaco has argued that the Commission should not
23 cumulate imports from Canada due to their behavior
24 under the discipline of the order. With the order in
25 place Canada continued to export significant volumes

1 of rod to the U.S. market, a critical market to
2 Canadian rod producers, but did not undercut U.S.
3 prices as it had before the orders were imposed.

4 If the orders were revoked, however, the
5 substantial capacity in Canada will permit further
6 increases in these volumes as prices that again
7 undercut and suppress U.S. prices. Sales of increased
8 volumes of low-priced imports from Canada will be
9 exactly the same behavior that is projected for the
10 other subject countries, justifying cumulation of
11 imports from Canada as well.

12 In several recent sunset reviews the
13 Commission has considered affiliations between subject
14 producers and U.S. producers in deciding whether to
15 cumulate imports. Notably, the Commission's decisions
16 have varied depending on the facts of each case. The
17 Commission has cumulated imports from countries that
18 have affiliates of U.S. producers with other countries
19 in which no affiliates are present. Factors such as
20 the presence of non-affiliated producers in the same
21 country as affiliated producers, a change in the
22 behavior or export patterns following the affiliation,
23 and the relative size of the U.S. affiliate as
24 compared to other producers have been considered in
25 assessing whether likely common conditions of

1 competition would prevail.

2 Here, two U.S. producers are affiliated with
3 subject foreign mills: Gerdau Ameristeel and
4 ArcelorMittal USA. Importantly, both of these
5 companies support retention of the orders as a whole,
6 irrespective of any affiliation. A primary reason for
7 this support is that the facts of this case are not
8 like the facts of any of the previous cases. In most
9 of the prior cases the affiliated foreign producer was
10 the sole producer or accounted for virtually all
11 production in the subject country. By contrast, here
12 non-affiliated producers are present in every subject
13 country under review except Trinidad.

14 Another factor the Commission has considered
15 is whether the affiliation led to a change in import
16 behavior. Here there was no indication that any
17 affiliated foreign producer altered its behavior after
18 the affiliations occurred. Instead, the alterations
19 in the behavior of the subject foreign producers
20 correlate to the imposition of the orders and, as
21 such, reflect another common condition of competition.

22 Respondent's view that the mere presence of
23 an affiliated U.S. producer necessarily means that
24 there will be no injury caused by its related foreign
25 producer is not consistent with past Commission

1 findings. In many original investigations in which we
2 have been involved the Commission has found material
3 injury was caused by subject imports even though a
4 foreign affiliated to a U.S. producer was in one or
5 more of the subject countries. The decision as to
6 likely injurious effect of imports should be
7 predicated on factors such as capacity and unused
8 capacity, export orientation and pricing behavior of
9 subject imports collectively, not on affiliations.

10 The only other legal issue I would like to
11 mention briefly is the time period to be considered in
12 looking at projected behavior if the orders are
13 lifted. Respondents have predicated most of their
14 arguments on the current state of the market, indeed
15 on just a few months of late 2007 and early 2008 where
16 supplies have been tight and prices increasing in
17 response to rapidly rising costs. As our testimony
18 reflects, the tight supply situation is temporary, not
19 a long-term phenomenon. Indeed, over the review
20 period there have been other periods of tight supply
21 of rod on a short-term basis due to hurricanes or
22 labor strikes, but those have all been resolved in a
23 matter of months. The present situation is no
24 different.

25 As a matter of law, the Commission must base

1 its decision as to whether injury is likely to
2 continue or recur on projected behavior within a
3 reasonably foreseeable time. The FAA states that this
4 time period exceeds the imminent time period for a
5 threat analysis and the Commission has generally
6 looked out about two years in steel sunset reviews to
7 assess likely effects of revocation. A focus on the
8 proper time frame in accordance with law would place
9 little, if any, emphasis on the current market
10 situation.

11 Thank you.

12 MR. ROSENTHAL: Our last witness this
13 morning will be Michael Kerwin.

14 MR. KERWIN: Good morning. I am Michael
15 Kerwin of Georgetown Economic Services.

16 In their prehearing brief respondents have
17 asserted that wire rod producers in the subject
18 countries have little interest or capability to
19 redirect large volumes of wire rod to the U.S. market.
20 The plain fact, however, is that subject producers
21 currently have much larger capacities to produce wire
22 rod than at the time of the original investigation
23 and, more importantly, have far more excess capacity
24 with which to expand output than at that time.
25 Indeed, the question of redirection of wire rod

1 shipments from home or third country markets is not
2 even of primary importance because the subject
3 producers have more than enough idle capacity to
4 immediately surge back into the U.S. market without
5 shifting any sales.

6 Based on aggregated data from all of the
7 subject countries, subject producers had a combined
8 total capacity of 8.7 million tons in 2002, the last
9 year before the orders were imposed, as is shown here
10 in Chart 1.

11 Subject producers were operating at a
12 combined capacity utilization rate of 92 percent,
13 meaning that they had 700,000 tons of excess capacity.
14 By five years later the subject producers' capacity to
15 produce wire rod had grown to 13.2 million tons in
16 2007, an expansion of 4.5 million tons or 52 percent
17 in relation to the 2002 figure.

18 As capacity expanded production did not grow
19 apace. As a result, combined capacity utilization
20 fell to just 76 percent and excess capacity grew from
21 700,000 tons in 2002 to 3.1 million tons in 2007. In
22 other words, the capacity overhang of the subject
23 producers has expanded more than fourfold since the
24 time of the original investigation.

25 Given that overall capacity, and

1 specifically the excess capacity to produce wire rod
2 in the subject countries is now much larger than at
3 the time of the original investigation, it is very
4 hard to take seriously assertions made in the
5 respondent's briefs that "the U.S. market is
6 unattractive to producers of wire rod." The U.S.
7 market was an important export market for each of the
8 subject countries at the time of the investigation and
9 in light of the massive capacity overhang there can be
10 little doubt that these producers would be thrilled to
11 return to their pre-order patterns. In fact, the
12 excess capacity of the reporting producers alone is
13 more than 50 percent larger than the total volume of
14 subject imports into the United States in the peak
15 year of the POI.

16 In assessing the subject producers'
17 capability to produce and export wire rod I would
18 remind the Commission that numerous producers in these
19 countries have not to complete the questionnaire, so
20 the true magnitude of the capacity goes well beyond
21 the figures discussed here today or in the staff
22 report. Massive overcapacity makes moot the
23 respondent's arguments as to how third country export
24 opportunities and the reduced value of the dollar make
25 foreign producers uninterested in the U.S. market. A

1 subject producer need not divert any volume from any
2 market to the United States if it has excess capacity
3 on hand. To maximize utilization and reduce unit
4 costs these producers will ship to the U.S. market
5 even if U.S. prices are lower than those in some other
6 markets.

7 That being said, even in relation to third
8 country export opportunities the respondent's
9 arguments do not hold water. While exports remain a
10 significant element of overall wire rod output in the
11 subject countries it is not true that opportunities in
12 third country export markets are so attractive as to
13 preclude the return of subject imports to the U.S.
14 market in large volumes. In fact, the aggregated data
15 of the reporting producers show that total exports
16 actually declined between 2002 and 2007 by roughly 7
17 percent. Far from the rosy picture painted of endless
18 opportunities in third country markets, the data show
19 that the foreign producers in the aggregate have never
20 replaced the export sales that they lost to the U.S.
21 market.

22 Nor does the fact the record indicates that
23 U.S. prices were lower than those in other markets
24 during the period of review. Statements indicating
25 that U.S. prices tended to be higher than those in

1 other markets were made by U.S. producers, importers
2 and even some foreign producers, and independent
3 sources of pricing information also confirm these
4 observations. The MEPS data, for example, show that
5 U.S. prices were consistently higher than average
6 world prices and those for the Asia region in 2006 and
7 2007.

8 The same data show that U.S. prices were
9 sometimes above and sometimes below those in the E.U.
10 For example, in the first half of 2007 European prices
11 were higher but by the second half of the year U.S.
12 prices exceeded those in the E.U. market.

13 Another independent source largely confirms
14 these observations. As noted in the staff report,
15 "Based on Blank's published monthly prices for wire
16 rod, U.S. prices were generally higher than non-U.S.
17 prices and U.S. prices were consistently and
18 noticeably higher than prices in Japan, the Far East,
19 and later China over a period of six years."

20 Oddly enough, despite building much of their
21 case on the assertion that prices in home and third
22 country markets are higher than in the U.S., none of
23 the staff report information that I just discussed is
24 even mentioned in the respondent's briefs. In truth,
25 prices for carbon and alloy wire rod have increased

1 all over the world but prices in the U.S. have
2 generally been higher than those in most global
3 markets during the period of review.

4 Nor do exchange rate trends provide a reason
5 for subject imports to stay out of the U.S. market.
6 First, what has transpired in relation to exchange
7 rates over the last few years is no indication of what
8 is likely to happen in the reasonably foreseeable
9 future. Any efforts to divine likely trends in the
10 value of the dollar in relation to currencies in the
11 subject countries amounts to speculation.

12 Further, the respondent's assertions that
13 "the U.S. dollar has depreciated substantially against
14 nearly all subject currencies" is unsupported. In
15 fact, the respondent's own data show that the dollar
16 appreciated, that is increased in value, in relation
17 to the Indonesia rupiah, the Mexican peso and the
18 Trinidad and Tobago dollar between 2003 and 2007, and
19 depreciated just 4.2 percent in relation to the
20 Ukrainian Hryvnia.

21 The only subject country currencies in
22 relation to which the dollar showed a substantial
23 depreciation over the period of review were the
24 Brazilian real and the Canadian dollar. In the
25 original investigation, however, Brazilian imports

1 increased over the POI despite a 10 percent real
2 depreciation in the U.S. dollar versus the Brazilian
3 real. In the case of Canada, total U.S. imports of
4 wire rod from Canada increased by roughly 20 percent
5 from 2006 to 2007, simultaneous with a 25 percent
6 depreciation of the U.S. dollar in relation to the
7 Canadian dollar.

8 Thus, even if the U.S. dollar does
9 depreciate against the subject countries in the next
10 year or two there is no reason to believe that that
11 will limit import volumes of wire rod from the subject
12 countries.

13 On the broad subject of U.S. prices, it is
14 indeed ironic that respondent cites recent price
15 increases in the U.S. market as a sign of healthy
16 market demand and indication that the U.S. industry is
17 not vulnerable but do not believe that U.S. prices
18 will pull in imports from the subject countries. This
19 reasoning is inconsistent. These price escalations
20 have been mandated by increases in global and U.S.
21 prices for raw materials and energy.

22 Steel scrap is the most important raw
23 material in the production of carbon and alloy wire
24 rod. Over the period of review prices for steel scrap
25 have increased dramatically, most notably during 2004

1 and since the beginning of 2007, as shown in Chart 2.
2 By the end of 2007, prices for composite heavy melt
3 and shredded auto scrap were roughly three times
4 higher than they were at the beginning of 2002.

5 Since the beginning of the current year
6 scrap prices have jumped roughly \$300 per ton. Alloy
7 costs have likewise increased dramatically over this
8 period. Energy costs have also increased
9 significantly. Between 2002 and 2007, U.S. industrial
10 natural gas prices jumped by 88 percent and those for
11 electricity grew by 31 percent.

12 While there have been numerous price
13 increases announced in the U.S. market for wire rod,
14 all of these announcements have been directly linked
15 to ongoing increases in raw materials costs. The
16 following charts compare quarterly changes in prices
17 for pricing products 1 through 3, the highest volume
18 products tracked by the Commission and show in
19 comparison those price changes to changes in the cost
20 of shredded steel scrap. As shown for each of these
21 products, increases in finished product prices have
22 not even kept up with increases in the cost of scrap
23 steel.

24 As you see, the bars on the far right show
25 that despite the numerous announced price increases

1 for wire rod during this period, scrap costs have
2 increased faster and the net effect has been a decline
3 in contribution margins on wire rod product, as you
4 see by the negative bar there on the far right. Far
5 from an indicator of industry health, recent wire rod
6 price increases show just how vulnerable the domestic
7 industry is in the face of massive and ongoing
8 increases in raw materials costs.

9 I would like to now turn to the issue of
10 likely price effects of the subject imports. The
11 record data in this review show that subject imports
12 would likely undersell domestic producers if
13 revocation occurred. Even with the orders in place,
14 wire rod imports from Brazil, Indonesia, Moldova and
15 Ukraine undersold U.S. products in all possible
16 comparisons and those from Mexico and Trinidad and
17 Tobago showed underselling in numerous instances.
18 Instances of underselling by the Canadian product
19 declined greatly in these sunset reviews as compared
20 to the original investigation. But as the Commission
21 has recognized in other cases, overselling in the post-
22 order period may well be a reflection of the
23 effectiveness of the orders and is not necessarily
24 indicative of what will occur once the orders are
25 revoked.

1 Given the price suppression that the
2 domestic industry has been suffering over the last few
3 years, particularly over the last six months, if the
4 subject imports quickly resume price undercutting
5 practices to increase their U.S. market share the
6 results will be catastrophic for the U.S. wire rod
7 industry.

8 As you've heard this morning from industry
9 participants, the domestic wire rod industry is
10 unhealthy and remains vulnerable. The financial
11 experience of the industry is extremely telling, as
12 profitability has fallen consistently since 2004
13 despite the many price increases. As a percentage of
14 sales value, profitability fell from 14 percent in
15 2004 to 7.6 percent in 2005 and just 3.2 percent in
16 2007. While just one U.S. producer experienced an
17 operating loss in 2005, by 2007 four U.S. producers
18 were in that position. Given its capital-intensive
19 nature, the wire rod industry is not generating
20 sufficient returns to ensure its long-term survival.

21 In the context of this weak profitability
22 and rising costs the domestic industry can ill afford
23 the removal of the unfair trade orders on wire rod.
24 Subject imports are extremely likely to return in
25 significant volumes and at low and injurious prices.

1 If revocation occurs, the industry's ongoing viability
2 will be in jeopardy.

3 Thank you.

4 MR. ROSENTHAL: Thank you. That concludes
5 our direct testimony. I want to before we answer
6 questions introduce our co-counsel in this case Alan
7 Price and Daniel Pickard from Wiley Rein and Fielding
8 who will also be available to answer questions, as
9 well as Bill Groom from Rocky Mountain Steel and Gina
10 Beck from Georgetown Economic Services. They have all
11 been sworn in.

12 Thank you.

13 CHAIRMAN PEARSON: Well, thank you very much
14 for your testimony and for being with us today. We
15 appreciate the time and effort you have put in
16 preparing for this hearing and, you know, the fact
17 that you have come here. I know it is a nice day in
18 Washington but still, you could be doing other things
19 in your businesses than being here, so we appreciate
20 your presence.

21 Let me mention that Commissioner Okun is
22 necessarily absent and won't be with us today.

23 And we will begin the questioning this
24 morning with Commissioner Williamson.

25 COMMISSIONER WILLIAMSON: Thank you, Mr.

1 Chairman. I too want to express my appreciation to
2 all the witnesses for coming here today and giving us
3 their testimony. I know it's taking out time from
4 running your businesses.

5 I would like to start off by looking at this
6 question of whether or not you can respond to the
7 demands of some of your purchasers for, you know,
8 product at this time. You argue that you cannot make
9 the necessary production commitments without long-term
10 commitments from purchasers. But I think we have some
11 indication in the record that most sales in this
12 market are on spot or long-term purchases. So I
13 wonder is it reasonable to expect really long-term
14 commitments given this practice?

15 MR. KERKVLIIET: If I understand the
16 question, the question would be is it reasonable to
17 expect long-term commitments from our customers?

18 COMMISSIONER WILLIAMSON: Yeah. Given that
19 has that been the pattern in the industry before or?

20 MR. KERKVLIIET: I would say that
21 historically in the past the level of long-term
22 commitments from our customers has been respective or
23 related to, I'm sorry, what has been the presence of
24 imports. As imports have been high and continue to be
25 higher if you go back and look at the record let's say

1 in mid-period of review imports got as high as 65
2 percent as far as penetration in the United States.
3 The willingness to commit to long-term commitments on
4 a contractual basis at that time was less.

5 We think that it is reasonable to run our
6 business to have long-term commitments from our
7 customers for the basic fact that we run better as an
8 operation, we serve our customers better as an
9 operation if we do have those long-term commitments.
10 It allows us to buy scrap at a more competitive basis,
11 on a longer term basis, it allows us to fix our
12 employment contracts on the long-term basis.

13 When we go to a spot basis it allows our
14 costs or causes our costs to increase because we have
15 to do it on a reactionary basis versus a strategic
16 basis.

17 COMMISSIONER WILLIAMSON: Anyone else want
18 to answer that?

19 MR. CHEEK: Yes. We also have many loyal
20 customers. The impact that we typically see is based
21 on the amount of imports coming into this country.
22 The fact is we like to have a base load to operate our
23 mill. We like to have a loyal base of customers
24 behind us in that regard so that we can staff
25 accordingly, purchase accordingly, keep people

1 employed. And I think the loyalty of the domestic
2 industry and the customers varies from time to time
3 just based on are imports coming in and at what level.

4 COMMISSIONER WILLIAMSON: Well, given the
5 level of imports in the last five years what is the
6 basis for -- I mean how long ago was it a practice
7 where you had the long-term contracts?

8 MR. CHEEK: Well, I think it's fair to say
9 that some of those type relationships exist today.
10 Also they're also certainly not for all of the entire
11 market. But there have been instances where those
12 have occurred today.

13 MR. KERKVLIIET: I guess to clarify, we have
14 had long-term contracts. We continue to have long-
15 term contracts. As far as a different piece of
16 portfolio or our business that might vary by low
17 carbon, high carbon, cold heading quality, welding
18 wire. That does vary. But we have had long-term
19 contractual commitments in the past.

20 MR. ROSENTHAL: I think it's fair to say
21 that they all currently have long-term contracts. But
22 what changes, I'd like to hear from some of the other
23 industry witnesses, but what changes sometimes is the
24 tonnage and the mix and the length of it. But it is
25 not in general a spot market for a large percentage of

1 customers. And I can't give you that percentage
2 because it varies from company to company.

3 I'd like to have the other companies jump
4 in, they can provide you more detail on that.

5 MR. SIMON: I think it's important to look
6 at it in perspective. As we talked about, the imports
7 have averaged 65 percent for much of the period of
8 time. Some of the testimony you heard today told you
9 that the domestic industry in essence is left to fill
10 in that 45 percent and we're all kind of fighting for
11 that 45 percent. When that's the case it becomes much
12 more difficult to firm up long-term commitment. They
13 do exist and we do participate in them but not to the
14 degree that we've been used to in the past. And I
15 think when you look at the 65 percent/45 percent mix
16 that tells the story.

17 COMMISSIONER WILLIAMSON: Okay. Also to Mr.
18 Nystrom, you mentioned, you also talked about the
19 importance of long-term commitments. And I was
20 wondering does this really apply in cases if you
21 really need more billet in order to produce more?
22 That's a different type of investment than if you want
23 to supply a new person or equipment which is really a
24 much more longer term commitment.

25 MR. NYSTROM: We've got a couple of things

1 but from the general standpoint customers' order
2 patterns, the sales planning process, orders we expect
3 them to kind of maintain their similar patterns. And
4 if there is a strategic piece of business then we can
5 find a way to develop that and bring it into our plan.
6 You know, as far as the comment on the billets, yeah,
7 it's the idea that our Connecticut mill has excess
8 capacity right now, it's a matter of procuring the
9 billets to be able to fill the capacity. And given an
10 incentive like a profitable return on your orders you
11 could find a way to make that happen.

12 And in fact, you know, this summer we do
13 have a new mill coming on which will provide us some
14 additional mill capacity to be able to provide that
15 Connecticut mill with more billets.

16 COMMISSIONER WILLIAMSON: Okay. Thank you
17 for those answers. If there is anything post-hearing
18 that maybe you can do and present it in a coherent
19 fashion as to I think you mentioned that some product
20 lines long-term commitments may be more frequent than
21 in others, or just to give us a clearer picture of
22 that it might be helpful.

23 MR. ROSENTHAL: Yes. I think we will try to
24 clarify too what we mean by long-term commitment
25 versus spot and the nature of the commitment that, for

1 example, Mr. Kerkvliet mentioned that would
2 incentivize a company, Gerdau Ameristeel, to add
3 another shift for example. What would it take to
4 decide that they will do that and run the risk of
5 layoffs three months later? Or preferably not have to
6 run the risks of layoffs in three months. So we'll
7 get you more detail on that.

8 COMMISSIONER WILLIAMSON: Okay. You might
9 also address the question there was talk about the
10 excess capacity in other countries, and are they under
11 the same, similar constraints about how quickly you
12 gear up to take advantage of something if new orders
13 were to come up.

14 MR. ROSENTHAL: We certainly will do that.

15 COMMISSIONER WILLIAMSON: Okay, thank you.

16 Let's turn to one other area. The
17 prehearing report shows recent declines in the non-
18 subject imports from several sources, not just China.
19 And I am trying to get some clarification on why these
20 declines, how long they were likely to happen.
21 Because one person mentioned actually that freight
22 costs I think have come down in the last, in recent
23 months, which is a little surprising. And a question
24 about the relevant worth of a dollar and markets
25 elsewhere. So I guess I'm getting to this question

1 why is the U.S. market still, the respondents have
2 said the U.S. market is less attractive, and I want to
3 see your comments on that?

4 MR. KERWIN: I can take a first crack at
5 that. There was a substantial change in policy in
6 China to exports of wire rod. They took away the
7 incentives that were there from the government to
8 increase exports of wire rod. So that's a change in
9 policy that took place recently and has had a
10 substantial impact on Chinese exports of wire rod
11 globally.

12 So that has certainly had an impact but
13 that's also a change in policy that could be turned
14 around, you know, any time in the near future, it's
15 not necessarily an indication of market changes but
16 more of change in the policy within China.

17 COMMISSIONER WILLIAMSON: What about how
18 does that, what about the Olympics, what importance to
19 you attach to that? I want to hear some answers.

20 MR. KERWIN: Well, obviously the Olympics
21 will be over by the end of this year, and so I don't
22 believe that that was the primary motivation behind
23 the change in policy by the Chinese government, but
24 certainly, to the extent that that entered into the
25 equation, any building for the Olympics will be over.

1 It's probably over now. Certainly, the Olympics
2 themselves will be over by later this year. So that's
3 not going to be a factor going forward certainly.

4 MR. GROOM: One of the main reasons I think
5 that the imports haven't come in even though
6 transportation rates from overseas suppliers have
7 dropped over the last few months by 30 percent is
8 historically priced, delivered price here, and that's
9 why they are not being purchased at this time.

10 COMMISSIONER WILLIAMSON: Why? Is the price
11 here not attractive enough for them or what?

12 MR. GROOM: They cannot get the price that
13 they want for their products, so the distributors or
14 trading companies cannot get them to bring product in.

15 MR. ROSENTHAL: There is more answer to this
16 because there will be questions around this, but let
17 me just summarize quickly by saying it's not that they
18 can't come in; it's that they haven't been purchased
19 by the usual import purchasers because they wanted to
20 see what was going to happen in the marketplace.
21 Demand is down, and I see your time is up.

22 COMMISSIONER WILLIAMSON: My time is up, but
23 we'll come back to it, if someone else doesn't get to
24 it. Thank you.

25 CHAIRMAN PEARSON: Commissioner Pinkert?

1 COMMISSIONER PINKERT: Thank you, Mr.
2 Chairman, and I would like to join my colleagues in
3 welcoming everybody on this panel and thanking you for
4 being here.

5 I would like to begin with Mr. Kerkvliet and
6 ask you some questions about Gerdau's Brazilian
7 affiliate, if I could.

8 First of all, I would like to ask whether
9 you can think of anything that would prevent the
10 Brazilian affiliate from shipping substantial
11 quantities to the U.S. market in the event that the
12 order on Brazil was revoked?

13 MR. KERKVLIIET: Well, Gerdau is a 66-percent
14 shareholder of Gerdau Ameristeel, so I can't say that
15 they would not come back to this market. As far as
16 the fundamentals that go to it, I think it's going to
17 be a matter of supply and demand in their home market,
18 as well as what the supply and demand is in other
19 available markets.

20 Brazil has traditionally been an exporter of
21 products, has been an exporter of slabs, wide-flange
22 beams, SPQ products, et cetera.

23 So I can't say that there would be anything
24 fundamentally, except for the limited ownership that
25 they have within Gerdau Ameristeel. But I would

1 honestly tell you that there have been cases in the
2 past, in the recent past, that Gerdau has come into
3 the United States market.

4 It's interesting. Gerdau is a company
5 that's grown on a 25-percent annualized basis, and as
6 it grows its network globally, to be honest, sometimes
7 the left hand doesn't know what the right hand is
8 doing, and there have been cases that other products
9 have come into the United States from Brazil, from
10 Gerdau specifically, in competition with Gerdau
11 Ameristeel.

12 COMMISSIONER PINKERT: So let me see if I
13 understand this. Are you saying that the Brazilian
14 affiliate doesn't coordinate any potential shipments
15 to the U.S. market with the U.S. Gerdau Company?

16 MR. KERKVLIIET: I would say that they don't
17 specifically coordinate. We have a communication
18 about what the global market is, what the global
19 prices are, et cetera, but, as far as coordinating on
20 volumes coming into the United States, it's not a day-
21 to-day basis; it's more on a directional basis.

22 I guess, to clarify, it's not as finite as
23 what you might think.

24 COMMISSIONER PINKERT: Well, could you give
25 me a little more of an understanding, perhaps in the

1 post-hearing, of how that coordination process works?

2 MR. KERKVLIIET: I would be happy to.

3 COMMISSIONER PINKERT: Thank you. Ms.

4 Cannon, I would like to ask the same kinds of
5 questions with respect to Mittal. I note that we have
6 a representative, but not a Mittal person, here at the
7 hearing today. So perhaps if you could explain what
8 the constraints are on Mittal's foreign affiliates'
9 shipping to the U.S. market, in the event that the
10 orders would be revoked.

11 MS. CANNON: We'll be happy to do that,
12 Commissioner Pinkert, in our post-hearing brief.

13 COMMISSIONER PINKERT: In the post-hearing?

14 MS. CANNON: Yes, because a lot of that
15 information, I believe, is proprietary to the company.

16 COMMISSIONER PINKERT: Okay. Thank you.

17 Now, I would like to turn to Mr. Kerwin for
18 a moment and ask some questions that may be more of an
19 economic-modeling nature than a direct, factual
20 nature, but since you talked about exchange rates, I
21 thought that it might be worthwhile for you to explain
22 what you might expect under certain circumstances in
23 the United States market.

24 I would like to think of this as a lagging
25 recession issue for a moment and ask you if the United

1 States went into recession before its major trading
2 partners went into recession, what would you expect
3 that to do to the relative exchange rates between the
4 United States and the trading partners?

5 MR. KERWIN: Well, that's a very broad
6 question. It's a tough question because it involves
7 sort of a prognostication of what could happen, as far
8 as the exchange rates. Your scenario is one that may
9 be occurring, that we may be going into a recession
10 ahead of some other parts of the world. We've,
11 obviously, seen some declines in the dollar, some
12 significant declines in relation to certain currencies
13 in the last year or so.

14 So I think there is not necessarily a clear
15 and direct connection between the state of the economy
16 and what's happening with exchange rates. We may see
17 some further cuts by the Fed in prime rates, which may
18 tend to bring down the value of the dollar as U.S.
19 securities become less attractive, but, on the other
20 hand, at some point, that's going to reach a logical
21 limit. There is only so far that the Fed can cut.

22 So, certainly, there is a limit to how far
23 that can go, and I think one of the salient points, in
24 relation to the countries that we're looking at is, as
25 I mentioned in my testimony, despite what may have

1 gone on in relation to the euro over this period, that
2 did not go on in relation to the majority of the
3 currencies of the subject countries at issue here.

4 So even when you talk about the value of the
5 dollar and U.S. exchange rates, it's a little dicey to
6 make a broad generalization of what this impact might
7 be for the specific subject countries. The fact that
8 the dollar has lost value in relation to the euro is
9 not necessarily of any real import to the countries at
10 issue here because none of them are countries that use
11 the euro.

12 So that's a very difficult question to
13 answer, so that's about as much as I can really say
14 about that.

15 COMMISSIONER PINKERT: Before we get to Mr.
16 Price, I want to flip the question around for you for
17 a second, Mr. Kerwin, and ask what you would say in
18 the opposite situation; that is, if the United States
19 comes out of recession while its trading partners are
20 in recession, what would you expect the relative
21 exchange rate relationships to be?

22 MR. KERWIN: You know, I guess, all other
23 things being equal, you would expect a rise in the
24 value of the dollar, but, again, that's not a clear
25 relationship necessarily.

1 Certainly, in relation to the product at
2 hand, an expansion and improvement in the U.S. economy
3 would have the general effect of improving demand for
4 wire rod, but the specifics of this market, even in a
5 period of relatively good economic times over the past
6 several years, overall aggregate demand for wire rod
7 in the U.S. market has declined.

8 So, you know, in relation to the subject
9 product, this is a market that's really contracting,
10 even in good economic times, so if we are on the verge
11 of entering into a recession, I certainly would expect
12 worse things ahead for the wire rod industry.

13 COMMISSIONER PINKERT: Mr. Price, did you
14 have a comment on that?

15 MR. PRICE: Yes. I have two comments, one
16 just related to currency and looking forward and where
17 it's going. Certainly, I agree with Mr. Kerwin that,
18 in regard to some of these specific currencies,
19 actually there hasn't been any great change in
20 valuation.

21 But I think the G-7 meeting last Saturday
22 was pretty telling, going forward, when there is
23 essentially a statement indicating that the dollar had
24 probably devalued excessively and basically was
25 telling the currency markets they were going to start

1 trying to move in the other direction. So I think
2 that tells us a lot, going forward, just in terms of
3 the value of the dollar.

4 I've been doing this for a long time. We
5 all have been doing this for a long time here.
6 Overall, you get these fluctuations, but, overall,
7 year in and year out, the U.S. is an attractively
8 priced market. It's an open market. So you get these
9 very short periods where, every once in a while,
10 foreign prices in some markets may move above the U.S.
11 market, but those are consistently short periods, and
12 the U.S. consistently attracts in product.

13 COMMISSIONER PINKERT: For the post-hearing,
14 if you could provide any up-to-date forecasts on the
15 currency relationships, that would be appreciated.
16 Thank you. Thank you, Mr. Chairman.

17 CHAIRMAN PEARSON: I've spent some time with
18 this record and do not pretend to understand it yet,
19 so maybe, by the end of the hearing, I'll have a
20 better grasp on it.

21 Let me just start, why do we see, in this
22 record, the market shares of the U.S. producers, the
23 subject producers, and the nonsubject producers
24 shifting around as much as they do from year to year?
25 I understand that, to answer this, one needs access to

1 the confidential data, so if you don't have that, just
2 sit back and relax.

3 We see cases in which the apparent
4 consumption, the total demand in the marketplace,
5 seems to be basically driving the bus, and everything
6 rides along with that. We don't see that so clearly
7 here. We see changes in apparent consumption. Some
8 of them, the year-to-year changes, are relatively
9 pronounced, and then we see inconsistent shifts in
10 market share of the people serving that apparent
11 consumption. Does anyone have an observation on this
12 to start the discussion? Mr. Kerwin?

13 MR. KERWIN: Yes. I'll throw out a first
14 salvo here. In our discussions with the industry
15 people, one of the things that they mentioned was that
16 they have seen large swings in inventories that are
17 being held. I think, to some extent, what you saw in
18 2006 was large buildups of inventories in imports,
19 maybe excessive buildups in inventories, which then
20 were compensated for, in 2007, by reduced imports.
21 That was also a reflection of the change in the
22 Chinese policy.

23 I think one of the things that's gone on is,
24 particularly in times of volatile raw materials costs
25 and volatile finished product pricing, purchasers will

1 make an effort to either work up or draw down
2 inventories before or after price changes.

3 So, to some extent, what you're seeing is a
4 reflection of purchasers building up inventories of
5 imports and then perhaps, having been overstocked in
6 2007, and cutting back.

7 MR. SIMON: If I could also add, as you look
8 at those shifts in market share, from our perspective,
9 it's actually very simple. There is one answer, and
10 it's price. Whoever has the lowest price gains the
11 most market share. If you look at it historically,
12 that's what drives it.

13 CHAIRMAN PEARSON: Okay. So we would
14 conclude that the U.S. industry had the lowest market
15 price in 2007, when it gained a big chunk of market
16 share.

17 MR. SIMON: That's correct.

18 MR. ROSENTHAL: Yes. I think what happened
19 there, and you'll hear this from other industry
20 witnesses, and it partially answers Mr. Williamson's
21 question, too, is that when raw material costs were
22 increasing around the globe, importers were faced with
23 higher prices than they are used to paying, and the
24 U.S. industry lagged in increasing their prices.

25 You've heard a lot of complaints in the

1 briefs that the U.S. industry has increased their
2 prices, but the fact of the matter is, the industry
3 was lagging the foreign industry in increasing prices.
4 The result was twofold: less in the way of imports, a
5 draw-down in inventories by importers, and a turning
6 more to the domestic industry.

7 The industry, as you've heard, has announced
8 a number of price increases to cover the raw material
9 costs. I think what you have seen now is a situation
10 where the U.S. industry is back to pricing similar to
11 the rest of the world industry, and you now are
12 getting complaints by the traditional importers.

13 CHAIRMAN PEARSON: Okay. Let me ask a
14 related question, then. Looking at imports of subject
15 product from Canada, those imports seem to march to
16 quite a different drummer than the imports from other
17 subject producers. In fact, they may be marching to
18 the U.S. drum, just comparing changes in market share
19 that have affected the U.S. producers and changes in
20 market share that we see in Canadian imports.

21 Is it reasonable to conclude that Canada and
22 the U.S. basically serve a unified North American
23 market for steel wire rod and that they are not
24 subject to some of the same pressures as the other
25 subject producers?

1 CHAIRMAN PEARSON: For this one, I would
2 love to hear from people in the industry. You have to
3 compete with those guys. Are they basically part of
4 the same market, or is there a real dividing line that
5 makes a material difference between how you compete
6 with them and how you compete with the colleagues
7 sitting next to you at the table here?

8 MR. KERKVLIIET: I would say -- I don't want
9 to say "challenge that contention," but I think the
10 Canadian producers have a significant amount of excess
11 capacity, and when the market is strong enough in the
12 Canadian market, they will serve their home market
13 first, and when that doesn't serve their needs, they
14 have traditionally and consistently been a significant
15 importer into the United States.

16 Their pricing, with the exception of some
17 small, recent concerns -- it could be because of the
18 dollar -- I'm not exactly sure, but the pricing
19 relative to Canada to our prices have been lower. I
20 would say that in our northeast market, we have had a
21 labor shutdown in Perth Amboy because of the
22 competition that they face specifically in that
23 northeast market from Canada. It's had some negative
24 effects, injurious effects, on the Perth Amboy
25 facility as a whole because we just couldn't compete

1 with the imports that were coming in from Canada, on a
2 longer-term basis.

3 We shut down our melt shop, and we had to
4 lay off another shift during this period of review
5 because of the imports, not just from Canada, but for
6 the region, specifically, geographically, they were a
7 big player. They were a big part of that, a big
8 participant.

9 MR. SIMON: We compete with Canada head on.
10 As I mentioned earlier, my belief is that pricing
11 drives market share in the United States. Canada
12 gains market share by dropping their prices, and
13 that's what we usually fiercely battle against the
14 Canadian suppliers is based on pricing.

15 That being said, pricing in the U.S. is
16 higher than in other parts of the world, extremely
17 higher than in Canada. So that's why they choose to
18 bring it into the U.S. They can afford to lower their
19 prices against our prices when they compare our price
20 to the Canadian price.

21 MR. CHEEK: We see the same competition in
22 the upper Midwest with our customers. It's typically
23 based on price, and the Canadian material comes in
24 based on price.

25 CHAIRMAN PEARSON: On this record, we see a

1 substantial tendency for the Canadians to oversell the
2 U.S. price. So how do we square those data with what
3 you are telling me now?

4 MR. ROSENTHAL: I know you do understand
5 that they are subject to order, and they are paying
6 duties now. They are not as high as some of the
7 duties from some of the other countries, but the
8 Canadians are paying the duties, and the level of
9 overselling that might have existed early on has
10 pretty much diminished, and now you're seeing what I
11 regard as a very competitive pricing situation. If
12 you look at the trend over the period of review,
13 overselling margins that existed early on have
14 dwindled.

15 CHAIRMAN PEARSON: Okay. I will need to go
16 back and look at that again. So you're saying that,
17 in regard to Canada, the overselling margin has
18 declined over time during the period of review.

19 MR. ROSENTHAL: Yes.

20 CHAIRMAN PEARSON: Okay. Do you deal with
21 competition trucked into the United States from
22 countries other than Canada? That would be Mexico, I
23 suppose.

24 MR. KERKVLIIET: We do have material coming
25 in on trucks from Mexico.

1 CHAIRMAN PEARSON: Okay. Is it a
2 significant advantage to Mexican and Canadian
3 producers to have access to truck shipment into the
4 United States? It's a different type of competition
5 than you have with when a boat arrives in Houston and
6 starts unloading wire rod from Ukraine. Right?

7 MR. KERKVLIIET: Competitive advantage? I
8 would say there's differences relative to other
9 imports because of the timing. When you talk about
10 transportation on an oceangoing vessel, there's a
11 certain number of days in the rotation, and because of
12 the proximity, it is different than perhaps imports
13 coming from Brazil or imports coming from other
14 countries. There is a timing difference.

15 MR. ROSENTHAL: I'm sorry. Go ahead.

16 MS. KERKVLIIET: Well, you would think the
17 freight cost would be lower, obviously, than shipping
18 it, you know, from overseas. But, secondly, there are
19 customers who can't receive product in the other
20 methods. They have to pay transloaders to handle
21 ships, railcars, whatever. So it is an advantage.

22 MR. ROSENTHAL: What I was going to say is
23 that all of these things are taking into account. In
24 order to compete, for example, with the Canadians, the
25 Brazilians or the imports from Trinidad adjust their

1 prices because they recognize that they may not be
2 able to provide the service of shipping by truck, so
3 they offer a lower price.

4 The customer is factoring all of those
5 things to decide whether the price delivered is
6 attractive, one versus the other. So they are all
7 competing against one another. It doesn't matter,
8 really, how the product shows up at the customer's
9 door. That's all price competition in the end.

10 CHAIRMAN PEARSON: Okay. Well, we may be
11 able to explore that this afternoon with the
12 purchasers. Madam Vice Chairman?

13 VICE CHAIRMAN ARANOFF: Thank you, Mr.
14 Chairman. I join my colleagues in welcoming all of
15 the witnesses who have taken time out of your
16 schedules to be with us today. Before I start asking
17 questions, I just do want to join with Commissioner
18 Pinkert in expressing my disappointment that there is
19 not a witness here today from ArcelorMittal.

20 I do have extensive written questions, which
21 I will be submitting, Mr. Rosenthal, for answers, and
22 since the Commission has been deprived of the
23 opportunity to have an interaction with such a
24 witness, I hope that the answers will be extremely
25 forthcoming.

1 MR. ROSENTHAL: We brought the top four
2 companies to the hearing today. I'm sorry that the
3 fifth was not here, but we'll make sure you get your
4 questions answered in a direct and forthcoming way.

5 VICE CHAIRMAN ARANOFF: Thank you very much.

6 Let me ask some of the producers, can you
7 explain to me why it is that the domestic industry
8 continues to increase its production capacity while
9 you indicate that you see declining demand for steel
10 wire rod as something of a long-term, structural
11 trend?

12 MR. SIMON: In terms of Rocky Mountain Steel
13 Mills, what we did was we upgraded our capacity. We
14 have excess capacity, and they were not operating at
15 full capacity, and we haven't, for quite a few years.
16 What we did last year, in an effort to try and improve
17 our price, is invest capital in trying to climb the
18 ladder in terms of value-added products.

19 VICE CHAIRMAN ARANOFF: That has the side
20 effect of increasing your total capacity.

21 MR. SIMON: In a slight way, but if you look
22 at our capacity over the past 10 years, we have not
23 increased it significantly. We've had some increase
24 due to these capital improvements, but, again, the
25 intent of the capital improvements was not so much to

1 increase capacity but more to increase the quality of
2 products that we can manufacture in turn to the value
3 added.

4 VICE CHAIRMAN ARANOFF: Okay.

5 MR. KERKVLIIET: And I would echo that
6 comment. I don't think that the overall investments
7 in the Gerdau Ameristeel network have been
8 specifically to increase the nominal capacity because
9 there is nominal capacity that is being underutilized.
10 What has been invested in is significant investments
11 to try to make sure we are cost competitive on a long-
12 term basis. Whether it being casting, whether it be
13 vacuum degassing, or whatever the investment might be,
14 we're trying to make sure that we're being competitive
15 on a global scale.

16 VICE CHAIRMAN ARANOFF: Okay. Did anyone
17 else want to comment?

18 MR. NYSTROM: Yes. Again, I don't know that
19 there has been a lot of new capacity added; rather,
20 it's just how we're utilizing our existing mill and
21 equipment that we have available to us today. I think
22 that's more in line with what we're discussing.

23 VICE CHAIRMAN ARANOFF: Okay.

24 MS. BECK: Commissioner, if I could just
25 add, if you look over the past couple of years,

1 actually, the industry, as a whole, showed relatively
2 flat trends in capacity. There were minimal shifts,
3 and, as the representative said, any kind of minimal
4 increase in capacity was, again, to become more
5 efficient and to cut costs.

6 VICE CHAIRMAN ARANOFF: Okay. While we have
7 seen some consolidation in this industry, it's
8 certainly not as extensive as we've seen in some other
9 sectors of the domestic steel industry, and I wanted
10 to ask, are there any particular product-specific or
11 technology-specific reasons why there has been less
12 consolidation in steel wire rod than in other parts of
13 the steel industry and whether you think that further
14 consolidation would be a benefit?

15 MR. KERKVLIIET: I don't believe that there
16 is any specific technical or engineering reasons why.
17 I just think that sometimes the return on the
18 investment for the consolidation, I think, as Eric had
19 said earlier about their investment in Connecticut
20 Steel, the value of those assets were so reduced, and
21 the returns for those investments were so reduced,
22 that it's hard to justify to put more investments, on
23 a consolidation basis, into that type of a production
24 structure.

25 MR. SIMON: As you look at wire rod in

1 comparison to other products in the steel industry, it
2 is, by far, the least-profitable, the least-desirable
3 products, one of, out there. So I think that is a
4 significant driver in the lack of consolidation in the
5 wire rod markets.

6 MR. CHEEK: I think it's the same thing
7 we're seeing also.

8 VICE CHAIRMAN ARANOFF: It's just not a good
9 investment because the returns aren't good enough.

10 MR. ROSENTHAL: And this is one where I'm
11 sure you can go to the records of the other cases
12 you've been involved in. This makes me recall Mr.
13 Silverman's opening statement, that we're painting
14 such a bright and rosy picture of the wire rod
15 industry. You've been involved in sunset reviews for
16 a number of other steel products. I'm pretty certain
17 that you will see that the wire rod industry is doing
18 far less well than most steel products you have had a
19 chance to review in recent years.

20 VICE CHAIRMAN ARANOFF: Okay. I appreciate
21 those answers.

22 Does anybody know about what percentage of
23 U.S. consumption of steel wire rod goes into auto
24 industry applications?

25 MR. ROSENTHAL: We won't guess at that one.

1 We'll try to come up with information in the post-
2 hearing brief, but we don't have that at hand.

3 VICE CHAIRMAN ARANOFF: Okay. So just to
4 give you a clue as to where I was going with that, I'm
5 thinking back to the corrosion case where there were
6 some quirks in the way that the auto industry worked
7 as between the U.S. and Canada that were driving some
8 of the reasons why product was switching from being
9 exports to imports and back again because of the way
10 the models moved back and forth, and I was trying to
11 figure out whether that's a significant factor in
12 U.S.-Canada trade in this product.

13 MR. ROSENTHAL: Good to have that
14 background. I can say, in answer to your question,
15 and we'll get to more details, but this is a far
16 different situation. It's a fairly small percentage
17 of wire rod that goes into the auto industry. A much
18 higher percentage goes into construction and related
19 industries.

20 VICE CHAIRMAN ARANOFF: Okay. I want to
21 move over to pricing and just ask some general
22 questions. Given that there is a fairly wide spectrum
23 of steel wire rod products that are made and sold in
24 the U.S. market, do prices for high- and low-end
25 products tend to move in tandem so that, for example,

1 if prices were to rise or fall for a fairly low-end,
2 industrial-quality product, would that have an effect
3 on the price for a high-end welding, or CHQ, product,
4 or vice versa?

5 MR. SIMON: Our history shows that they
6 definitely do trend. They may not be, obviously, the
7 same, but they trend the same.

8 MR. CHEEK: The same situation.

9 MR. KERKVLIIET: Yes. I would agree. It's
10 just a matter of what that range, that band from which
11 it trades, but if it trades up or trades down, that
12 band is going to just be dependent upon what the
13 supply and demand is at the time.

14 VICE CHAIRMAN ARANOFF: Okay. Given that
15 what you've been telling us today is that, right now,
16 the most important thing that's driving prices is raw
17 material costs, I could see how that would tend to
18 make prices all move more or less in tandem. But if
19 what happens, for example, is that there is a surge in
20 supply at one end of the market, so it's not a raw-
21 material-cost-driven factor, is that going to have the
22 same effect across the board? Is a big surge in
23 imports for industrial quality going to affect the
24 price for CHQ to the same extent?

25 MR. SIMON: I would add, yes, as you see

1 more pressure from imports, then it does tend to move
2 across all products involved.

3 MR. KERKVLIIET: And not trying to be
4 repetitive, but, again, it's about price. If imports
5 weren't such a large part of the market, yes, I would
6 agree, we would see more fluctuations between
7 different types of wire rod products, but imports are
8 such a huge portion of our markets that they really
9 drive the pricing.

10 VICE CHAIRMAN ARANOFF: Okay. I guess I'm
11 just trying to understand a little better the
12 mechanism by which that kind of price change would
13 happen. Sometimes when you have a product that's sold
14 mostly to distributors, and they are buying the whole
15 range, they see the low price for one thing, and they
16 are going to demand it for everything, but, in your
17 case, your customers seem to be more discrete in terms
18 of the products that they buy. So how does the effect
19 of increased import availability in one part of the
20 market translate to prices in other parts of the
21 market?

22 MR. SIMON: Well, what we see is that
23 imports really affect all facets of the market.
24 There's very, very few products -- I can't even think
25 of one -- that are currently not imported that we

1 wouldn't compete against an importer.

2 MR. NYSTROM: Again, Eric Nystrom, Nucor.
3 Several mills are providing products across the
4 spectrum of higher quality and low quality, and,
5 certainly, the effect we see from imports may affect
6 one, which then, in terms of mills operating, which
7 translates into pricing on our products.

8 MR. ROSENTHAL: And the imports supply
9 across the entire continuum of products, too. It's
10 not like you just take imports from one type, and
11 that's it. The importers are searching constantly for
12 the lowest price from all of the sources, subject
13 countries and companies.

14 VICE CHAIRMAN ARANOFF: Okay. So what
15 you're basically telling me is my hypothetical is no
16 good because we're not going to have a surge of
17 imports in just one product, and so we don't need to
18 ask ourselves how that would translate across other
19 products because, if we see imports in one area, we're
20 going to see them in every area.

21 MR. ROSENTHAL: Basically.

22 VICE CHAIRMAN ARANOFF: Okay. All right.
23 With that, I'll pass on. Thank you very much.

24 CHAIRMAN PEARSON: Commissioner Lane?

25 COMMISSIONER LANE: Thank you. Ms. Cannon,

1 I would like to start with you.

2 Given the status of the Commission's initial
3 and remand decisions in Trinidad and Tobago, do you
4 have any comments regarding how the Commission should
5 view Trinidad and Tobago, either for cumulation
6 purposes or injury?

7 MS. CANNON: That's a very good question
8 because it's an unusual situation. Legally, at this
9 point, the Commission, even though it's issued a
10 negative decision on remand, has said something
11 unusual in that case, which is that it felt compelled
12 to issue that decision in response to what the
13 Commission believes, and we agree, to be a judicially
14 incorrect decision that's still on appeal.

15 Under the Timkin line of cases, it's not
16 final yet, and so, appropriately, that order has not
17 yet been revoked. It is still in effect. So the
18 Commission is properly considering that as part of all
19 of the other import forces in this case.

20 Given the unusual situation, my view is
21 that, legally, there is no reason for the Commission
22 not to cumulate Trinidad, to the extent that it finds
23 that the conditions of competition are met. It
24 certainly could exercise, and should exercise, its
25 discretion to do so for the reasons we have given.

1 Recognizing, however, that the court could
2 ultimately sustain that case, I think it would be
3 prudent, on the part of the Commission, to say, Even
4 if we didn't cumulate Trinidad, we would find injury
5 by reason of Trinidad alone and, therefore, preserve
6 any potential problems on appeal, to the extent that
7 that court decision doesn't reverse or alter the
8 decision of the lower court.

9 So, in other words, I believe the imports
10 should be cumulated from Trinidad, notwithstanding the
11 current appeal, and I believe that the Commission
12 should also stay, even if we didn't cumulate, as they
13 have in other cases; even if we were not to cumulate,
14 we would still find injury by imports from Trinidad
15 alone, and that's why we provided a separate analysis
16 of Trinidad in our prehearing brief.

17 COMMISSIONER LANE: Okay. Thank you.

18 Mr. Kerkvliet, in the prehearing brief, the
19 American Wire Producers Association argued that you
20 increased your prices five times in 2007, totalling
21 \$185 per ton. The association also attributed similar
22 increases to ArcelorMittal and lower, but significant,
23 increases to Nucor and Keystone.

24 I understand that the domestic industry is
25 arguing that recent price increases are necessary to

1 keep up with increases in raw material, energy, and
2 other production costs. However, just focusing on the
3 \$185-per-ton increases in 2007, I'm having some
4 trouble reconciling that level of increase to average
5 selling prices for domestic wire rod.

6 Do you agree with the association's facts
7 that your company increased its prices five times in
8 2007, totalling \$185 per ton, and were you able to
9 actually get those increases? I would like answers
10 from the other companies also.

11 MR. KERKVLIIET: I would agree with the
12 American Wire Producers Association that we did
13 increase the prices in 2007, as they have stated. I
14 would tell you that the level of success of those
15 increases is much less than what the announced
16 increases were. We would be prepared to share that
17 with you in our post-hearing brief.

18 I would say that, not only from those
19 increases but increases currently today, of the
20 announced increases, which, again, only relate to
21 scrap, the amount of the effect of the increases that
22 we've been able to garner from our customer base has
23 not kept pace with what the scrap increases have been,
24 nor have they kept pace with what the ferroalloy
25 increases have been, the electrode costs have been,

1 the refractory costs have been, and the transportation
2 costs.

3 COMMISSIONER LANE: But you will provide
4 specific information in your post-hearing.

5 MR. KERKVLJET: Yes, ma'am.

6 COMMISSIONER LANE: Yes. Thank you. Do any
7 of the other companies want to answer?

8 MR. CHEEK: We'll be glad to respond for
9 Keystone. A similar situation. We did announce price
10 increases. We did not realize all of those price
11 increases, and we'll provide the same information.

12 MR. SIMON: We will echo the same for Rocky
13 Mountain Steel Mills. As a matter of fact, I was
14 going to point to this chart that was brought up
15 earlier, which shows that, in spite of the increases,
16 we're not maintaining or catching up with the
17 increases in raw materials. As was mentioned earlier,
18 that's outside of increases in energy, such as
19 electricity, natural gas, and other raw materials that
20 we use.

21 COMMISSIONER LANE: Okay. Thank you.

22 Mr. Rosenthal, did you want to add
23 something?

24 MR. ROSENTHAL: Yes. It is really hard to
25 hear those arguments from the other side. It's the

1 ultimate in cynicism, where they mention one part of
2 the equation and not the other. They only mention the
3 price increases -- they don't talk about the cost
4 increases -- and this chart tells a story.

5 COMMISSIONER LANE: That's why it's nice to
6 have both sides represented at the hearing. Thank
7 you.

8 Mr. Nystrom, you mentioned inadequate return
9 in your prehearing comments. You also mentioned an
10 expected 12 percent return. Is 12 percent your target
11 point for a reasonable return on investment and,
12 except possibly for 2004, has the industry achieved or
13 exceeded that level in the period that we are looking
14 at in this case?

15 MR. NYSTROM: To answer your question, 12
16 percent is a guideline we use for a reasonable return
17 that we use for the Connecticut facility. Of course,
18 that transaction has happened since 2004, and we are
19 still working to realize that type of return with that
20 facility.

21 COMMISSIONER LANE: When you mention a
22 target return on investment of 12 percent, is that an
23 overall return that you would like to achieve on
24 investment, regardless of whether it was financed by
25 debt or equity, or did you mean that you would be

1 satisfied with a return-on-equity financed investment
2 of 12 percent?

3 MR. NYSTROM: I'm sorry. Could you restate
4 the question for me?

5 COMMISSIONER LANE: Okay. When you mention
6 a target return on investment of 12 percent, is that
7 an overall return that you would like to achieve on
8 investment, regardless of whether it was financed by
9 debt or equity?

10 MR. NYSTROM: Yes.

11 COMMISSIONER LANE: Okay. Thank you.

12 MR. ROSENTHAL: Commissioner Lane, there is
13 one part of the question that didn't get answered, and
14 I want to refer you to the response I gave to
15 Commissioner Aranoff concerning steel industry other
16 than wire rod, or many segments of the steel industry.
17 Maybe 14 percent can't be achieved on a regular basis.
18 It certainly is the highest that this industry, wire
19 rod, has achieved in many years.

20 But the low levels of returns you've seen
21 because of the pervasive presence of imports is not
22 necessarily a condition that the wire rod industry
23 should be happy with or accept or is inevitable.

24 Other segments of the steel industry have
25 done a lot better in the last few years, done better

1 than wire rod, and we don't accept the premise of the
2 Respondents that three percent is all that the
3 industry should hope for; otherwise, you're going to
4 see further disinvestment in this segment of the
5 business.

6 There are alternative uses of money for all
7 of these steel companies, and if they can't do better
8 than three percent, especially in the last couple of
9 years when the economy was doing well, it does not
10 provide a lot of hope for this segment of the steel
11 industry in the future.

12 COMMISSIONER LANE: Okay. Thank you.

13 I would like for you all to discuss your
14 energy usage in your wire rod facilities. Is
15 electricity or natural gas your predominant energy
16 cost, and, compared to the total, what would be the
17 percentage of each?

18 MR. SIMON: As far as energy, electricity --
19 we are a recycler. We melt steel scrap, and that's
20 why scrap is such a big factor for us. We are the
21 single largest user of electricity in the State of
22 Colorado, so, yes, we are large users of electricity.
23 We use natural gas to reheat our steel, so we are also
24 large users of natural gas.

25 As to what percentage that is of our costs,

1 we consider that to be in the very confidential
2 information that we can provide to you in the post-
3 briefing, but we would not like to discuss that in
4 this forum.

5 COMMISSIONER LANE: Okay. Thank you.

6 MR. KERKVLIT: I would echo the same
7 comments. I would say, in a cost component, your raw
8 material is going to be your first; labor and energy;
9 and then your ferroalloys.

10 COMMISSIONER LANE: Okay. Thank you.

11 MR. CHEEK: The same situation. The raw
12 material costs being extremely high and going up,
13 electricity next, as far as the energy component goes,
14 and natural gas would be a lower expenditure every
15 year than electricity.

16 COMMISSIONER LANE: Okay. And will all of
17 you, in your post-hearing briefs, be able to tell me
18 the specific percentages?

19 MR. KERKVLIT: Yes.

20 COMMISSIONER LANE: Okay. Thank you. Mr.
21 Chairman, I'll wait until the next round. Thank you.

22 CHAIRMAN PEARSON: Commissioner Williamson?

23 COMMISSIONER WILLIAMSON: Thank you, Mr.
24 Chairman.

25 Ms. Hart, I think the staff report indicates

1 that your labor productivity has grown over the period
2 of review, and I was wondering how that compares with,
3 say, productivity of Canadian labor, and how
4 competitive are we in that area?

5 MS. HART: To be honest, I can't answer the
6 question. I would have to address it in the post-
7 hearing brief. I don't have those figures at my
8 disposal.

9 COMMISSIONER WILLIAMSON: Okay. That would
10 be fine. Anything that you could tell us about --
11 Canada is clearly a major competitor in this market.

12 MS. HART: Certainly, yes.

13 COMMISSIONER WILLIAMSON: So anything you
14 could tell us about that, that would be helpful.

15 MS. HART: Okay. I would be happy to. I
16 just am not prepared to address it right now. Thank
17 you.

18 COMMISSIONER WILLIAMSON: Okay. Thank you.

19 I would like to go back to the discussion we
20 were having about supply from foreign markets and the
21 fact that, for a number of countries, exports to the
22 U.S. market went down last year. Mr. Rosenthal, I
23 think you were beginning to address that.

24 MR. ROSENTHAL: Yes. Thank you,
25 Commissioner Williamson. A lot of it does have to do

1 with increased imports coming in in one period where
2 demand was actually declining and then inventories
3 being built up and inventories then being drawn down.

4 I think the industry witnesses can tell you
5 a little bit more, with more precision, about the
6 precise sequence of how that happened in the last year
7 or six months. By the way, it was a similar pattern
8 that took place in the '04-'05 period. Mr. Simon and
9 others can tell you precisely how that pattern
10 developed and how the temporary tightness in supply
11 developed as a result of what I regard as the
12 importers' miscalculations on the market.

13 MR. SIMON: In making sure I address your
14 question, would you mind just repeating the question
15 real quickly?

16 COMMISSIONER WILLIAMSON: I'm trying to
17 understand, and I particularly want to know for the
18 future, the fact that imports from a number of
19 suppliers went down last year, a number of nonsubject
20 suppliers, and I'm trying to understand what's going
21 to happen in the future. Are they going to stay down?
22 Are you going to expect them to jump back up?

23 MR. SIMON: I think there are several
24 factors that happened to come together all at the same
25 time, starting with the large increases in raw

1 materials. The U.S. producers have been trying to
2 recoup those increases, as the chart shows. As the
3 chart shows, we are not keeping up with the increases
4 in the cost of raw materials.

5 We believe that the importers, in this case,
6 actually rose their pricing faster than the U.S. You
7 combine that with the fact that there were large
8 inventories in the U.S. that were being drawn down by
9 the importers in attempting to wait out this increase
10 and see if the prices would come back down. Those
11 inventories were drawn down, so they started coming to
12 the U.S. again.

13 Currently, on a temporary basis, we believe
14 the U.S. pricing is lower than in other parts of the
15 world, so they are coming to the U.S. producers,
16 trying to make those buys immediately. That's created
17 the tightness that we see right now. We expect that
18 to change and change quickly.

19 The exporters will continue to bring product
20 into the United States, as they have many times in the
21 past. If you look at history, that proves itself out.

22 MR. CHEEK: If I might add to that, sir, I
23 think one of the things that's driving that change,
24 and the fact that it could change very quickly, is the
25 fact that prices of our basic raw material, scrap,

1 have escalated so rapidly in 2008 that it's driven our
2 domestic prices up and will make us more attractive
3 for imports.

4 COMMISSIONER WILLIAMSON: Are you saying
5 that your costs have gone up faster than those of your
6 overseas competitors?

7 MR. CHEEK: I can't speak to that, but our
8 costs have gone up enough that the delivered cost of
9 wire rod in this country is significantly higher than
10 it was at the start of the year.

11 COMMISSIONER WILLIAMSON: Okay. At what
12 point do you think we are in the business cycle now,
13 and what are your expectations at this point?

14 MR. KERKVLIIET: I would say that, from a
15 business-cycle standpoint, with regard to wire rod and
16 wire products, specifically, that I think that the
17 cycle itself is actually in a decline. If you look at
18 the consumption figures in the United States markets,
19 it's gone from 11 and a half to 12 million tons, in
20 that range, on consumption on wire rod and wire
21 products to probably, in the most recent period,
22 somewhere in between nine and 10 million.

23 Our customer base has seen as well that
24 there has been erosion because of the imports of
25 finished products.

1 So I think that, in the cycle, per se, if
2 you would say that, we're on the decline, and I would
3 say that that's going to continue a trend.

4 MR. CHEEK: In the specific case of
5 Keystone, we're a wire products manufacturer also.
6 We've exited the nail business because of the unfair
7 import competition. We saw, as a matter of public
8 record, if you look at our filing for last year, we
9 saw our volumes in fabricated wire products,
10 industrial wire, drop last year over the previous
11 year.

12 So I would agree with those comments that
13 the market is probably contracting.

14 MR. SIMON: We would agree with that. As we
15 look at what's happening with the economy, we are
16 concerned with what the demand of our product will be
17 like in the months to come.

18 MR. NYSTROM: Just to add to that,
19 certainly, we've experienced the same, where we see
20 the demand of the products going down, and our
21 expectations are, going forward, that that may
22 continue, and imports coming back in can only compound
23 in making the market more difficult to contend with.

24 COMMISSIONER WILLIAMSON: And how do you see
25 your products used to responding in a recovery? Do

1 they lead or lag?

2 MR. KERKVLIIET: I'm sorry. Could you say
3 that again?

4 COMMISSIONER WILLIAMSON: If we come into a
5 recovery, if we have a recovery, do sales of your
6 products lead the recovery, or do they lag the
7 recovery?

8 MR. KERKVLIIET: I guess an opinion would be
9 that a lot of our products are related to
10 construction, and a lot of it is residential
11 construction, whether it become nails, refrigerators,
12 appliances, et cetera. I would say, as the recovery,
13 specifically in the residential market, improves, we
14 would be lagging behind that shortly.

15 MR. SIMON: Yes. We would echo that. A lot
16 of our products are also tied to the construction
17 industry.

18 COMMISSIONER WILLIAMSON: Okay. Thank you
19 for that.

20 The prehearing report discusses recent
21 upcoming changes in the domestic industry. However,
22 as the Respondents have noted, no domestic producers
23 provided requested business plans or other internal
24 documents concerning wire rod, and I was wondering,
25 could each of you explain your company's decision-

1 making process, how it conducts planning, and how it
2 decides between multiple capital projects? Some of
3 this may have to be in post-hearing, I understand.

4 MR. CHEEK: Well, from Keystone's
5 perspective, we would be glad to provide that
6 information, post-hearing, and we'll get the
7 information regarding specific to rod. We have
8 different product lines.

9 MR. ROSENTHAL: Just in response to that
10 general question, I'll let the companies respond
11 individually and then in the post-hearing brief, but
12 most of these companies have multiple products, so
13 they don't have business plans specific to wire rod or
14 nails or that sort of thing, and they don't have a
15 wire rod business plan, per se.

16 This is also an area, I can tell you, having
17 had a number of conversations with people in the
18 industry, that is incredibly sensitive. Just about
19 the last thing a company wants to do is give anybody
20 its overall business plan. Certainly, they don't want
21 to do that when, in this case, wire rod may be a small
22 part of their overall business plan. It is very, very
23 highly proprietary, and they are incredibly anxious
24 about it.

25 So they have given you what they thought was

1 relevant and responsive. I know some of the companies
2 would like to give you more, and will give you more in
3 the post-hearing, but I just wanted to explain that
4 general concern.

5 COMMISSIONER WILLIAMSON: Thank you.

6 MR. KERKVLIT: I would just add onto that
7 that Gerdau Ameristeel is a network of 19 steel mills,
8 61 downstream business locations, and several scrap-
9 processing facilities, that it's all intertwined.

10 To go to build on the second point of your
11 question about evaluating investments in Cap X and
12 whatnot, it's going to be, as Eric had said earlier,
13 based upon a rate of return that is acceptable to
14 satisfy our shareholders.

15 MR. SIMON: Yes. We would echo again that
16 the main driver on capital is going to be rate of
17 return. But I guess I also would like to touch on the
18 fact that we have three rolling facilities. We serve
19 three vastly different product lines at Rocky Mountain
20 Steel Mills. We do not have strategic plans that are
21 specific to one product line because they work in
22 conjunction with each other.

23 COMMISSIONER WILLIAMSON: Thank you for
24 those answers. Thank you, Mr. Chairman.

25 CHAIRMAN PEARSON: Commissioner Pinkert?

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

3 I would like to follow up on this price-
4 transmission issue, perhaps with Ms. Cannon, in
5 connection with Mittal, and I'm going to frame this as
6 a hypothetical question. But suppose that Mittal was
7 just exporting one subproduct to the U.S. market,
8 perhaps the low-quality carbon product. Assuming that
9 they were doing that based on price, would the price
10 impact be transmitted across the board to all of the
11 subproducts, or would it be focused on just that one
12 subproduct?

13 MS. CANNON: That's a very broad question,
14 based on a hypothetical assumption of one product, and
15 it would depend, obviously, on how much was being
16 sold, what the price was.

17 If your question, Commissioner Pinkert, is,
18 does a price on one product type affect other product
19 types, I think the testimony here earlier is that
20 prices tend to react up and down, you know, to
21 different things. But if you're talking, more
22 specifically, about one company selling a product at a
23 particular price, then, you know, that's not
24 necessarily going to drive everything else in the
25 market. It's going to be a combination of a lot of

1 other factors.

2 The reason that we haven't tried to be very
3 specific about ArcelorMittal on this public record and
4 would prefer to do it in answers to questions in our
5 brief is because how companies price, how they sell,
6 what they target, whether they emphasize the U.S.
7 market, foreign affiliates, or how all of that is
8 juggled, both with respect to volume and prices, is
9 very sensitive and is not something that I would like
10 to really speculate about too much on a public record.

11 COMMISSIONER PINKERT: I fully understand
12 that, and I'm not trying to get you to say anything in
13 public session that would be proprietary. But I think
14 it's an important question, in terms of trying to
15 understand the mechanism by which a price for a
16 particular subproduct might then affect all of the
17 subproducts across the board and potentially have some
18 impact on the company that is, in fact, exporting to
19 the U.S. market. So I think that it's worthwhile
20 following up in the post-hearing.

21 MR. ROSENTHAL: We will, and I'm willing to
22 go as far as to make this very blunt statement that,
23 and I think the companies will agree, a ton is a ton
24 is a ton. If you bring in a ton of product from an
25 import source of any type, it's going to displace

1 tonnage in the United States. How much of an effect
2 on price it has will depend on a lot of factors, as
3 Ms. Cannon references, but there is a finite amount of
4 capacity, and if you're displaying U.S. production by
5 that amount of import, it's going to have a negative
6 effect on the domestic industry overall.

7 I won't go further here. We don't have an
8 ArcelorMittal witness, but you saw what we had in our
9 brief that ArcelorMittal signed off on. There may be
10 a difference of opinion among certain of the domestic
11 companies here, but I would say that one thing that
12 I've heard from the companies at this table is that,
13 even if ArcelorMittal should bring in a ton of steel
14 from one of their affiliates in another country in a
15 way that they feel won't hurt them, I'm pretty sure
16 their competitors don't necessarily have the same view
17 of the impact of that ton. So their view is every ton
18 brought in from whatever source is potentially
19 injurious to the industry as a whole.

20 COMMISSIONER PINKERT: Mr. Price?

21 MR. KERWIN: Could I add a couple of
22 comments? It's not unusual to see, in many
23 antidumping cases investigations, to see that imports
24 that are targeted at some part of a given market can
25 have price effects across the market. It's not

1 uncommon to see that customers from different segments
2 of a market know what's happening in the other
3 segments, and they are only too willing to use price
4 quotes from somebody else if the product is slightly
5 different but basically manufactured by the same
6 people in the same manner using the same raw materials
7 to say, "Hey, why is that guy getting this price from
8 the Brazilians or Moldovans or whoever, and I can't
9 get that same price for my product, which is going
10 through your mill at the same time?"

11 What we also see sometimes is that imports
12 coming in and buying up one part of a given market can
13 then increase the degree of competition in the other
14 areas of the market and, therefore, drive down prices,
15 particularly as customers become savvy as to what the
16 prevailing pricing conditions are.

17 COMMISSIONER PINKERT: Mr. Price?

18 MR. PRICE: I guess I would give a more
19 nuanced answer than that. There is clearly some
20 supply side substitutability on the domestic industry
21 so that when a ton of imports comes in, it affects the
22 overall domestic competition, sort of like the ripple
23 effect.

24 If it comes in on Product A, the most direct
25 and immediate harm is in Product A. It affects

1 Products B, C, D down the line, and the exact degree
2 of differentiation will depend on the market
3 conditions of overall supply and demand.

4 Additional import tonnage into the market
5 from ArcelorMittal, while it may support
6 ArcelorMittal's total global bottom line, certainly
7 will harm the rest of the industry, and it may not
8 harm its own domestic operations at all or to the same
9 degree.

10 COMMISSIONER PINKERT: Anything further that
11 you could supply in post-hearing would be appreciated
12 with respect to that issue.

13 Now, turning to the company witnesses, I
14 note that the staff report indicates that raw material
15 costs have become an increasingly large part of
16 overall cost of goods sold during the review period.
17 How does that affect your strategy regarding when to
18 run the plant? Is there a formula that you would use
19 to determine when it's profitable to continue to run
20 the plant? How do you respond to the increasing raw
21 material costs?

22 MR. KERKVLIIET: With a steel mill, it's hard
23 to just turn it on and turn it off, so I don't think
24 that there is really a component that says there is a
25 methodology that says that scrap is now up \$360 a ton.

1 We're going to shut the plant down.

2 I do think, however, that there is a
3 methodology and a formulation that goes through in
4 your portfolio management that says, if scrap is up,
5 and you have to get the most that you possibly can out
6 of those returns, where do you put that in those
7 products that are going to get the most return for the
8 company, especially in the environment today, where
9 the replacement cost for scrap continues to go higher
10 and higher and higher?

11 So when we look at trying to look at our
12 portfolio management, if we can't get the necessary
13 returns on a product like wire rod, then the necessary
14 decision that we have to make is to say, do we place
15 that product someplace else that's going to give us
16 the necessary cash returns that's going to pay for the
17 scrap that has gone up \$360 a ton? And not just
18 scrap; the ferroalloys and all of the other things
19 that go along with it.

20 MR. NYSTROM: I would just add that, you
21 know, that is our business, and with rod, you have to
22 keep on running the mills, but, first and foremost,
23 you have to be able to cover all of those costs, and
24 it's not just scrap; it's other raw materials. So we
25 will continue to run, but it's just extremely

1 important that we're able to cover those added
2 manufacturing costs.

3 As far as idling, we have the ability that
4 we can, and do, move in and out of other products that
5 our mills are capable of producing. So, certainly,
6 some products are more attractive, with more
7 attractive returns, and we could gear production
8 towards those items. If we can make rod more
9 attractive, we can move our production back towards
10 rod, and that's how we've typically operated.

11 MR. CHEEK: In our particular situation, we
12 look for some sort of return. As we've alluded to
13 earlier, we weren't really successful in implementing
14 the full price increases we needed last year. It is a
15 capital-intensive and a very high-fixed-cost
16 operation. So to the extent that we can operate and
17 get some sort of return to help cover those costs,
18 we'll attempt to do that. We get squeezed on the
19 cost-price squeeze occasionally, though.

20 MR. SIMON: The decisions that we make, in
21 terms of running or not running, are very long-term
22 decisions and costly decisions to implement, so we
23 look at it very, very carefully. A lot of people have
24 asked, Well, if there is tightness in the market right
25 now, why are you adding more shifts so you can sell

1 more rod? We will not make that decision unless, as
2 mentioned earlier by someone else, we can prove that
3 that is a sustainable level of performance, going
4 forward, that would justify hiring people and then
5 increasing production.

6 COMMISSIONER PINKERT: What sort of time
7 period are you looking at when you make those
8 decisions? You said it's a long-term decision.

9 MR. SIMON: We would not look at adding a
10 crew for anything less than a very minimum of 12 to 18
11 months.

12 COMMISSIONER PINKERT: Mr. Kerkvliet?

13 MR. KERKVLIT: The same time period because
14 the time that you're bringing in, the training period
15 for the people to get them effective, plus the impact
16 on their lives, you're bringing them on. If it's not
17 going to be any longer than a 12-month period, it's
18 very injurious to them and their families.

19 MR. CHEEK: Our labor agreement allows us to
20 operate our mills seven days a week, with a relief-
21 crew situation. So we don't find ourselves in the
22 situation of hiring and laying off a fourth crew, like
23 some of our colleagues do.

24 COMMISSIONER PINKERT: Mr. Nystrom?

25 MR. NYSTROM: Just to add that, certainly,

1 we look at it the same way. We're very conscientious
2 about layoffs, and we do not take that likely. So,
3 certainly, that 12-to-18-month timeframe that was
4 referenced is a good timeframe because it does take
5 some time to get crews up to speed and effective, and
6 the last thing we want to do is have to lay off any of
7 our team mates. So that's something that we take
8 very, very seriously.

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

11 CHAIRMAN PEARSON: How do we know that the
12 current tightness in supply is only temporary? In
13 your statements, you've made some references to that.

14 In the past, the temporary problems had been
15 linked to weather events or labor disruptions, that
16 sort of thing. Isn't the current situation different?
17 What's going to happen that will turn it around and
18 make the market more abundantly supplied?

19 MR. KERKVLIIET: I think, if you go back to
20 Michael's comments in his economic assumptions or
21 assessment, if you look at the subject countries, the
22 subject countries have excess now three and a half
23 million tons of capacity. If you look at China, as an
24 example, they have over 70 million tons of capacity,
25 and they export, on average, probably 400,000 to

1 500,000 tons a month. So China's capacity is roughly
2 seven times what the total consumption is in the
3 United States market.

4 If you go back to, just from a historical
5 perspective, with the exception of this one short time
6 period, it is more of an issue, on a long-term basis,
7 that there has been excess supply globally, and as
8 mills around the globe continue to add capacity, there
9 have been announcements, if you look in the Metal
10 Bulletin, if you look in the Steel Bulletin Briefing,
11 whatever it might be, you can get announcements of all
12 of the capacities that are coming on board.

13 The current situation, as far as shortness,
14 is really just from a raw material standpoint, and
15 that's been dictated by a couple of different things:
16 one in raw material and pig iron and some of the
17 situations in Brazil on rains have had an
18 environmental impact and shutdown on charcoal
19 production, and it's also had an impact in Australia,
20 as far as the coking coal. They have had some floods
21 in the mines, so the coking coal has been reduced by
22 about 40 percent.

23 So if you look at the overall iron-unit
24 component around the globe, you'll see that it has
25 been, in a short period of time, much tighter.

1 Naturally, rains and floods; those things go away.

2 MR. CHEEK: I agree with those observations,
3 but I would also like to add, the world overcapacity
4 issue is a huge issue for us. We know that history
5 tells us that those rod tons always find their way
6 into this market eventually. We see it time and time
7 again.

8 CHAIRMAN PEARSON: Yes. Mr. Simon?

9 MR. SIMON: We would echo that. We don't
10 see any major structural changes or indicators that
11 would lead us to believe that there is going to be
12 anything different from what we've seen in the past.
13 There is large capacity in other parts of the world.
14 The U.S. is a large consumer of products. The pricing
15 in the U.S. will continue to be attractive to those
16 countries that have overcapacity.

17 So while we do see the tightness, and we've
18 talked a lot about what drove the tightness and the
19 large inventories that got driven down, and so forth,
20 we see that it's a very temporary phenomenon.

21 CHAIRMAN PEARSON: So I accept your comments
22 regarding excess capacity in the global market, but,
23 in that case, looking at the most recent year, 2007,
24 why did we see such a significant decrease in imports
25 of nonsubject steel wire rod, including from China?

1 The excess capacity might be there, but there is
2 something going on in the marketplace today that's
3 keeping product from coming into the United States in
4 the way that we would have seen in the past. I still
5 do not understand what's going on there.

6 MR. SIMON: Our belief is that the importers
7 had very large inventories on hand, and they took
8 advantage of that, trying to wait this out, and that
9 did not happen. So as those inventories went down,
10 very quickly, they needed to buy, buy, buy, so they
11 came to the U.S. to do that.

12 We mentioned earlier that we believe that
13 the foreign suppliers actually passed on cost
14 increases quicker than we did. We've shown on the
15 chart that we have not been able to even catch up to
16 our raw material increases. We believe they have.
17 That's a temporary solution that we believe will
18 change.

19 CHAIRMAN PEARSON: If I could comment on
20 inventories, our record does show a decline in
21 inventories over a period of three or four years held
22 in the United States of imported product. So you're
23 correct that there has been a draw-down in those
24 inventories.

25 But why, as inventories now are at their

1 lowest point that we see in 2007, why do we not see,
2 then, some increase in imports to replenish those
3 inventories or to serve a market that those imported
4 products had served in the past?

5 MR. ROSENTHAL: I think you're seeing a
6 couple of things. One is the importers wanting to see
7 whether this dam will break, whether pricing will peak
8 and go down before they start buying in large
9 quantities again. So there has been a hesitation to
10 begin importing again because the import prices are
11 not as attractive as they were six months ago.

12 But I do think, as the U.S. prices have gone
13 up, to catch up with the raw material costs, you're
14 going to see that the importers are saying, "Well, you
15 know what? U.S. prices and the import prices -- we're
16 not going to get any great deals if we hold out any
17 longer, and we're going to resume our traditional
18 patterns."

19 This is really why I want to go back to kind
20 of the original way you framed the question because
21 there really isn't any barrier, there isn't any
22 reason, other than price, that prevents imports or
23 stops imports from coming in here.

24 It's the importer's decision, and as soon as
25 the importers decide that the price of imports is

1 going to be more attractive than the price of the U.S.
2 product, then they can't hold out any longer waiting
3 for one side or the other to give.

4 You're going to see all of that excess
5 capacity available, even though they are not going to
6 buy every ton. They don't need every ton. I think
7 they are a little more cautious now, after what they
8 have seen in the last few years.

9 You're going to see a lot more imports
10 coming into the U.S. I'll stop there. I know my --

11 CHAIRMAN PEARSON: Mr. Nystrom?

12 MR. NYSTROM: I would just add that there
13 has been a lot of uncertainty, over especially the
14 last six, seven, eight months, with where the costs
15 have gone and where the pricing has gone and is going.
16 Now, having gone through that time period, we are
17 already today seeing more activity in the way of
18 offers in the marketplace.

19 History has shown us, over and over, that
20 the U.S. generally remains a very attractive market.
21 So the expectation is there that we will see imports
22 resume within the U.S.

23 MR. LUBERDA: Mr. Chairman, this is Mr.
24 Luberda. I just wanted to add that, when they make a
25 decision, as an importer, to bring in more material in

1 response to what the market conditions are today, it's
2 three or four months before that stuff actually hits
3 this shore, so there is some lag time, and we think,
4 between importers deciding, with uncertainty in the
5 market, to wait, as they start to make that decision
6 to bring in, you'll see, consistent with what we're
7 predicting, that, towards summer and end of summer,
8 these imports will start to come in as the importers
9 themselves decide that they need it.

10 In the meantime, what we heard this morning
11 in the testimony was that our producers are doing what
12 they can, are servicing their clients for the things
13 that they have said that they actually need to
14 operate, as opposed to maybe adding hedge tons that
15 allow those customers to extend the time in which they
16 might make an import decision.

17 MS. BECK: Mr. Chairman, if I could just
18 add, I think it's significant to note, although the
19 nonsubject volume of imports --

20 CHAIRMAN PEARSON: This is Ms. Beck
21 speaking. Please proceed.

22 MS. BECK: Thank you. Although the volume
23 of nonsubject imports may be down in 2007, even with
24 the orders in place, you'll note that the subject
25 imports actually increased in 2007 over 2006, not by

1 an insignificant quantity.

2 CHAIRMAN PEARSON: That is correct, but it
3 goes back to the point I raised in my last round of
4 questions. All of that increase is due to Canadian
5 shipments, and to the extent that Canada acts much
6 more like a part of the U.S.-North American integrated
7 market, I'm seeing it differently than just as one of
8 those other subject importers because what we see in
9 its pattern of shipments does not line up at all with
10 what I'm seeing for the subject imports.

11 Pardon the interruption. I didn't mean to
12 cut you off and keep you from finishing what you were
13 saying, Ms. Beck.

14 MR. KERWIN: I would add one point, which
15 kind of goes to the broader issue of what historical
16 patterns have been, but, at page 4-114 of the staff
17 report, there are some public import numbers from
18 global markets, and it shows very clearly that the
19 U.S. market is the largest import market for wire rod
20 in the world. It's not even close to any other
21 market.

22 So, on an historical basis, clearly this is
23 an extremely attractive market.

24 CHAIRMAN PEARSON: Mr. Price?

25 MR. SIMON: One more point I would like to

1 add, in terms of the pricing --

2 CHAIRMAN PEARSON: I'm sorry. Who is
3 speaking now?

4 MR. SIMON: Rob Simon. Sorry.

5 CHAIRMAN PEARSON: That's all right. I was
6 looking back too far.

7 MR. SIMON: In terms of the chart that we
8 showed earlier about how we lag the raw material
9 increases, the closer we get caught up in trying to
10 pass through our raw material increases, as an
11 industry, the closer we see ourselves to being at the
12 import price and now over the import price. At that
13 point, we think this whole thing will start to turn
14 around.

15 MR. PRICE: Alan Price, Wiley Rein. Two
16 things: First of all, in the absence of orders, we
17 think Canadian tonnage and tonnage from the other
18 countries will have similar economic effects on the
19 U.S. I don't fundamentally agree with the premise
20 that it is substantially different. That's one
21 question.

22 The second issue, and this is probably goes
23 to issues that the Commission hasn't seen a lot over
24 the years because the commissioners keep on changing,
25 but probably since 1993, and probably Commissioner

1 Aranoff is the only who has some familiarity with some
2 of these past cases over time because of her prior
3 roles on the staff, and perhaps Mr. Silverman and
4 others, can recall that in every single wire rod case,
5 the customer base dutifully walks in and says, "There
6 is a shortage," and right around the time of the
7 hearing, the market gets choppy, the hearing goes
8 away, the shortage dissipates, and there's no profits
9 for the domestic industry.

10 We're looking at a situation where this
11 industry has minimal profits, all of a sudden there is
12 a shortage, and, I suspect, if you remove this order,
13 imports flow right back in, the shortage disappears
14 pretty quickly, which is only a temporary timing
15 thing, based upon some short-term issues here, and,
16 once again, the injury is recurring.

17 I've got to tell you, you look at the profit
18 levels in this industry, as Mr. Silverman points out
19 in his own brief, and they are, frankly, pathetic. If
20 there was a shortage of any magnitude in any of these
21 cases over time, you would expect to see substantially
22 higher profit rates, and we don't see them.

23 CHAIRMAN PEARSON: Just to offer an
24 observation that I was wanting to offer before it got
25 turned red, it's not clear to me that there is not a

1 structural change. We've got the lowest value of the
2 dollar relative to other currencies that we've seen in
3 a good number of years. I have some experience in
4 businesses that export and import. The dollar value
5 that we have now has a meaningful influence on a lot
6 of products.

7 So it's just not clear to me that, given the
8 current circumstances, why I should conclude that
9 there would be a surge of imports into the U.S. market
10 from currently subject producers if the orders were
11 revoked? There may be reasons for it. I just don't
12 think that it's clear that we get there within a
13 reasonably foreseeable time. Madam Vice Chairman?

14 VICE CHAIRMAN ARANOFF: Thanks, Mr.
15 Chairman. I want to go back to some of the pricing
16 questions that I was asking in the first round and
17 didn't have a chance to finish, and, particularly, I
18 wanted to get a better grasp of to what extent and how
19 surcharges are used in the price process in this
20 industry.

21 So, I guess, let me ask some of the
22 producers, if you use surcharges separate from a base
23 price, and if you do, are the surcharges determined at
24 the time that the order is placed or at the time of
25 shipment?

1 MR. CHEEK: We don't currently use a
2 surcharge.

3 MR. KERKVLIIET: Gerdau Ameristeel, in the
4 wire rod business, does not use a surcharge. It does
5 use a surcharge in SBQ, and you can see the
6 differential on the pricing because of that and how
7 that's translated or gone along with what the raw
8 material prices are, and the pricing is typically time
9 in effect of shipment.

10 MR. SIMON: Rocky Mountain Steel Mills has
11 had an energy surcharge for several years. We, very
12 recently, this month, implemented a raw material
13 surcharge effective with shipments, given the impact
14 of the increase in raw material costs.

15 VICE CHAIRMAN ARANOFF: And that would be in
16 effect at the time of shipment.

17 MR. SIMON: That's correct.

18 VICE CHAIRMAN ARANOFF: Okay.

19 MR. NYSTROM: And presently Nucor does not
20 have a raw material surcharge on our rod products. We
21 do have surcharges on other products but not rod
22 presently.

23 VICE CHAIRMAN ARANOFF: Or an energy
24 surcharge? You don't have an energy surcharge.

25 MR. NYSTROM: Energy surcharges would be

1 related to, yes, for shipment, for fuel. We do have
2 some surcharges there for fuel.

3 VICE CHAIRMAN ARANOFF: Okay. And those are
4 established at the time of shipment.

5 MR. NYSTROM: Yes.

6 VICE CHAIRMAN ARANOFF: Okay.

7 MR. CHEEK: I was answering your question
8 specific to scrap. We actually do have a fuel
9 surcharge also as it applies for shipments, not for
10 consumed energy.

11 MR. KERKVLIIET: As does Gerdau on all
12 products.

13 VICE CHAIRMAN ARANOFF: So maybe the best
14 thing to do would be, in the post-hearing, to have
15 each company spell out what kinds of surcharges you
16 use, how they fit into your price formula of the price
17 that you give the customer at the time they place the
18 order, and how it affects what the price actually is
19 at the time that the order is shipped. That would
20 just be very helpful in understanding how cost
21 increases have moved through and down to the next
22 level.

23 MR. ROSENTHAL: We'll do that.

24 VICE CHAIRMAN ARANOFF: Thank you.

25 Turning to a completely different issue,

1 Ivaco makes the argument in its brief that the
2 decision of several U.S. mills to toll roll Ivaco's
3 billets during a strike at Ivaco's rolling facility is
4 a very informative event, from the standpoint of the
5 Commission's assessment of whether to cumulate Canada,
6 in terms of what it tells you about the relationship
7 between the U.S. and Canadian markets being integrated
8 in a way that might weigh against a decision to
9 cumulate. Does anybody want to comment on that?

10 MS. CANNON: The decision by some of the
11 companies to help Ivaco out by toll rolling, first of
12 all, gave them some additional, you know, production,
13 and they were helping somebody else out, but I'm sort
14 of at a loss as to figure out why that would affect
15 cumulation because it was a very isolated period of
16 time, by their own admission. It was something that
17 happened due to something that they were experiencing
18 temporarily. Some of the other U.S. companies, you
19 know, were able to help them out.

20 Again, I think, and this goes back to
21 Chairman Pearson's comment also on Canada, I think
22 it's most important, when you decide whether to
23 exercise your discretion to cumulate Canada, to look
24 at what you expect Canada to do if the orders go away
25 and not simply to look at what Canada has done over

1 the life of the order. Sure, Canada has been in this
2 market. They have to be. They have been active here.
3 This is their big export market, and they have more
4 capacity to send here.

5 What changed is the pricing behavior. That
6 changed from pre-order levels. They are now
7 overselling, although recently, as Mr. Rosenthal said,
8 the margins of underselling have declined. I believe
9 we even saw some underselling recently.

10 So the concern is, if the order on Canada
11 goes away, Canada, along with every other country, is
12 going to behave in the same way, with respect to the
13 critical sunset factors you're looking at, in terms of
14 volume and pricing behavior, whether or not there was
15 a toll sale arrangement or some other aberrations.

16 VICE CHAIRMAN ARANOFF: Okay. All right.
17 Let me switch to another question.

18 Mr. Price, I want to pick up on the remarks
19 that you were making, pointing out how old I am and
20 how many wire rod cases I remember. Thanks for that.

21 MR. PRICE: It was not exactly intended that
22 way.

23 VICE CHAIRMAN ARANOFF: But one thing that
24 does frequently come up in these cases is this issue
25 of short supply and allocation, and what does it mean

1 to be on allocation, and what does it mean to be on
2 controlled-order entry?

3 So one of the questions I wanted ask is we
4 have seen these short supply periods during this
5 period of review and at other times as well, and I
6 know you've explained that some of it is because you
7 want to meet the needs of the customers who have been
8 with you all along before you meet other needs that
9 sort of come in at the last minute.

10 Given that mills tend to roll in cycles
11 over, I guess, maybe a couple of months, can you
12 explain what the effect is when you get an unexpected
13 order or an order from a new customer or an order for
14 an amount that's maybe above what you consider
15 someone's normal amount that you weren't planning for?
16 How does that affect the normal cycle that you would
17 use in your mill when you're rolling?

18 MR. PRICE: I think, if you're asking about
19 rolling cycles, I think the mill folks would be best
20 to actually respond to that, and I'll come back.

21 MR. NYSTROM: Just to address that, from our
22 standpoint, you're right. Depending on the mill, it
23 could be a two-, three-week cycle, or it could be a
24 six-week cycle.

25 Generally, the way we'll look at it is we

1 target specific days to make sure we stay on schedule.
2 So if we're actually running a couple of days ahead of
3 schedule, we'll be more inclined to take on a few spot
4 orders for the next rolling.

5 More often than not, since we're
6 accumulating our orders, we're expecting to receive
7 the normal order pattern, and if somebody needs to
8 make a deviation from their normal pattern, it will
9 probably go out to the next cycle after that. So that
10 could be, in our case, about 12 weeks out for the
11 substantial change in the volume.

12 In some cases, if we're running ahead a
13 couple of days, then we have the flexibility to put a
14 little more tons in on a spot basis, and we might be
15 able to accommodate somebody in the next upcoming
16 cycle, which might be three or four weeks away.

17 But what's important for us is to make sure
18 that we have the orders on the books well in advance
19 so that we can sequence our scrap, our alloys, we can
20 cast efficiently and economically to be able to produce
21 the rod on time and ship it on time. One of the
22 biggest problems we run into is when we don't ship on
23 time. Then it just hurts all of our customers. So
24 we're very careful with new orders.

25 VICE CHAIRMAN ARANOFF: Has your average

1 time from when an order is placed to when you're able
2 to ship gone up recently?

3 MR. NYSTROM: From our experience, we have
4 not changed our roll cycle just because it's gotten a
5 little bit busier out there. We still stick to our
6 six-week cycle, and that way our customers have some
7 predictability about when we're going to be rolling
8 the sizes that they are going to need.

9 VICE CHAIRMAN ARANOFF: Okay. Thank you.

10 MR. SIMON: Rocky Mountain's -- cycle would
11 be similar to those of others. As I mentioned
12 earlier, we are not operating at full capacity, so
13 we're not operating 24 hours a day, seven days a week.
14 What that has enabled us to do is, with the increased
15 demand recently from our customers, we can schedule
16 overtime to try to meet those demands. So while the
17 cycle doesn't change, perhaps we can schedule more
18 overtime and try and satisfy their requirements.

19 VICE CHAIRMAN ARANOFF: Okay. So what I'm
20 taking from this, and I just want to make sure I
21 clarify, because, in some of the briefs from some of
22 the purchasers, I think they may be, and I'll get to
23 this this afternoon, they may be conflating a couple
24 of different things when they talk about short supply,
25 but the difference between being told when you place

1 an order that either it's going to take a little
2 longer than what you might want or being told you're
3 going to get it and then not getting it at the time
4 it's promised, and that latter is what I don't hear.

5 Maybe there have been cases where people
6 have had problems with that, but that doesn't seem to
7 be, in general, the case. I don't know if anybody
8 wants to comment on that.

9 MR. SIMON: I will say that there are some
10 cases in which we've been delayed in delivering our
11 orders, but I have to tell you that those cases are
12 cases when a customer typically has ordered X amount
13 of tons per month, and they have doubled, tripled, or
14 quadrupled those requirements, and we're trying to
15 meet those.

16 VICE CHAIRMAN ARANOFF: Okay.

17 MR. PRICE: Alan Price, Wiley Rein. Not
18 Nucor, but I do represent another client who did have
19 one instance where they had a caster fire. It took
20 several weeks of production out. So, in that case,
21 obviously, it affected the rolling schedule and the
22 timely deliveries.

23 Those are normal events, unfortunately, in
24 the steel industry. Making steel is not actually the
25 easiest thing in the world. I know the commissioners

1 have all spent a fair amount of time studying the
2 industry and have seen a number of steel mills and can
3 appreciate some of the difficulties and how hard the
4 environment is.

5 The fact that someone in one mill has a
6 caster fire doesn't mean that the entire industry all
7 of a sudden is unable to supply or that they can't get
8 the supply from another producer or that they are
9 shutting down operations over the long term,
10 particularly in a declining-demand market.

11 There are specific instances that are
12 identified that are often taken out of context and
13 exaggerated as to what their impacts really are.

14 VICE CHAIRMAN ARANOFF: Okay. My time has
15 run out, so thank you for those answers.

16 CHAIRMAN PEARSON: Commissioner Lane?

17 COMMISSIONER LANE: I want to go back to
18 finishing up the line of questioning that I started in
19 the first round, and that is, I'd like the reasonable
20 estimate of current electricity costs per ton of
21 production in current natural gas cost per ton of
22 production, and I realize that that will have to be
23 provided post-hearing, and that would be fine. And
24 then another question is, for those of you that are
25 integrated, do you have any cogeneration options such

1 as capturing heat from coking or other operations to
2 produce electricity, and if you have such options, do
3 you have any cogeneration in place or under
4 consideration?

5 MR. PRICE: Alan Price, Wiley Rein. For
6 Nucor and for my clients, we'll provide the relevant
7 information. I believe Republic is the only
8 integrated producer in the United States. I do not
9 know the answer on cogen for them but we will check
10 it. In general, in working on climate change issues
11 for the steel industry, I will tell you that as a
12 general statement, the combined electricity and
13 natural gas costs are the second highest cost
14 component after metallics in production, so it is a
15 huge factor, and frankly, a huge risk factor for the
16 domestic industry, because the net result of almost
17 any cap in trade plan will be a huge and substantial
18 increase in both electrical and natural gas costs, and
19 natural gas will have both direct increases and then
20 feedback increases into electricity, because the
21 cleanest form of large-scale generation that cap in
22 trade is going to encourage is, frankly, natural gas
23 generation over the next decade, and so most new
24 generation facilities will just proportionately go in
25 that direction.

1 So these are huge costs. They vary a little
2 bit, integrated versus electric furnace. Electric
3 furnace will have more electricity. Integrated will
4 actually have somewhat higher natural gas components
5 in that relative mix.

6 COMMISSIONER LANE: Okay, thank you. I have
7 some questions about production capacity, and I
8 apologize if you all have answered these before, but
9 I've gotten a little bit confused, so I'm going to ask
10 them again. In reviewing the questionnaires, it
11 appears that some producers calculated capacity based
12 on 24/7 operations, except for maintenance downtime.
13 For the companies that are here today, could you
14 indicate if you actually operate three shifts per day,
15 and if so, why is actual capacity utilization
16 relatively low?

17 MR. KERKVLIIET: From a Gerdau Ameristeel
18 standpoint, on the wire rod facilities, Perth Amboy is
19 only running two shifts, and the Beaumont facility is
20 not running a full 21 turns. It's kind of a --

21 COMMISSIONER LANE: Say that again.

22 MR. KERKVLIIET: They're not running full 24
23 hours. They are running a modified schedule, 18 to 20
24 turns, depending upon availability, and honestly, I
25 can't remember right now, in Jacksonville I think

1 we're running 24 hours a day.

2 MR. SIMON: Rocky Mountain Steel Mills, as I
3 mentioned earlier, is not running full out. We have
4 three crews instead of four crews, so we --

5 COMMISSIONER LANE: I'm sorry. You've got
6 to speak up a little bit.

7 MR. SIMON: Sorry. We are running at
8 roughly 75 percent of capacity. We are crewing with
9 three crews versus four crews.

10 MR. CHEEK: At Keystone, we are currently
11 operating seven days a week. Our typical operation is
12 an 8 or 12-hour repair day, typically on a Monday, for
13 roll change and mill repairs, and then we'll operate
14 the rest of the week.

15 MR. NYSTROM: At the Nucor facilities, our
16 Nebraska facility, we added a fourth crew back on the
17 mill in the fall of last year, so it's running 24
18 hours with the one maintenance downshift per week, and
19 our Connecticut facility is operating currently with
20 three crews and five days a week, and again, the
21 billet sourcing would be required to add more tons to
22 that facility.

23 MR. PRICE: Alan Price, Wiley Rein. It is
24 pretty typical in this industry, and throughout the
25 steel industry, your normal capacity, and the way

1 these mills are designed to be run, are 20 turn/1 turn
2 maintenance, throughout the steel industry. The fact
3 that mills are not acquiring billets because, frankly,
4 it's not profitable to do so given the current pricing
5 of the wire rod, the fact that folks are not producing
6 at those levels, are a sign of, not only do they have
7 excess capacity and capacity available, but frankly,
8 that they are in a position to do a lot more if the
9 returns are there, and with the maintenance of these
10 orders, we think that the returns can come back and
11 you can get more capacity there.

12 COMMISSIONER LANE: Okay, thank you. So,
13 and once again, I think you may have answered this
14 before, but I guess you can answer it again. What
15 changes would you have to make in your operations to
16 increase production? Would you add employees or would
17 you start up additional machinery?

18 MR. KERKVLIIET: In the case of Gerdau
19 Ameristeel, we'd be adding staff.

20 MR. SIMON: In the case of Rocky Mountain
21 Steel Mills, we would have to add staff. In addition
22 to that, we would have to supply billets for that
23 additional capacity.

24 MR. NYSTROM: And for Nucor, we would have
25 to add staff for our Connecticut facility. We do have

1 our Memphis bar mill coming on-line, which will
2 provide some melt and a billet source, provided that
3 there is a return for those billets, so when that
4 capacity comes on-line, we will have that option to
5 ramp up that facility.

6 COMMISSIONER LANE: Okay, thank you. In the
7 original investigations, the Commission found that the
8 subject imports suppressed needed domestic price
9 increases. If the orders were revoked, is it your
10 position that the subject imports would be likely to
11 again suppress needed domestic price increases to a
12 significant degree, or possibly depress prices?

13 MR. PICKARD: Commissioner Lane, I'd like to
14 answer that. I'd like to answer it based on record
15 evidence. Not only will it answer your question, but
16 it will go to the last statement by Chairman Pearson
17 concerning whether it's been a structural change or
18 whether things are different going forward. You don't
19 have to take my word for it. The record tells you
20 that the purchasers believe that if the orders are
21 revoked, prices will go down in the U.S. market, and
22 those prices will squeeze the domestic industry.

23 That's not the producers talking. That's
24 the purchasers. They expect larger volumes of imports
25 and lower prices in the U.S. market if the orders are

1 revoked, and as you can see, based on these rising raw
2 material costs, that will exacerbate the already
3 existing price-cost squeeze, suppressing profits as
4 well as prices.

5 COMMISSIONER LANE: Okay, thank you. Did
6 anyone else want to add to that? Okay. Have you
7 already made calculations or can you provide
8 calculations showing what you believe would be the
9 combined volume and price impact of subject imports on
10 the domestic industry's financial position, and the
11 effect on employment in the domestic industry, if the
12 orders were revoked?

13 MR. KERWIN: We have not submitted that, but
14 we would be happy to do so for the post-hearing brief.

15 COMMISSIONER LANE: Okay, and that was Mr.
16 Kerwin, right?

17 MR. KERWIN: That's correct.

18 COMMISSIONER LANE: Okay, thank you.
19 Sticking with you, then, can you provide specific
20 numbers comparing the U.S. price for subject wire rod
21 to the price in other markets? I know that you talked
22 about some of the prices were higher and some of the
23 prices were lower, but can you give me specific
24 information, and in responding, can you give me the
25 price information from specific countries or specific

1 regions, such as the price in the Asian markets, the
2 European markets and the South American markets?

3 MR. KERWIN: We'd be happy to summarize it,
4 the information that is on the record, and some of the
5 things are in the staff report. I am not going to get
6 into it right now because some of it is proprietary.
7 I'd be happy to put together something that summarizes
8 that. One of the limitations is that there are lags
9 in the reporting of that information. I don't know.
10 I haven't seen anything that's been on the record in
11 this investigation to show that information into 2008,
12 beyond the current period of review, so I don't know
13 off the top of my head when those materials become
14 released and what the lag is precisely on that, so I
15 don't know how far into 2008 we can provide that
16 information, but certainly for the period of review we
17 can.

18 COMMISSIONER LANE: Okay, thank you, Mr.
19 Chairman.

20 CHAIRMAN PEARSON: Commissioner Williamson.

21 COMMISSIONER WILLIAMSON: Thank you, Mr.
22 Chairman.

23 Commissioner Aranoff asked some questions
24 about allocation, but I don't recall anybody saying
25 now or addressing the Wire Producers Association

1 report that purchasers are on allocation or controlled
2 order entry now. So I want to know from you all, are
3 any of your customers on controlled entry or
4 allocation now?

5 MR. CHEEK: In our situation, to the extent
6 that we've served customers in the past, we've been
7 able to supply them currently, we believe. Our
8 customers have worked very well with us in this period
9 of tightness for us to be able to supply what they
10 need. We've been able to take on a few new customers
11 that are strategic in nature. To the extent that
12 people want two, three, four times as much volume as
13 in the past, we limit that on the order intake side.

14 MR. SIMON: In the case of Rocky Mountain
15 Steel Mills, as I mentioned earlier, we serve three
16 markets out of the one facility. The other two
17 markets are far, far, I'll say 'far' one more time,
18 more profitable than the rod business, so really,
19 we've been in allocation for more than five years,
20 because we allocate what steel we have available to
21 our three facilities, and we have always allocated --
22 well, as I say, consistently over the last years --
23 allocated the least amount of steel to our least
24 profitable product line, which would be wire rod.

25 COMMISSIONER WILLIAMSON: Okay, thank you.

1 Anybody else? Okay.

2 MR. NYSTROM: Again, at Nucor, we monitor
3 our order intake very closely to ensure that the order
4 patterns remain consistent with the past order
5 patterns, and as requests come up for additional tons,
6 we'll evaluate rolling schedule and the timing, and if
7 it's a strategic customer, strategic item for us, then
8 we can negotiate to find ways to get that into our
9 production schedule moving forward, but in general, we
10 are very careful with our order intake, not to disrupt
11 our production schedules.

12 MR. KERKVLIIET: The only additional comment
13 that I would add relative to allocation and volume
14 shift, we've analyzed our shipments, and our
15 shipments, actually, to the Respondents on the other
16 side of this issue. Our volumes now are higher than
17 they have been in the past.

18 COMMISSIONER WILLIAMSON: Okay. Thank you
19 for those answers.

20 Mr. Cheek, the American Wire Producers
21 Association, AWPA, in their brief on Exhibit 23, have
22 included a letter of January 7th from a Richard Webb of
23 your company, which says the wire rod prices in the
24 rest of the world remain significantly higher than in
25 the U.S., and I was wondering where the information on

1 which Mr. Webb bases his statement, and can you
2 describe it and if you agree with that assessment.

3 MR. CHEEK: I can't speak in specific to his
4 information sources. That was our observation at that
5 particular snapshot in time. I think that, as you
6 indicated, that was a price increase letter mode. We
7 were trying to recoup some of the scrap cost increases
8 we'd seen and get ahead of the curve. At that point
9 in time, we thought that was the situation. With the
10 rapid fire increases we've seen this year, I'm not so
11 sure that's the situation anymore.

12 We may be in a situation now where the
13 situation has flipped or is close to flipping again.

14 COMMISSIONER WILLIAMSON: Fire increases?

15 MR. CHEEK: Sorry. Price increases.

16 COMMISSIONER WILLIAMSON: Oh, price, I'm
17 sorry. Thank you.

18 Okay, anybody else want to add anything to
19 that? If not, I'll move on. Okay. Turning to the
20 Mexican producers, DeAcero and Hylsa contend that
21 several of the nonresponding Mexican producers do not
22 actually produce steel wire rod, and I was wondering,
23 can you respond to their discussion? Do you have any
24 information on that?

25 MR. PICKARD: I think we are best off doing

1 most of that in the post-hearing brief, but obviously,
2 there are Mexican producers shipping to the U.S.
3 currently, and have been subject to administrative
4 reviews of their dumping order, so we'll go through
5 the specifics in our post-hearing brief.

6 COMMISSIONER WILLIAMSON: Okay, thank you.
7 Do you agree that 2004 represents a somewhat unusual
8 year in terms of profitability? Is it appropriate to
9 consider performance in that year as a benchmark for
10 what the U.S. wire rod industry can be expected to
11 achieve routinely? Anyone can comment on this.

12 MR. SIMON: There is no question, if you
13 look at it historically, that that was an aberration.
14 Should it be a benchmark? Absolutely, we believe it
15 should be a benchmark and that's what we should be
16 striving for, but as you look historically, it was
17 certainly not the norm.

18 COMMISSIONER WILLIAMSON: And why?

19 MR. SIMON: Pricing.

20 COMMISSIONER WILLIAMSON: Why was it an
21 aberration?

22 MR. SIMON: Because there was a period in
23 time, and the variables as to why that is, I don't
24 have that right in front of me, but there was a period
25 of time where pricing was high compared to other

1 times, and that pricing gave us the ability to provide
2 a return on those investments for that period of time,
3 and that was a very good year for us, but we have not
4 seen numbers like that since.

5 MR. NYSTROM: Yes, I would add, 2004, there
6 was a little better balance in supply and demand, and
7 since then, with imports continuing to come in, it's
8 put pressure back on the industry. Certainly, the
9 level of return achieved in 2004 would be more the
10 expectation for the future if you are going to
11 continue to reinvest in your company and provide the
12 type of return that investors would expect to receive.

13 MR. PICKARD: I think if you look at 2004 in
14 this industry compared to other segments in the steel
15 industry, most of the other segments of the steel
16 industry think that 2004 is not so aberrational, and
17 is something that ought to be achievable in a highly
18 capital-intensive industry. Here, this industry
19 hasn't been able to achieve that level or anything
20 close to it, not because it's not the proper standard
21 to have to be able to reinvest but because of the
22 pervasive presence of imports, and I have to say, it's
23 hard to deny the Respondents' facts about what the
24 level of profitability has been in this industry, but
25 the reason for that they fail to offer, and that is

1 the pricing of imports in this market and the
2 dominance in many periods of the imports.

3 COMMISSIONER WILLIAMSON: Mr. Price?

4 MR. PRICE: As you move into 2006, one of
5 the important things to remember is, despite claims by
6 the Chinese in the 2005 rod case that they could not
7 export any more product to the U.S., that there was no
8 exports available, they had no capacity available, in
9 fact, they doubled exports. A lot of that caused
10 enormous price pressures on the market in '06, caused
11 huge collapses in this market. Profits deteriorated.

12 Inventory was built. It took through much
13 of '07 to work through that at the practical places in
14 the market, coupled with declining demand in this
15 period, and so you see an industry that's really in
16 sharp contrast to much of the rest of the steel
17 industry with that Chinese products cycle invading the
18 market.

19 COMMISSIONER WILLIAMSON: Thank you.

20 Several of you have talked about the fact that I guess
21 rebar is more profitable now than wire rod, a better
22 price, and how unusual this is, and I was wondering,
23 are there any demand factors here that are
24 contributing to that, or is it all just the
25 competition in the wire rod market on the supply side?

1 MR. KERKVLIIET: I think there's a component
2 that is similar in both, and it has to do with
3 imports. I think that the profitability of the rebar
4 segment is because some of the imports from China have
5 been eliminated as we just went through the sunset
6 review, and if you look at that time period relative
7 to wire rod, the two profitability curves go in
8 exactly the opposite direction.

9 COMMISSIONER WILLIAMSON: Anybody else want
10 to add to that?

11 MR. SIMON: We would just comment that we
12 believe there has been a much better balance in those
13 markets than there has been in rod, and that's why we
14 see the improvement in pricing.

15 COMMISSIONER WILLIAMSON: Balance in terms
16 of?

17 MR. SIMON: Imports.

18 COMMISSIONER WILLIAMSON: Okay.

19 Thank you, Mr. Chairman. I have no further
20 questions at this time.

21 CHAIRMAN PEARSON: Commissioner Pinkert.

22 COMMISSIONER PINKERT: I have no further
23 questions at this time.

24 CHAIRMAN PEARSON: I have one, I guess. The
25 record indicates that ArcelorMittal has a relatively,

1 what seems to me a relatively sophisticated process
2 for coordinating its international shipments such that
3 they don't tread on the toes of the domestic
4 operations of ArcelorMittal in a country receiving
5 imports. With regard to the subject countries, the
6 domestic industry has argued that ArcelorMittal plants
7 in subject countries would not hesitate to flood the
8 U.S. market with wire rod, even to the detriment of
9 the U.S. Arcelor facility, and I think part of the
10 argument was that the U.S. Arcelor facility is not
11 terribly large.

12 Why should the size of the Arcelor plant in
13 the United States make a difference? If Arcelor
14 really was going to do something with imports that
15 would jeopardize that plant, wouldn't it try to sell
16 it first so that it could get some, you know, value
17 out of it?

18 MR. ROSENTHAL: I think that argument was
19 made by Mr. Price and Nucor and the other companies,
20 so I'll let Mr. Price answer that. I have a different
21 approach to that question.

22 MR. PRICE: Thank you. First of all, let's
23 remember, while everyone here is part of the domestic
24 industry petition to maintain these orders, everyone
25 here are also competitors in the marketplace.

1 CHAIRMAN PEARSON: Oh, I understand.

2 MR. PRICE: You know, and they are all, at
3 the end of the day, working for profit maximizing
4 entities here. The size of a facility in the United
5 States directly bears upon how you profit maximize,
6 the degree of investment, and what you return to your
7 shareholders, and we can explain it more in the post-
8 hearing brief, and there's a whole bunch of
9 confidential information here that I don't necessarily
10 want to talk about in public, but size is directly
11 relevant to how you trade off in your facilities in
12 terms of profit maximizing for your shareholders.

13 MR. ROSENTHAL: I would approach that
14 question slightly differently because I didn't make
15 that assertion, but I would say that I wouldn't expect
16 that ArcelorMittal would do anything deliberately to
17 harm its facilities in the U.S., and therefore, they
18 wouldn't sell them first in order to avoid that harm,
19 because I don't think they would harm them
20 deliberately, but ArcelorMittal's overall approach is
21 to protect ArcelorMittal, not the other domestic
22 competitors, so what they may feel is in the
23 ArcelorMittal best interest may not necessarily be
24 viewed as noninjurious to the rest of the industry,
25 and in this particular instance, because ArcelorMittal

1 is a relatively small player in the wire rod market,
2 they will have a different view of what's helpful and
3 harmful to the overall domestic industry than they
4 might when they were a bigger player in another
5 product segment.

6 CHAIRMAN PEARSON: Okay, but given what has
7 been said earlier about the various grades of steel
8 wire rod being linked in price, that the price
9 movement in one will affect the others, you're not
10 making an argument that ArcelorMittal might import
11 grades of wire rod that it is not producing in the
12 United States, and thus expand its portfolio of
13 offerings, because that would have the effect also of
14 lowering the price of the grades they do produce, or
15 are you making that argument? Let me not prejudge.

16 MR. ROSENTHAL: I believe that the other
17 companies sitting around this table -- ArcelorMittal
18 may not say this but I think the other companies
19 sitting around this table have said that if the orders
20 were revoked, there is no reason why they think that
21 ArcelorMittal would not do exactly that, and that is
22 their concern.

23 CHAIRMAN PEARSON: Mr. Price?

24 MR. PRICE: I think, as I said to
25 Commissioner Pinkert earlier, that a ton can affect

1 the entire market, but a ton is not exactly a ton,
2 because there are some differentiations within the
3 market, and particularly in this product range, where
4 there are some differences here. So, in essence, and
5 I don't like to use this word because there are other
6 connotations, but targeted dumping can be a profit
7 maximizing result for ArcelorMittal in this particular
8 product line.

9 Whether or not that's the strategy they
10 choose is a question that would be out there, but I
11 think it is a possibility and it's perfectly
12 economically rational and can happen.

13 CHAIRMAN PEARSON: Okay, I think I am
14 understanding better now what your position is, and
15 that is basically, ArcelorMittal may well be tempted
16 to import grades that it is not producing in the
17 United States, and even though that might have the
18 effect of reducing its earnings at its plant in the
19 United States because of the pricing relationships
20 among products, potentially, more damage would be done
21 to other members of the domestic industry by
22 ArcelorMittal's --

23 MR. PRICE: Absolutely, while it would still
24 be profit-maximizing as to its overall shareholder
25 entities, which is, you know, what its responsibility

1 is at the end of the day.

2 CHAIRMAN PEARSON: Okay. Well, if you have
3 further elaborations for the post-hearing, by all
4 means. Mr. Price?

5 MR. ROSENTHAL: And I'm sure ArcelorMittal
6 would say that they wouldn't do that, and that is
7 their position.

8 CHAIRMAN PEARSON: Yes, and I think it's a
9 little clearer on this record than on some previous
10 cases where this has been an issue, so that's why I
11 was wanting to touch on it. If they were here, I
12 gladly would ask them.

13 MR. ROSENTHAL: And I'm sure we'll be
14 answering those questions, and they will, very
15 directly, because we don't want to disappoint any
16 Commissioners, I promise you.

17 CHAIRMAN PEARSON: Well, I have no further
18 questions at this point, and so let me turn to Vice
19 Chairman Aranoff.

20 VICE CHAIRMAN ARANOFF: Thanks, Mr.
21 Chairman, and I only have one subject left that I want
22 to cover, and that's that I feel I can't leave this
23 panel without revisiting the issue of business plans,
24 or the lack thereof, so I want to clarify what I heard
25 in response to one of my colleague's comments. First

1 I thought in the questionnaire -- well, I thought the
2 initial response was that companies didn't submit
3 planning documents because they didn't have any
4 business plans with respect to this business, but then
5 what I thought I heard later was, there are planning
6 documents but they involve a wider range of product
7 than just steel wire rod, and then I heard that the
8 reason that they weren't submitted was either one of
9 two: either that our protective order procedures were
10 insufficient to protect these highly confidential
11 documents, and therefore there had been a choice made
12 not to submit them, or that a decision had been made
13 that because there's a range of products covered by
14 them, that they are not relevant to the Commission's
15 consideration and therefore need not be submitted.

16 Did I miss something, or is that a correct
17 summary of where we stand on business plans?

18 MR. ROSENTHAL: Let me restate slightly. I
19 think you're pretty close to a fair summary there. I
20 think some companies are anxious about submitting
21 documents that are highly sensitive when only a small
22 portion of that document may be related to the
23 inquiry, and rather than submit those documents, they
24 submitted other things they thought were responsive,
25 so that's the way I would phrase it.

1 Not all of the companies have a -- in fact,
2 the ones that we've urged or talked to on this topic,
3 I think to a company they say we don't have a wire rod
4 business plan per se. They may mention wire rod in an
5 overall business plan, and some of them are -- I'll
6 stop there, so if that helps with the clarification, I
7 think you are essentially correct in your
8 understanding.

9 VICE CHAIRMAN ARANOFF: Well, I think that
10 all of the companies have taken a very narrow view of
11 what we are looking for, which I think is not
12 appreciated. For example, a number of producers
13 testified this morning that you have made decisions to
14 invest, for example, in upgrading your capacity to
15 produce higher-end products. I assume that that was
16 done based on some written analysis prepared in the
17 ordinary course of business, which it would be helpful
18 to the Commission to see, and I would strongly urge
19 you to submit that kind of documentation to us for our
20 review, and let me tell you that documents prepared in
21 the ordinary course of business tend to be entitled, I
22 mean, are more weight than things that are prepared
23 just for the purposes of these investigations.

24 I'll be consulting with our general
25 counsel's office about what other options we have with

1 regard to failure to respond to things that were
2 requested in our questionnaires, which do have the
3 force of a subpoena, but in the meantime, I do urge
4 you to provide any business planning documents
5 prepared in the ordinary course of business that would
6 tell us how you decide how many shifts you are going
7 to run, what kind of equipment you are going to invest
8 it, what customers you are targeting, and all those
9 kinds of things, because all of you used language
10 today that clearly indicated that you do make these
11 kinds of decisions, and I think it's fair to assume
12 that they are not made without anything being written
13 down.

14 MR. ROSENTHAL: Actually, Commissioner
15 Aranoff, I think that's a very helpful explanation of
16 what you are trying to get at, because it's not
17 necessarily the same thing as these companies
18 understand to be a business plan, so we will go back
19 and ask them to respond with those sorts of documents,
20 because I think that they were thinking of a different
21 type of document, in most instances.

22 That, in our discussions, was not what they
23 were contemplating when they were asked for a business
24 plan.

25 MR. KERKVLIIET: I think the way that I

1 characterized it was a business plan for Gerdau
2 Ameristeel overall relative to just the wire rod
3 business, and there were a lot of interrelated things
4 that happened with that. I think we have shared with
5 the Commission specific presentations that we have
6 made relative to our investments in the wire rod, but
7 I think if you are looking for things like
8 forecasting, as far as what volumes are going to be,
9 what we think margins are going to be, what we are
10 looking as far as capital investments, if there is
11 clarity in that, we can definitely give the Commission
12 the information that they are looking for.

13 VICE CHAIRMAN ARANOFF: Well, I think we are
14 interested in all of those things. I should point out
15 that I have long been considered the black sheep in my
16 family because in my immediate family I am the only
17 one who doesn't have an MBA, so I can't be held to
18 that same level of precision, but I know that what I
19 personally am looking for is, you know, documentation
20 produced in the ordinary course of business, that
21 tells us, as you said, how you decide to allocate your
22 resources, how you make projections about what you
23 think your sales are going to be within some
24 reasonable period.

25 All of those things I think would be very

1 helpful to us in completing our record.

2 MR. PRICE: Commissioner Aranoff, for Nucor,
3 we did file yesterday, I believe, the responsive
4 documents to the investments on the Connecticut
5 acquisition. I will point out that having furnished
6 these documents on previous investments and
7 acquisitions which tend to be somewhat more
8 substantial presentations, the magnitude of the
9 Connecticut investment was so limited in the scope of
10 Nucor that the analysis is actually fairly limited
11 too.

12 VICE CHAIRMAN ARANOFF: Okay. Well, that's
13 a fair enough comment, and I think we'll all take that
14 into consideration, so I thank everyone on the panel
15 for taking the time to be with us this morning and for
16 all your answers, and I have no further questions, Mr.
17 Chairman.

18 CHAIRMAN PEARSON: Commissioner Lane.

19 COMMISSIONER LANE: Thank you.

20 Mr. Price, this first question is for you.
21 In your prehearing brief, you argue that Sterling
22 Leggett & Platt should be removed from the domestic
23 industry pursuant to the related party provision. I
24 am not sure if you are arguing that the company
25 currently imports significant quantities of wire rod

1 or that it might do so if the orders were revoked.

2 Can you expand on your argument,
3 particularly by indicating the extent to which this
4 producer or an affiliate either currently or in the
5 past imported subject wire rod? And secondly, are you
6 saying that Sterling Leggett & Platt currently
7 benefits from imported subject wire rod? And if you
8 are, please explain how they are benefitting.

9 MR. PICKARD: This is Dan Pickard from Wiley
10 Rein. I would point out first that this case
11 certainly doesn't turn on the issue of the related
12 parties provision. I think either way you are going
13 to look at an industry that is vulnerable and likely
14 to be injured if the company is included or excluded.
15 I would also say that, under that provision, it is not
16 the only basis for excluding a related party if they
17 are themselves importing, but if we are going to talk
18 about one company's specific behavior, with your
19 permission, I think it would be most appropriate to do
20 it in the post-hearing.

21 COMMISSIONER LANE: Yes, that will be fine.
22 Thank you.

23 I'm not sure to ask, maybe Mr. Kerwin or Ms.
24 Beck. Do you believe that the price sensitivity or
25 elasticity for wire rod is influenced by competition

1 in downstream products to a greater degree than might
2 be the case for other steel products, and if so, why?

3 MR. KERWIN: Would you mind repeating that
4 question please?

5 COMMISSIONER LANE: Okay.

6 MR. KERWIN: I am trying to reason it all
7 the way through, so --

8 COMMISSIONER LANE: Okay. Do you believe
9 that the price sensitivity or elasticity for wire rod
10 is influenced by competition in downstream products to
11 a greater degree than might be the case for other
12 steel products, and if so, why?

13 MR. KERWIN: I guess my gut reaction on
14 that, off the top of the head is that most uses of
15 wire rod, it's being further processed almost
16 exclusively. It's not a steel product that is put to
17 an end use. It's essentially always further
18 processed.

19 Even that product might be further
20 processed, so that wire might be put to different uses
21 before it's actually put into an end use. Whereas,
22 say, steel structurals, their only use would be to
23 build a building. So that is an end use.

24 So I would think that the sensitivity to
25 price would be less for an end use application that

1 for a product that is being further processed.

2 COMMISSIONER LANE: Mr. Price, did you want
3 to answer that too?

4 MR. PRICE: Yes. I'm just going to give you
5 an observation more than an --

6 COMMISSIONER LANE: Could you just get a
7 little bit closer there?

8 MR. PRICE: Sure. I'll just give you an
9 observation rather than an answer that an economist
10 might give you, and I'm just looking at the Insteel
11 quarterly earnings report for this current quarter for
12 one of the witnesses who's about to testify here later
13 today I believe.

14 And according to the American Metal Market,
15 quoting him, you know, during the quarter, we
16 implemented price increases sufficient to recover the
17 additional costs of in this case wire rod costs. Here
18 we are at this point where I think we know we're in an
19 economic recession or likely to be, even though the
20 Federal Government hasn't declared it.

21 If there was a problem with sensitivity to
22 downstream product costs and passing those through,
23 then I would anticipate that Insteel would not have
24 been able to pass through those price increases, and
25 actually increase its profits substantially to have a

1 very good quarter.

2 COMMISSIONER LANE: Okay, thank you; I had
3 several questions for Ms. Hart. Is she coming back?

4 MR. ROSENTHAL: She is not coming back.

5 COMMISSIONER LANE: Okay, so Mr. Chairman,
6 should I just read the questions into the record, or
7 should I provide the questions to staff, who can then
8 provide them to Ms. Hart?

9 CHAIRMAN PEARSON: You could either provide
10 them in writing, or if you wish to state them now, you
11 may do that.

12 COMMISSIONER LANE: Are you kidding? I
13 would be standing between everybody and lunch if I
14 read all of my questions into the record?

15 (Laughter.)

16 COMMISSIONER LANE: I'll get with staff and
17 give them the questions.

18 CHAIRMAN PEARSON: Okay, you've made a
19 correct observation.

20 COMMISSIONER LANE: Okay, thank you.

21 CHAIRMAN PEARSON: However, I would never
22 impinge on the progress of any Commissioner.

23 COMMISSIONER LANE: That's all I have then;
24 thank you.

25 CHAIRMAN PEARSON: Commissioner Williamson?

1 COMMISSIONER WILLIAMSON: I have just one
2 question, almost reluctantly asked now. But I don't
3 think it's been addressed this morning. I think the
4 Canadian producers have made the argument that they
5 tend to concentrate on a higher quality line of steel
6 wire rod than, say, the other import sources and even
7 more so than the U.S. producers; although I know the
8 U.S. producers have mentioned that they can produce
9 the full range.

10 I was just wondering, do you have any
11 comments in terms about the importance of the higher
12 quality lines to the U.S. industry? Do you see any
13 trends in the future that you're going to be
14 concentrating more in that area; and what does that
15 say about the competition from the Canadians? Thank
16 you.

17 MR. ROSENTHAL: I'll just start with the
18 observation, just to summarize what you heard earlier.
19 All the companies at this table and behind have
20 mentioned that they have had direct competition with
21 the Canadians and continue to, but they've been
22 injured in the case of the Perth Amboy plant very
23 directly to the point of having to close it. I'm not
24 sure what was being produced in the Perth Amboy plant,
25 but we can ask Mr. Kerkvliet to answer that. But the

1 products that the products that the Canadians are in
2 affect all these companies.

3 MR. SIMON: Yes, as I mentioned earlier, we
4 compete head-on for some of the specialty products
5 that we make with the Canadian producers.

6 MR. KERKVLIIET: I think to answer your
7 question relative, is it important to have that?
8 Number one, do we produce that type of quality; yes.
9 Is it important to have that type of quality in your
10 portfolio? Absolutely it is, because it allows you to
11 have greater flexibility when there are changes in the
12 demand market and changes in the supply market.

13 Just to clarify what Mr. Rosenthal said, we
14 didn't shut down Perth Amboy, per se. They reduced
15 operating shifts, and we had to shut down the melt
16 shop, due to the inability to compete.

17 COMMISSIONER WILLIAMSON: Is there any trend
18 here of those products becoming relatively more
19 important or not?

20 MR. KERKVLIIET: Relative to the overall
21 industry, I would say of equal importance.

22 MR. SIMON: Yes, I would echo that.

23 COMMISSIONER WILLIAMSON: Okay, thank you; I
24 have no further questions.

25 CHAIRMAN PEARSON: I have no further

1 questions. Seeing no further questions from the dias,
2 do members of the staff have questions for this panel?

3 MR. BERNSTEIN: Mr. Chairman, this is Marc
4 Bernstein of the Office of the General Counsel. I
5 have a couple of very quick questions. One is for Mr.
6 Price and Mr. Pickard, and this is just to supplement
7 the request you just got a few minutes ago from
8 Commissioner Lane.

9 With respect to the producers you are trying
10 to exclude, if you could just make it clear what basis
11 you think they are subject to exclusion. It's not
12 clear whether it's because you think they're currently
13 importing, are prospectively importing, or on the
14 basis of purchasing activities.

15 If it is the later, Commission practice
16 indicates the purchaser has to be a responsible for
17 substantial portion of an importer's purchasers and
18 responsible or substantial quantity of purchases, even
19 to be subject to exclusion. If you could just go
20 through the steps and indicate for each step of the
21 process how we get there. Again, I think that's
22 inherent in Commissioner Lane's question. I just
23 wanted to make that clear.

24 CHAIRMAN PEARSON: We'll be happy to do so.

25 MR. BERNSTEIN: The last question, or what I

1 hope is the last question, and I think this will go to
2 a lawyer/economist. It's a simple question. Do you
3 agree with the capacity data for Canada in Table IV-18
4 of the pre-hearing report?

5 MR. PRICE: This is Alan Price. We'll reply
6 in the post-hearing brief.

7 MR. KERWIN: There's nothing on that page in
8 the public version; Table 418 or page 418?

9 MR. BERNSTEIN: It's Table IV-18. It is a
10 BPI table.

11 MR. KERWIN: Okay, then we'd be happy to
12 comment on it in the post-hearing brief.

13 MR. BERNSTEIN: What I would request is, if
14 you comment on that, in its pre-hearing brief, Ivaco
15 did give a fairly elaborate explanation defending the
16 figures that were reported in the questionnaires,
17 which is what Table IV-18 reflects. I can't go any
18 further than that without the risk of getting into
19 BPI.

20 If your answer to my original question is
21 no, you don't agree with those figures, we would
22 appreciate if you could comment on the Ivaco
23 explanation; thank you.

24 MR. KERWIN: We'd be happy to do that.

25 MR. BERNSTEIN: Yes, I have nothing further.

1 CHAIRMAN PEARSON: Okay, Mr. Silverman, does
2 counsel for the Respondents have questions for this
3 panel?

4 MR. SILVERMAN: No.

5 CHAIRMAN PEARSON: Okay, well, it is lunch
6 time. Thanks to all of you for the very informative
7 hearing. You've been extremely patient and resilient.
8 I appreciate that.

9 Let's reconvene at 2:00, taking a full hour
10 for lunch when Commissioner Okun isn't here, which
11 will no doubt annoy her greatly because she criticizes
12 me at times for short lunch periods. This hearing
13 stands in recess.

14 (Whereupon, at 1:00 p.m., the hearing in the
15 above-entitled matter was adjourned, to reconvene at
16 2:00 p.m. this same day, Thursday, April 17, 2008.)

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1 the wire rod industry.

2 Today, you will hear from five members of
3 the AWWPA who together purchase over one and-a-half
4 million tons of wire rod annually, and who
5 collectively have over 138 years of experience in this
6 market.

7 We will be pleased to answer your questions
8 at the conclusion of our testimony. Our first witness
9 is our new Association President, Walt Robertson.

10 MR. ROBERTSON: Good afternoon, my name is
11 Walt Robertson. I am President of Johnstown Wire
12 Technologies in Johnstown, Pennsylvania.

13 In previous rod cases, I testified on behalf
14 of the domestic rod industry. In fact, I spent a
15 great majority of my 40 year career in the steel
16 industry. But I've been a wire guy for the last nine
17 years. So I've been around this market for a long
18 time, and I've seen it from both sides.

19 I can honestly say, conditions in our market
20 today are absolutely extraordinary. The primary issue
21 today is that the wire industry is confronted with
22 very real shortages of wire rod, our primary raw
23 material.

24 As you will hear from other witnesses today,
25 regardless of whether you have been predominantly a

1 domestic buyer or historically a major importer, you
2 are now faced with raw material shortages that make
3 operating your business successfully very problematic.

4 Clearly, every domestic wire rod consumer is
5 on some type of allocation or control acceptance plan
6 because with limited imports, there just isn't enough
7 domestically produced rod to satisfy even cyclically
8 load demand.

9 According to member companies of AWWPA, wire
10 rod inventories have dropped dramatically since early
11 last year, are at the lowest level since mid-2004, and
12 are continuing to decline.

13 Also, as the Commission's report points out,
14 the domestic rod mills supplied more than a 70 percent
15 share of the U.S. demand last year, which is a
16 dramatic shift from just a few years ago.

17 In 2008, wire rod import volume will
18 probably hit a 25 year low of less than one million
19 tons. The weakened dollar, substantially increased
20 ocean freight costs, increased world demand for wire
21 rod, and the behavior of the Chinese government are
22 the primary drivers, none of which is likely to change
23 in the foreseeable future.

24 I also want to point out that the weakness
25 of the U.S. dollar is helping U.S. wire rod consumers

1 to be more competitive and to regain demand, which
2 we've lost imports of wire and wire products. I say
3 lost demand, because the sheer of the market, taken by
4 imports of wire, wire products, and fasteners, has
5 grown steadily since 1979, and dramatically since
6 2003.

7 This lost demand has had a serious negative
8 impact on every measure of performance for the entire
9 U.S. rod and wire market. Now U.S. manufacturers of
10 both rod and wire have regained competitiveness and
11 are in a position to capture much of this lost
12 business.

13 This remains true, even given the
14 unprecedented price increases we've seen for
15 metallics, other steel inputs, and finished steel
16 products including wire rod worldwide. The fact is
17 that for the first time since 1973, transaction prices
18 for steel around the world are higher than those in
19 the U.S. marketplace, which translates into premium
20 prices for imported wire rod, which is another factor
21 that will continue to discourage imports of wire rod
22 into the U.S.

23 It now appears that the rod and wire
24 industry has a real opportunity to recapture demand
25 lost over the last 10 years. The weak dollar,

1 overseas transportation costs, and many other factors,
2 all of which are the same reasons steel import are
3 down, have helped U.S. manufacturers become more
4 competitive, increasing U.S. producers' share of
5 domestic demand and driving exports to near record
6 levels.

7 The problem is the supply side of the
8 equation. I firmly believe that the U.S. wire rod
9 market is currently experiencing a structural shortage
10 that will last for the foreseeable future. Even a
11 cursory analysis of recent historical supply and
12 demand data reveals a meaningful shortfall in wire rod
13 supply, due to domestic production that, in many cases
14 is far below either rated capacity or historical
15 norms.

16 I would estimate that because of capacity
17 rationalization and industry consolidation, there are
18 roughly 35 percent fewer rod tons produced in the
19 United States than just 10 years ago. This is a
20 direct result of domestic rod producers struggling
21 with the same issues that their downstream wire and
22 wire products customers have also had to deal with.

23 The result, particularly in the current
24 environment, is increased price volatility and
25 problems with availability. We saw these dynamics

1 throughout much of 2004, and the same issues are
2 impacting wire rod supply in 2008.

3 Clearly, availability is the driving issue
4 in today's marketplace; and I think that it will
5 continue to be an issue through the remainder of this
6 year and into next year.

7 We may see additional scrap price increases
8 and, if so, the U.S. rod mills will continue to
9 exercise their considerable pricing power to increase
10 rod prices, just as global prices will continue to
11 rise. But it's additional domestic supply of wire rod
12 that is needed if our entire wire rod and wire value
13 chain is to take advantage of our current
14 competitiveness and recapture lost demand that is
15 critical to each of our companies.

16 Because of the macro economic issues that
17 exist today, a weak U.S. dollar, growing demand for
18 steel all over the world, higher prices in other
19 markets, and the Chinese government's use of export
20 taxes to restrict wire rod exports, there is little,
21 if any, incentive for foreign producers, including
22 subject countries, to ship to the U.S. market, and
23 these conditions do not appear to be short term; thank
24 you.

25 MR. WOLTZ: Good afternoon, my name is H.

Heritage Reporting Corporation
(202) 628-4888

1 Woltz. I'm President and CEO of Insteel Industries.
2 We are a publicly traded wire and wire products
3 company, headquartered in Mt. Airy, North Carolina.
4 Steel wire rod is our primary raw material, and we
5 purchase approximately 350,000 tons annually.

6 Historically, Insteel has filled its rod
7 requirements with purchases from both domestic and
8 off-shore sources. Domestically, we purchase from
9 ArcelorMittal, Gerdau Ameristeel, Charter Steel, Rocky
10 Mountain Steel Mills, Republic, Nucor, and Keystone.
11 We compete in downstream markets with several of our
12 raw material vendors.

13 As has been the case for many years, the
14 domestic rod producers are unable to satisfy U.S.
15 demand for wire rod. Whereas, over time, imported
16 tonnage served to supplement domestic supply, global
17 conditions have changed so dramatically that offshore
18 producers no longer have interest in serving the U.S.
19 market.

20 We're having serious difficulty filling the
21 gap between our requirements and the tonnage available
22 to us from our domestic suppliers. The industry is
23 obviously in the midst of an acute supply shortfall
24 that shows no sign of abating.

25 To give you a sense for the current

1 conditions in the market, let me briefly describe what
2 our U.S. suppliers are telling us. First, you should
3 be aware that wire rod prices have nearly doubled in
4 the last six months. Most producers have moved to
5 price in effect at time of shipment as the basis for
6 their pricing.

7 The frequency and the magnitude of these
8 increases has made planning utterly impossible.
9 Quarterly pricing agreements with our suppliers were
10 common prior to 2004, and periodically during 2005 and
11 2006.

12 More recently, however, monthly pricing,
13 even weekly pricing, is more prevalent driven, in my
14 opinion, by unprecedented instability in the market
15 for metallic, and a short supply of rod that has
16 limited competitive pressures among rod producers.

17 We are also being limited in the tons that
18 we can order from several of the U.S. rod mills. One
19 of our suppliers has informed us that a fixed number
20 of tons will be available to us in 2008, and we should
21 not expect to receive more than that volume.

22 Another domestic mill informed us that we
23 could purchase only 80 percent of our desired
24 quantities during the first calendar quarter; and for
25 the second calendar quarter, we're limited to monthly

1 availability, based on our historical purchases
2 between 2004 and 2007.

3 When our allocations from all suppliers are
4 taken together, it appears that we can expect to
5 receive only 78 percent of our forecasted requirements
6 through the end of our fiscal year in September. This
7 presumes that our suppliers operate without unplanned
8 down time. Production glitches, which are not
9 uncommon, will only make a difficult situation much
10 worse.

11 It is abundantly clear that this crisis of
12 supply will build in intensity through the second and
13 third quarters of 2008, due to robust worldwide demand
14 and a lack of interest in the U.S. market by foreign
15 suppliers. Of course, the weakness of the dollar
16 undoubtedly plays a substantial part in this.

17 There is nothing on the horizon that would
18 change the imbalance of supply and demand that we are
19 experiencing. As a result, it appears that revocation
20 of these orders would have little or no impact on the
21 domestic market in the near future.

22 While domestic producers are making valiant
23 efforts to catch up with world market prices, they are
24 not yet there, as the gap between domestic and import
25 prices remains somewhere in the range of \$60 to \$100

1 per ton. Only once or twice in my 29 years in this
2 industry have I witnessed world market pricing at
3 levels above domestic prices; and never before have I
4 seen a gap of this magnitude.

5 Beginning last year, we entered into a
6 period of declining demand for wire rod. Because
7 construction activity accounts for a substantial part
8 of wire rod demand, it's reasonable to expect a
9 continuation of declining consumption trends during
10 2008. Yet even in a cyclical down period, the
11 domestic rod industry cannot meet the requirements of
12 its customers.

13 As you've heard, industry rod inventories
14 have reached the lowest level since 2004, which was
15 the last time domestic rod producers controlled order
16 acceptance and allocated availability. Insteel lost
17 substantial production during that period, and I'm
18 concerned that we're heading for a repeat performance.

19 I find it ironic that in 2004, when we were
20 desperate for additional supplies, imports were
21 available in the U.S. market despite the existence of
22 these orders. Now market conditions are so different
23 that even if the orders are sunsetted, it's unlikely
24 that we'll experience meaningful, near-term relief
25 from the supply crunch that's affecting the wire

1 industry. Thank you.

2 MR. DESHANE: Good afternoon. I am Michael
3 DeShane, Sourcing Manager for Steel and Chemicals at
4 the Lincoln Electric Company. Lincoln Electric is the
5 world's largest designer and manufacturer of welding
6 products in the world, and we employ 3,600 people in
7 the United States. Our company enjoys a worldwide
8 reputation for producing state-of-the-art welding
9 equipment and consumable welding products.

10 Lincoln's cord welding wire, solid welding
11 wires and stick electrodes are produced from wire rod.
12 Our welding products are used in a wide variety of
13 critical construction and industrial applications. To
14 ensure that we're able to produce welding electrodes
15 and wire that meet our customers' requirements,
16 Lincoln Electric has developed 38 proprietary
17 specifications for welding quality wire rod. The list
18 continues to grow with advancements in welding
19 technology, such as robotic automation.

20 Lincoln Electric has a proven 20-year track
21 record of working with the domestic wire rod producers
22 to become qualified to supply their wire rod needs.
23 We have devoted many thousands of manhours and
24 substantial financial resources to this effort.
25 Lincoln currently has supplier development programs in

1 effect with Gerdau, ArcelorMittal, Rocky Mountain and
2 Nucor. And indeed, last week and then again next
3 week, our senior technical steel specialist will be
4 visiting two mills operated by the domestic
5 Petitioners to address wire rod quality issues.

6 Despite these cooperative efforts, a
7 significant amount of our welding quality wire rod
8 needs cannot be obtained from U.S. sources. More than
9 half of our specifications are not even produced in
10 the United States.

11 In the case of a number of other
12 specifications, there's not enough capacity at U.S.
13 mills to supply our total needs. This is not a matter
14 of price competition from imports, subject or
15 otherwise, but rather reflects an ability to meet our
16 quality control and technical requirements.

17 Even where domestic mills can produce some
18 of our wire rod grades, they only commit to provide a
19 limited portion of our total supply needs or flatly
20 refuse to accept Lincoln Electric purchase orders.

21 For example, you heard testimony this
22 morning that Rocky Mountain can now produce our
23 highest volume grade EW-2512. What Mr. Simone did not
24 state is that his mill can only meet less than 25
25 percent of our volume needs for that grade.

1 I would also add that for 2008, Lincoln
2 Electric has offered long term contracts to several of
3 our U.S. suppliers, but each declined our offers.

4 The U.S. industries' estimates of
5 theoretical capacity are beside the point. Lincoln
6 Electric cannot produce high quality welding products
7 from theoretical steel. Every production day, our
8 U.S. operations need 30 to 40 truckloads of wire rod,
9 which has been proven and tested to meet our
10 specifications. We can only obtain these volumes by
11 purchasing imports.

12 Let me give you a couple of specific
13 examples. Welding quality wire rod has extremely
14 tight tolerances for residual levels of various
15 chemical elements. None of the U.S. wire rod
16 producers have been successful in meeting all of
17 Lincoln's specifications for these tolerances.

18 Many specifications require the addition of
19 special alloys. Other require specific de-oxidizers
20 such as aluminum and titanium. Our EW-3829
21 specification requires mills to use titanium as a de-
22 oxidizer. Lincoln uses this wire rod to produce
23 welding wire with improved mechanical properties and
24 reduced welding fumes.

25 These products are sold to several of our

1 largest U.S. customers. Unfortunately, no member of
2 the U.S. wire rod industry is capable of producing
3 titanium keeled steel for wire rod. Lincoln,
4 therefore, has no option but to look outside the
5 United States to meet our needs.

6 As a second example, in 2007, Lincoln
7 Electric experienced significant quality problems at
8 the ArcelorMittal mill in Georgetown, South Carolina.
9 This led to a reduction in the number of
10 specifications and tons that could be supplied by this
11 domestic producer.

12 During the development of our 2008 supply
13 plan, several specifications previously supplied by
14 the Georgetown mill were moved to ArcelorMittal's mill
15 in Canada. This shift took place with the full
16 agreement of ArcelorMittal, and reflects the fact that
17 the wire rod in question must be imported in order to
18 meet our quality standards.

19 Where the U.S. wire rod industry is not
20 capable of or interested in producing a particular
21 grade of wire rod, Lincoln Electric must turn to the
22 highest quality mills in other countries. Price is
23 not the issue with these purchases, and they should
24 not be treated as lost sales or other evidence of
25 injury.

1 Canada is the most important example, given
2 the geographic proximity of the Canadian wire rod
3 mills to our two major factories in Ohio. Our
4 decision to purchase wire rod from Canada is based
5 upon our quality requirements.

6 In addition to our U.S. operations, Lincoln
7 is a global company with over 30 factories in 18
8 countries. Based upon experience in those markets, we
9 do not believe that there should be any concern over
10 significant additional imports of welding quality wire
11 rod if these orders are revoked.

12 Our business units in many of these
13 countries continue to experience strong demand and
14 significant growth; and indeed, the wire rod needed to
15 support our operations overseas is often in short
16 supply. It is abundantly clear that we will not be
17 able to import additional volumes of welding quality
18 wire rod from foreign mills related to ArcelorMittal
19 or Gerdau without the review and approval of their
20 U.S. operations.

21 This leads to a related point. In
22 evaluating the current health of potential prospects
23 for the U.S. mills, the Commission should consider the
24 impact of the ongoing consolidation in the global
25 steel industry.

1 As a result of that consolidation, many
2 global steel firms are reducing or strictly limiting
3 the internal trade in wire rod. Rather than ship rod,
4 these companies trade intermediate steel materials
5 among their related operations.

6 For example, Gerdau currently imports
7 billets from Brazil for use in its U.S. wire rod
8 mills; while ArcelorMittal imports direct reduced iron
9 from Trinidad.

10 We understand that the U.S. mills must pay
11 going market prices for these materials. Since the
12 majority of the cost of producing wire rod is in these
13 intermediate materials, this reduces the operating
14 margins for the U.S. mills. This is not due to price
15 competition from imported wire rod, but rather a
16 corporate strategy to maximize profits on a global
17 basis.

18 Finally, on an optimistic note, Lincoln
19 Electric anticipates continued growth in the worldwide
20 market for welding consumables. We stand ready to
21 purchase as much welding quality wire rod from
22 domestic producers as possible. However, the
23 continuance of these orders is not the way forward.

24 These orders are undermining the
25 competitiveness of our U.S. operations and the jobs

1 held by our 3,600 employees, without shifting the sale
2 of a single ton of welding quality wire rod; thank
3 you.

4 MR. MCCALL: Good afternoon, my name is Mike
5 McCall. I'm Vice President of MMI Products. Our
6 company has wire drawing operations at fourteen
7 locations and eight states, from Florida to Indiana,
8 from Pennsylvania to Arizona.

9 We make a wide variety of wire products for
10 the residential and commercial construction markets,
11 including welding wire fabric, PC strand, chain link
12 fence, and concrete accessories. We purchase
13 approximately 400,000 tons of wire rod annually to
14 supply our operations.

15 Over the years, we have sourced wire rod
16 from both domestic and foreign mills. However, last
17 summer, we discontinued buying wire rod from mills
18 offshore, because the import price kept increasing
19 until it was higher than the price of domestic rod.

20 During the period of September 2007 through
21 January of 2008, we bought 100 percent domestic rod
22 for our wire mills. In February of 2008, we were
23 forced to look for import rod, because our domestic
24 suppliers told us they could not meet our
25 requirements.

1 We would have preferred to purchase from
2 U.S. mills, but we could not get the tons. Instead,
3 we have bought import rod at a premium over domestic
4 rod. We had to pay between \$300 and \$350 per 100
5 weight more for the foreign material. That's \$60 to
6 \$70 a ton higher for import rod.

7 During the same time, with foreign rod
8 costing more than domestic rod, the U.S. rod mills
9 have been aggressively raising their prices. I've
10 been in the business for over 43 years, and I've never
11 experienced anything like this.

12 During the past year, we've seen an overall
13 increase in wire rod prices of \$18.75 per 100 weight.
14 That's \$375 a ton. The amount of increase is
15 equivalent to the total price I was paying for wire
16 rod just three years ago, and there appears to be no
17 end in sight.

18 Just last week, the U.S. suppliers raised
19 prices again. For many, this was the fifth price
20 increase this year. Gerdau increased their price for
21 wire rod by \$150 a ton effective May 1st. That's on
22 top of additional price increases since February.

23 Mittal increased its prices twice last week
24 by \$75 a ton effective mid-April, and another \$100 a
25 ton effective as of May 1st. Keystone and Nucor

1 increased their rod prices by \$150 a ton, and Rocky
2 Mountain increased their prices by \$150 a ton, plus an
3 energy surcharge of \$40 a ton.

4 Even paying these higher domestic prices, I
5 cannot get all of the steel I need from U.S. mills.
6 The import price is even higher, but the U.S. market
7 is so unattractive to foreign rod mills these days
8 that we have stopped receiving calls from traders who
9 have rod to sell.

10 Another big concern right now is that our
11 inventory of wire rod is down from what we have
12 maintained historically. As a result, we don't have
13 the flexibility to draw on our reserves and meet any
14 shortfalls in supply. We need to buy rod now for what
15 we're making now.

16 Keep in mind that all this is taking place
17 in an economy which is flat and slowing down. I'm
18 very concerned about what will happen if the economy
19 begins to improve. Availability of wire rod will
20 become an even greater problem than it is now.

21 Although the domestic mills don't use the
22 allocation word anymore, that's what we're facing in
23 the wire industry today. Each of our three major
24 domestic suppliers have given us a set number of tons
25 that we can purchase each month; and another U.S. mill

1 that we approached told us they were completely
2 booked. There is not enough wire rod available from
3 U.S. mills at any price.

4 In the questionnaire that my company
5 received from the Commission, one of the last
6 questions was, what do I think the likely effect of
7 sunsetting the anti-dumping orders would be. In
8 today's market, and for as long as I can see into the
9 future, I don't see that it would bring any effect
10 because it doesn't change any of the factors affecting
11 availability.

12 Demand is strong in overseas' markets, and
13 higher prices for rod in those markets will continue
14 to attract the foreign rod mills. Import rod will
15 continue to be more expensive for us than the domestic
16 product. Lastly, the U.S. rod industry will be able
17 to continue raising prices, and we will have to pay
18 them; thank you.

19 MR. MOFFITT: Good afternoon, my name is Bob
20 Moffitt. I am Vice President of Purchasing for Davis
21 Wire, Davis Wire Pueblo, and National Standard;
22 collectively, the Heico Wire Group, and Past President
23 of the American Wire Producers Association.

24 Heico Wire Group is the largest consumer of
25 wire rod in Western North America and one of the

1 largest in the U.S., operating five plants located in
2 California, Washington, Colorado, Oklahoma, and
3 Michigan. These plants convert in excess of 400,000
4 tons of wire rod into wire and wire products annually.

5 The Wire Group manufactures wire for
6 agricultural and merchant products, industrial and
7 specialty products, building and reinforcing products,
8 and the automatize industry. We purchase low carbon,
9 high carbon, bead, and welded rod, all of which are
10 covered under the current dumping order.

11 My company is a strong supporter of the
12 American wire rod industry, and we prefer to buy
13 domestically. Our Kent, Washington plant is close to
14 Cascade Rolling Mills in McMinnville, Oregon, and we
15 are their largest rod customer. Our Colorado wire
16 plant is on the grounds of Rocky Mountain Steel Mills,
17 and we are their largest customer, too.

18 We also buy from the other U.S. rod
19 producers: Keystone, Nucor Connecticut, Middle
20 Georgetown, Charter Steel, Gerdau Ameristeel's mills
21 in Beaumont, Texas, Perth Amboy in New Jersey. In
22 fact, we made a strategic business decision many years
23 ago to purchase the vast majority of our rod needs,
24 over 70 percent, from U.S. mills.

25 My colleagues in the wire industry have

1 already told you about the unique conditions in
2 today's rod market; conditions that I expect to
3 continue for the next year and possibly longer. We
4 have experienced dramatic price increases from our
5 U.S. suppliers and even higher prices for imported
6 material. I would say that this is the most volatile
7 rod market that I have even seen.

8 During these turbulent and challenging
9 times, we have worked closely with our domestic rod
10 suppliers and they have worked with us. However, the
11 U.S. mills cannot meet the total demand for wire rod,
12 and they will not be able to do so in the future.

13 This situation is made even more difficult
14 because my company, like other American wire
15 producers, does not have large inventories of wire rod
16 on hand. In fact, I track our inventory on rod on a
17 monthly basis, and our inventories are at their lowest
18 level for more than 10 years.

19 Other witnesses today have told you the
20 demand in the U.S. for wire and wire products is down.
21 I agree. The slumps in residential housing and
22 declining automobile production have had a serious
23 negative effect on wire consumption. I am very
24 concerned about where I will find wire rod if the
25 sectors begin to improve. Although our domestic

1 suppliers have been supportive, they cannot meet our
2 overall demand, even in bad economic times.

3 In order to maintain availability of rod, I
4 have tried over the years to source about 25 to 30
5 percent of my company's rod needs from foreign
6 sources. That also has become a real challenge with
7 today's market conditions.

8 As you have already heard, the price of
9 imported rod is higher than domestic rod, when you can
10 get it. Overseas demand for long products is high,
11 and in markets like the Middle East, Russia, and Asia,
12 demand is increasing.

13 There is a huge demand, especially for rebar
14 in China and India right now, and there is a
15 construction boom going on in Russia. In fact, Black
16 Sea scrap is rarely available in the world market,
17 because the Russian market is consuming so much.

18 Even the market in Brazil is going crazy
19 right now. When the world market for rebar is strong,
20 as it is right now, foreign mills prefer to make
21 rebar, not rod. This is another factor affecting rod
22 availability.

23 Of course, ocean transportation costs are
24 through the roof and have been for some time. It is
25 little wonder that many of the foreign mills that I

1 have dealt with in the past prefer greener pastures in
2 other markets.

3 Another fact of life that we are facing is
4 the consolidation of the rod industry worldwide. The
5 Chicago office of ArcelorMittal is responsible for all
6 rod sales in the U.S. for the entire ArcelorMittal
7 Group. That includes sales of rod not only from their
8 mills in Brazil, Canada, Mexico, Trinidad, Ukraine,
9 and the Georgetown mill in South Carolina; but also
10 from the Mittal-owned mill in Indonesia.

11 Anyone who thinks that ArcelorMittal, and
12 Gerdau for that matter, do not control what gets sold
13 in the U.S. market from their foreign rod mills is
14 fooling himself.

15 For 22 years, I have been responsible for
16 purchasing wire rod from sources around the globe. I
17 know all of the rod producers in the United States and
18 most producers around the world. I speak with them
19 all the time about conditions affecting the
20 production, marketing, and sale of wire rod.

21 Even if these anti-dumping and
22 countervailing duty orders are revoked tomorrow, I do
23 not see any impact in the domestic market from imports
24 for the rest of 2008 and probably beyond. The weak
25 U.S. dollar, the poor U.S. economy, and stronger rod

1 markets elsewhere will continue to keep imports at a
2 low level.

3 These economic conditions are keeping
4 imports out of the U.S. market, and they will continue
5 to do so; thank you.

6 MR. LYNCH: Good afternoon. My name is
7 Michael Lynch and I serve as Vice President for
8 Government Affairs, of Illinois Tool Works, Inc., also
9 known as ITW. ITW operates in 400 of its 850 global
10 business units in the United States, where we employ
11 26,000 men and women. I am here today on behalf of
12 our decentralized domestic businesses that purchase
13 and consume wire rod and which have a great interest
14 in the outcome of this proceeding.

15 This morning, we heard the term or phrase 'a
16 ton is a ton is a ton.' We would argue that 'steel is
17 not steel is not steel.' And I would also reiterate a
18 point that we made before the Commission five years
19 ago, that for ITW, it's all about chemistry and
20 availability.

21 We are challenged constantly to provide
22 quality products for the construction sector, which is
23 ruled by ever challenging building codes, the
24 automotive sector for which we design and build safety
25 critical fasteners, and industrial applications where

1 we are subjected to increasing tort liability. A
2 product response depends more on material, chemistry,
3 and availability, than pricing alone. High quality,
4 cold heading quality wire rod, or CHQ, is an example
5 of how the specificity of chemistry is critical to us
6 and our customers.

7 In an effort to assist the Commission to
8 understand better the critical nature that chemistry
9 plays in our design and production systems, the
10 Industrial Fastener Institute successfully secured
11 separate and distinguishable HTS codes for CHQ,
12 recognizing it as a unique product for which import
13 data is now collected, a measurement missing five
14 years ago. ITW's wire rod purchasing managers have
15 experienced repeatedly the effect of domestic
16 industry's inability to supply all U.S. demand for
17 wire rod generally and the industry structural deficit
18 is proportionately greater in relation to U.S. demand
19 for high-end rod products, including CHQ rod and rod
20 required for the manufacture of tig and mig wire for
21 welding. ITW is the largest or certainly one of the
22 largest U.S. purchasers of rod for these applications.
23 Only one U.S. producer has proven its ability to make
24 the quality of CHQ and other high-end rod products
25 that we, along with other U.S. threaded metal fastener

1 producers require.

2 In addition, that U.S. producer cannot
3 supply all the industry's needs for high-end products.
4 Canadian imports, which are higher priced than
5 comparable U.S. rod, are the only other country in
6 North America that can meet our specifications for CHQ
7 and other high-end products. Offshore suppliers have
8 expressed no interest in the U.S. market due to the
9 depreciated value of the dollar against other major
10 currencies, the seemingly endless increase in energy
11 and transportation costs, and the competing global
12 demands on their capacity.

13 In conclusion, ITW's purchasing experience
14 for wire rod, as expressed in our questionnaire
15 responses, should be important to the Commissioner's
16 analysis in this case, not only because of the
17 substantial volume involved, but also because of the
18 range of products and chemistries we depend on affects
19 the future domestic production of these finished
20 products. Thank you for your time and consideration.

21 MR. SILVERMAN: I'm William Silverman from
22 Hunton & Williams on behalf of Ivaco and I want to
23 start by saying that based on the information and
24 analysis contained in the Wiley Rein brief on pages 27
25 to 31, we believe that ArcelorMittal should be

1 excluded from the domestic industry as a related
2 party. I would be glad to discuss that later when we
3 go into our witnesses.

4 MR. SHUDY: Good afternoon. I'm Kevin
5 Shudy, Vice President and CFO of the Heico Metal
6 Processing Group of the Heico Companies. I'm here to
7 state that as a U.S. company, Heico supports the
8 removal of Canada from the antidumping order. Heico
9 is a privately-owned company headquartered in Chicago,
10 owns more than 40 operating companies, with over 9,000
11 employees with approximately 2,000 of those employees
12 members of the USW. The Heico Metal Processing Group,
13 which is part of the Heico Companies, includes
14 multiple U.S.-based entities with manufacturing
15 operations located in six states.

16 In 2004, Heico purchased Ivaco mainly to
17 acquire Ivaco's wire producing facilities outside of
18 Montreal. But, in addition, we acquired Ivaco so that
19 we could secure a source of high-quality rod for our
20 wire operations in Canada. Like many manufacturers in
21 the U.S., we consider Canada and the U.S. to be a
22 single market. I know that some say that the law
23 treats Canada differently, but the economic reality
24 with any manufacturing sector is that Canada and the
25 U.S. really act as a single market.

1 In the past, there have been times when our
2 U.S. wire mills were not able to secure sufficient,
3 consistent quantities of high-quality wire rod from
4 domestic mills. That situation is worse now in 2008
5 than it was when we acquired Ivaco. We have and will
6 continue to purchase a great majority of our wire rod
7 needs from U.S. mills. But in times like 2008, when
8 U.S. rod mills are limiting our ability to source rod
9 -- restrict our sourcing of rod through allocations or
10 controlled order entry, we need to have the
11 flexibility to purchase some of our requirements from
12 Ivaco. The dumping order is just one more
13 administrative uncertainty and hurdle that limits the
14 integration of our operations. Ending the dumping
15 order on Canada will provide Heico with additional
16 flexibility to purchase rod from Ivaco in times of
17 shortages or to purchase certain qualities of wire rod
18 from Ivaco that U.S. mills only produce in limited
19 quantities. Thank you.

20 MR. LACHAPELLE: Good afternoon. My name is
21 Luc Lachapelle. I'm the Director of Marketing and
22 Sales for Ivaco Rolling Mills. I've been working in
23 sales and marketing in the wire rod industry for 20
24 years. On the issue of conditions of competition,
25 here are some of the reasons that imports from Canada

1 compete differently from imports from other subject
2 countries.

3 First, after the order, Canadian imports
4 maintained a significant, but steady presence in the
5 market, irrespective of considerable variability and
6 demand and U.S. producers' sales and profitability.
7 Contrast this with imports from other subject
8 countries that either dried up entirely or at least
9 sharply declined.

10 Second, Canadian imports are more focused in
11 the higher quality end of the market than imports from
12 other subject countries.

13 Third, due to the proximity of Canada to the
14 United States, purchaser consider Canadian imports to
15 be part of the domestic industry, while imports from
16 other countries are considered to be offshore. And in
17 contrast with offshore producers, Canadian producers
18 ship and deliver product on a daily basis, both by
19 truck and by rail, with shorter lead times than those
20 of offshore suppliers.

21 And, finally, four U.S. rod mills agreed to
22 roll our billets to help us maintain our U.S. customer
23 base while we were on strike. Where else have you
24 seen a case where four domestic mills have supported a
25 competitor and a foreign one at that in keeping its

1 U.S. market share alive. Would they do this for the
2 offshore subject producers?

3 Turning to the current market situation, I
4 would observe that the market that we're in is nothing
5 like it has ever been in the past. We're turning away
6 orders left and right. Existing customers are coming
7 to us daily and asking us to supply additional
8 quantities of rod, while new customers are begging us
9 to supply rod to meet the market shortfall. Our
10 answer is consistent, no, we're completely sold out,
11 based on the needs of our existing customers. Our
12 lead times have now stretched to two or three months
13 and we continue to operate at four shifts and simply
14 cannot increase our rod shipments.

15 I want to emphasize that this shortfall is
16 not just an Ivaco issue. This is an industry-wide
17 phenomenon. U.S. imports have declined by 50 percent
18 in 2007 compared to 2006 levels and they're expected
19 to continue to be limited in 2008. Because of the
20 substantial decline in imports and in spite of a
21 decline in overall demand, U.S. mills are struggling
22 to keep up with the demand. Prices are increasing
23 dramatically and often. Since the fourth quarter of
24 2007, there have been at least 25 price increase
25 announcements. In late 2007, mills increased prices

1 just to cover the increased cost of scrap. Today,
2 however, given the continued lack of imports in the
3 market and the supply shortfall, U.S. producers have
4 also increased base prices. Given that there's no end
5 in sight for the market tightness, prices are likely
6 to continue increasing for the foreseeable future.
7 Ivaco has led many of these price increases through
8 the operation of a scrap surcharge formula
9 supplemented by base price increases.

10 I would like to emphasize that if the order
11 were revoked, Ivaco still would be the upward price
12 leader, because unlike many of the U.S. mills, Ivaco
13 employs a formula-based surcharge mechanism, which is
14 calculated monthly. Ivaco does not need to have price
15 announcements for this. It's done automatically. In
16 addition to these monthly surcharge changes, Ivaco has
17 announced three base price increases in the last six
18 months. Ivaco's pricing practice of being at the
19 upper end of the pricing spectrum will not change if
20 the order were revoked.

21 And, finally, as shown in Ivaco's business
22 plan that it submitted to the Commission, Ivaco's
23 focus is on growing its business with its Canadian
24 affiliates. Ivaco has Canadian affiliates that
25 produce fasteners, wire, and wire products, and those

1 markets are growing for our affiliates. This will not
2 change if the order is revoked. Thank you.

3 MR. GOLDSMITH: My name is David Goldsmith.
4 I'm the former President and CEO of Ivaco and
5 currently consulting to their counsel for these
6 proceedings. I've been working in the wire rod
7 industry for 33 years and I've been a witness in the
8 Canadian rod cases before the Commission in 1992,
9 1997, and again in 2002.

10 About a year ago, while working on a report
11 for our board of directors, I noticed a problem in
12 certain published production data for Canada. I
13 followed up with the entity reporting that data and
14 Exhibit 10 of Ivaco's pre-hearing brief contains that
15 correspondence. The reporting entity clarifies that
16 the data do not include production to affiliated
17 downstream companies, a significant number for
18 Canadian producers. Correcting for this discrepancy
19 using questionnaire data validates the Canadian
20 industry's reported capacity utilization. And as
21 staff recognized in principle on page 2-6 of its pre-
22 hearing report, the high level of internal transfers
23 in Canada reduces the potential to divert significant
24 volumes of rod from Canada to the U.S. market.

25 Further, as we've explained in detail in our

1 brief in footnote 82 on page 34, our reported capacity
2 figures are both accurate and consistent with the
3 independent reporting service used by staff once you
4 correct for a clerical error between metric and short
5 tons in that service's report and once you add
6 together reported capacities for subject and non-
7 subject merchandise.

8 Ivaco does have substantial capacity to
9 produce non-subject merchandise. Ivaco's brief
10 describes markets that Ivaco developed and where Ivaco
11 remains the sole supplier. Because its sales in those
12 markets are more profitable than its sales in the
13 subject product, there is no way Ivaco would divert
14 those sales to subject product with or without an
15 order. More important, it would be commercial suicide
16 for Ivaco to create dependence by its customers on a
17 new product to the point where one customer actually
18 changed its investment plans and shut down a
19 production line to take advantage of the product and
20 then have Ivaco withdraw the product from the market.

21 On a second point while still on the topic
22 of capacity, the Petitioners seem to think that
23 there's another rod mill in Canada, Alta Steel, for
24 whom the Commission lacks data. This, too, is untrue.
25 Alsta Steel is a bar steel making straight product

1 only. It makes no coil products. Ivaco submitted
2 information during the initiation phase concerning
3 this company proving that it was a bar and not a rod
4 mill. The plant doesn't even have the facilities
5 needed to make subject product.

6 Finally, I want to address the issue of U.S.
7 mills stated capacities. Several U.S. mills continue
8 to operate on only three crews, as you've heard this
9 morning. That's operating five days a week, maybe
10 some overtime. This leaves up to 25 percent of the
11 hours in each week idle. I can't understand why
12 anyone in a capital intensive industry such as ours
13 would leave 25 percent of its capacity unutilized,
14 unless the capacity is constrained by something else.
15 For example, I would refer you to the information
16 included in Ivaco's questionnaire responses regarding
17 its behavior during and after the strike it weathered
18 in 2005 and 2006. For several reasons, Ivaco
19 restarted its operations in January of 2006 on only
20 three shifts. That's five days a week. But Ivaco
21 quickly pressed forward to go to a full four shift,
22 seven-day operation. As I stated a minute ago, this
23 was recognized as the only logical operating mode from
24 a business perspective. In May of 2006, some three-
25 and-a-half months later, we were again operating on

1 four shifts, seven days, and we filled our mill
2 rapidly, even while continuing to oversell U.S.
3 producers in a supposedly price-based market for
4 fungible product and while having no long-term
5 commitments from any of our customers and while the
6 order was in place. And I think, by the way, this
7 behavior, post-strike behavior explains part of
8 Chairman Pearson's question this morning regarding the
9 increase in imports from Canada in 2006 -- 2007,
10 pardon me. The issue was in 2005 and 2006 Canadian
11 imports into the U.S. were depressed because of the
12 Ivaco strike and 2007 was a return to normal levels.

13 I know of several major U.S. mills, and
14 you've heard it from them this morning, that has a
15 shortfall in steel billet availability preventing
16 rolling for the full week. But, if there is an
17 outside constraint, then this is not available
18 capacity and shouldn't be considered in calculating
19 utilization. The Commission, itself, determined in
20 the China case that 2004 effectively represented full
21 capacity for the U.S. industry. The reasoning behind
22 that decision needs to be carried forward to today's
23 situation of widespread allocations and delayed
24 deliveries.

25 MR. MALASHEVICH: Good afternoon. I'm Bruce

Heritage Reporting Corporation
(202) 628-4888

1 Malashevich, President of Economic Consulting
2 Services, LLC. It's now been well established that
3 the domestic wire rod industry does not have the
4 practical capacity to supply all U.S. demand for wire
5 rod, even under circumstances where aggregated U.S.
6 demand is in a cyclical decline and imports from all
7 sources, whether subject or non-subject, have been
8 falling dramatically. Some domestic producers have
9 asserted that the shortages in the market reported by
10 purchasers and the press are caused only by lack of
11 volume at low prices; that is, producers are unwilling
12 to supply customers at unprofitable prices. But when
13 purchasers are facing facility shutdowns for lack of
14 raw material, the issue is due to lack of volume
15 availability. This structural deficit is reality and
16 has been acknowledged by the Commission in previous
17 investigations. I call your attention to public
18 exhibit that you should have before you that measures
19 the result by two methodologies.

20 Also, if the U.S. producers have so much
21 idle capacity, why are they currently investing in
22 capacity expansions? They never answered that
23 question in the morning sessions, but I would suggest
24 you flip through the individual questionnaire
25 responses for the numbers.

1 Equally important is the fact that U.S.
2 producers lack the practical capacity supply all U.S.
3 demand for high-end products. The underlying data
4 used to measure this structural deficit are
5 confidential, but the details I provided at Exhibit 3
6 in Ivaco's pre-hearing brief, a courtesy copy should
7 be before you on pink paper. I urge you to look at
8 the bottom line number on apparent consumption.

9 Petitioners, also, didn't answer the
10 question about the significance of the high end. I
11 think we can all agree the number is significant of
12 apparent consumption. And I, also, want to emphasize
13 the data were available to do this calculation only
14 for CHQ. So, the consumption and deficit at the high
15 end would be greater, if we had the data to add in the
16 other specialty products.

17 The combination of these structural deficits
18 for all U.S. demand and for demand at the high end
19 compel the flow of imports. The need for imports from
20 Canada is particularly acute owing to the very large
21 share of such imports that meet the most demanding
22 high-end applications. After roughly two decades of
23 successive trade cases and multiple business cycles,
24 the domestic industry has simply failed to step up to
25 the plate and supply the quantities and qualities of

1 CHQ and other specialty rod products required by its
2 customers. You heard that efforts supposedly have
3 been made to move into these high-end products. Well,
4 I urge you to look at page iv-15 of the public pre-
5 hearing report and you will see that if you add
6 together the various subject products, they did not
7 increase their mix by one iota over a six-year period.
8 Nothing has changed.

9 For this reason, U.S. purchasers are
10 demonstrably willing to pay a price premium for the
11 Canadian product. In this respect, the Canadian-U.S.
12 rod industries are inseparable. How else could one
13 reconcile the fact of consistent steady presence of
14 imports from Canada but for the period of the strike
15 with the persistent overselling in 117 of 118
16 comparisons during the POI? I remind you that even in
17 the original investigation, the great majority of
18 instances in the case of Canadian price comparisons
19 vis-a-vis the domestic industry was overselling. So,
20 there's been no discipline or a change owing to the
21 order. They oversold then and they're overselling
22 now.

23 If wire rod really is a so-called fungible
24 product and if the U.S. industry can really make
25 everything the Canadians can and if competition truly

1 is price-based, then how in the world is Ivaco still
2 in the U.S. market by selling at a premium? If
3 Petitioners characterization of the market was true,
4 imports from Canada generally would long since have
5 been driven from the U.S. market due to their
6 uncompetitive prices. In this regard, I urge the
7 Commission to carefully consider the disconnect over
8 time between the very modest and steady participation
9 of imports from Canada over the POI and before versus
10 the great gyrations in the behavior of the domestic
11 industry's indicators, production, profitability,
12 whatever. Clearly, those gyrations are not being
13 caused by changes in behavior of imports from Canada
14 or for anywhere else for that matter, as the
15 Commission concluded in the 2005 case in its unanimous
16 negative preliminary determination.

17 U.S. customers must have ready access to
18 both Canadian and U.S. sources of supply, in order to
19 continue to manufacture in the United States. In
20 economist jargon, the U.S. and Canadian products are
21 more complements than they are competitive
22 substitutes.

23 My next point concerns the role of the
24 business cycle. In sum, the domestic industry
25 returned quite healthy operating income in 2006 and

1 2007, given where we stand in the business cycle and
2 the impact of certain accounting events that are APO.
3 And on the subject of using 2004 as a reference point,
4 of course, Petitioners witnesses this morning,
5 themselves, consider that year an aberration. In the
6 2005 case, Petitioners' economists characterized 2004
7 as 'the market of a decade for carbon steel products,
8 the high point of the business cycle,' conference
9 transcript at 50.

10 Finally, it's clear the U.S. industry is not
11 vulnerable to any likely growth in imports from non-
12 subject countries. A great deal has changed since the
13 original period of investigation. They tried that
14 case against China and other countries just a few
15 years ago and failed. The U.S. dollar has lost
16 significant purchasing power. Overseas demand is
17 outstripping available physical supply. Many
18 producers have undergone changes in ownership and
19 structure. So many things have changed that it's
20 unreasonable to say conditions would somehow snap back
21 to the behavior observed in the original
22 investigation. Increases in fuel and transport act
23 as, active tariff barriers to overseas producers, and
24 then, of course, China's trade policy affecting steel
25 are discouraging its exports even further. Thank you.

1 MR. NEELEY: I'm Jeffrey Neeley from the law
2 firm of Greenberg Traurig on behalf of DeAcero.
3 DeAcero is the largest producer of wire rod in Mexico.
4 However, DeAcero does not export wire rod to the
5 United States, nor does it export wire rod to any
6 other countries, nor does it intend to export wire rod
7 to any of these countries.

8 The model of DeAcero is fundamentally to
9 make value-added products, such as mesh products,
10 fencing, nails, et cetera, and sell those products
11 both in Mexico and abroad. We have filled out the
12 questionnaire for the Commission. We are here to
13 cooperate and to answer any questions. But, we are
14 here also to say that our business model is not going
15 to change regardless of what the Commission does on
16 the sunset review.

17 DeAcero makes rod and rebar in its mill in
18 Mexico. It is reported accurately. The capacity for
19 those products, there have been some statements we
20 note in the briefs of the Petitioners calling into
21 question that capacity. We'll be glad to answer the
22 staff's questions or Commissioners' questions on that.
23 But, we're here today because the owners of DeAcero,
24 and it's a family-held corporation, believes strongly
25 that the North American market should be free of

1 needless barriers to trade. We treat this all as one
2 market, much as the Canadians do, and we're here to
3 support the members of the Mexican industry in that
4 effort. Thank you.

5 MR.GUHL: Good afternoon. My name is Mike
6 Guhl and I am the Commercial Director of Ternium
7 International, USA. Our company handles the imports
8 and sales in the United States of the products
9 manufactured by Ternium subsidiaries, including Hylsa
10 and IMSA in Mexico, Siderar in Argentina, and Sidor in
11 Venezuela. We, also, handled purchases of U.S.-made
12 steel for export to Mexico and sales of Ternium's own
13 U.S.-made products.

14 Since Ternium acquired Hylsa in August of
15 2005, there has been a substantial overall reduction
16 in Hylsa's exports for all products, not only for the
17 steel wire rod that is the subject of today's hearing,
18 but also of pipe products like the light walled
19 rectangular you heard about last week and flat
20 products. We have also stopped importing steel
21 products from our Argentine and Venezuelan facilities.
22 Today, the primary focus of Ternium, USA is on sales
23 from our U.S. manufacturing facility in Shreveport,
24 Louisiana, where we product coated steel products
25 using cold-rolled coils purchased from U.S.

1 manufacturers.

2 Ternium's philosophy is to invest in our
3 mills to improve efficiency and quality, in order to
4 serve value-added applications in our local markets.
5 There has been tremendous growth in demand throughout
6 the Latin American markets we serve and we expect that
7 demand to continue to grow. We are investing to meet
8 that demand. Increased exports to the U.S. are not
9 part of our vision.

10 In Mexico, we product steel wire rod at a
11 plant located in Puebla, which is about 125 kilometers
12 southeast of Mexico City. Even before we acquired it,
13 Hylsa had made significant investments to allow it to
14 produce high-quality steel with excellent surface
15 characteristics. We have continued to make
16 investments to accelerate that process. As a result,
17 today, we believe we are the only Mexican producer
18 capable of meeting customer requirements for what I
19 would call value-added steel rod.

20 The location of our plant makes the Mexico
21 City area the natural market for our product. Given
22 the distances involved, it has never made sense for us
23 to export large quantities of commodity wire rod
24 products to the United States, even before the rising
25 freight costs of recent years. As a result, Hylsa's

1 exports to the U.S. have historically consisted of
2 relatively small quantities of value-added rod
3 products. That has been the case since long before we
4 acquired the company and for that matter since long
5 before the original antidumping investigation in this
6 case.

7 Currently, we are not exporting any steel
8 wire rod to the U.S. We are not exporting subject
9 sizes, those under 19 millimeters, and we're also not
10 exporting the non-subject sizes that we make or the
11 other excluded products, such as wire rod for tire
12 bead, even though we can make them, as well.

13 With booming demand in Mexico, we are
14 completely sold out and it does not make sense for us
15 to export. I understand that the basic story for all
16 the Mexican producers is the same, we're all focused
17 on meeting demand in Mexico, not exports. You have
18 already heard from DeAcero. I understand the story is
19 more or less the same for the smaller Mexican
20 producers. Talleres y Aceros has a small mill, which
21 supplies rod primarily for its own wire mesh
22 manufacturing facilities. Aceros DM, which is
23 sometimes referred to as Aceros San Luis, also,
24 consumes a big chunk of the rod they product in their
25 own wire and wire mesh production. Incidentally,

1 Assarisos DM is owned by the same group that also owns
2 Republic in the United States.

3 The only other Mexican steel wire rod
4 producer is SICARTSA, which is now owned by
5 ArcelorMittal. If you look at the statistics, you can
6 see that SICARTSA was able to continue to export in
7 volumes similar to their pre-order levels even after
8 the antidumping order took force. But, SICARTSA
9 exports have fallen substantially in the last few
10 years. This trend, by the way, predates
11 ArcelorMittal's acquisition of SICARTSA in 2007 and it
12 has continued after the acquisition, as well. I can
13 only assume that this is driven by fundamental
14 economics. We do know that SICARTSA is facing
15 production constraints and like the other Mexican
16 producers, SICARTSA has been using the capacity it
17 does have to meet surging demand in Mexico.

18 Our projections for future demand in Mexico
19 are optimistic. The Mexican economy is projected to
20 continue to grow despite the worries about the sub-
21 prime crisis in the United States. Furthermore, I
22 have heard that a number of steel consumers that have
23 relocated their facilities to China five or six years
24 ago are now considering moving their plants to Mexico,
25 as a result of cost increases in China, the rising

1 value of the Yuan, and substantial increases in
2 freight costs. This should be excellent news for us.
3 In short, imports from Mexico will not have a
4 discernible adverse impact on the United States steel
5 industry if the order is revoked. Thank you.

6 MS. KORBEL: That concludes our affirmative
7 presentation. We would be pleased to answer your
8 questions.

9 CHAIRMAN PEARSON: Thank you, very much. I
10 appreciate the effort that you've taken to be with us
11 and the very interesting presentations that you've
12 made. We will begin the questioning this afternoon
13 with Commissioner Pinkert.

14 COMMISSIONER PINKERT: Thank you, Mr.
15 Chairman. I only have one round of questions today,
16 because I have a prior commitment that I have to
17 attend to. But, my aide will be here for the
18 remainder of the question and answer session and I
19 will review all the questions and answers in the
20 transcript.

21 I want to begin with Mr. Deshane and I
22 believe I heard you say during your testimony that the
23 orders are undermining U.S. jobs. Could you just
24 expand on that a little bit? In what way are they
25 undermining U.S. jobs?

1 MR. DESHANE: Well, we're always very
2 concerned in not being able to get high quality wire
3 rod. Our company sells our products based upon
4 quality. That's what our customers demand. We make
5 the highest quality products in our U.S. operations.
6 That's the corporate headquarters, the technology hub
7 for our business. So, we prefer to manufacture high
8 quality products there. Our concern is that if we are
9 ever disadvantaged from a raw material standpoint,
10 that will have a significant impact on our business.
11 And in these times, it's become extremely difficult
12 for us to get all of the specifications we need from
13 the portfolio suppliers that are available to us.

14 COMMISSIONER PINKERT: So, are you saying
15 that the orders are hurting U.S. jobs now or are you
16 saying that you think that it's a possibility in the
17 future?

18 MR. DESHANE: Well, keep in mind that we
19 have a lot of factories all over the world and it's a
20 very unpopular choice for us to consider moving any of
21 our manufacturing to any other location and we haven't
22 done that. But, it is an option that's always
23 available to us. And from our perspective, because we
24 have factories both in Canada and Mexico, for example,
25 the quality of the wire rod there is very good, much

1 better than the U.S. And so, when we are faced with
2 that particular situation, it poses some concerning
3 situations.

4 COMMISSIONER PINKERT: Thank you. I'd like
5 to turn to Mr. Malashevich for a second. And, again,
6 referring to the testimony that we just heard, we
7 heard that exchange rates have a lot to do with the
8 relative attractiveness of the U.S. market and that
9 this won't change in the reasonably foreseeable
10 future. I'm wondering how one grapples with that set
11 of claims from an economic point of view; that is, how
12 do we get our minds around whether or not those
13 exchange relationships are likely to persist for the
14 period in question?

15 MR. MALASHEVICH: I'll be happy to answer
16 that to the best of my ability. First of all, let's
17 look at what already has happened. During the course
18 of 2007, imports from the entire world declined by 50
19 percent without discriminating as between subject and
20 non-subject, in that regard and that's when the
21 decline in the dollar's value accelerated. So there
22 already is a linkage. Looking forward, the United
23 States has been carrying an extreme large current
24 account deficit in its balance of payments.
25 Historically, that deficit is satisfied by capital

1 inflows, people buying U.S. stocks, bonds, real
2 estate, companies, et cetera. But with the economic
3 slowing down and many people think now heading in a
4 negative direction, that certainly discourages those
5 types of inflows. The decline in the stock market
6 discourages the attraction of U.S. securities. The
7 decline in real estate values generally discourage
8 those capital inflows. So, I just don't see anything
9 on the horizon that would rescue, so to speak, the
10 dollar's decline in -- I can't imagine that our being
11 materially changed over at least the next year or so,
12 and I know of no study that suggests otherwise. If
13 there is such a study, I'm prepared to look at it and
14 offer my opinion. But, it's just not out there.

15 COMMISSIONER PINKERT: In the post-hearing,
16 if you do have a study that you wish to submit, I
17 think would be helpful for us to get an understanding
18 of what the anticipated relationships between the
19 currencies are likely to be.

20 MR. MALASHEVICH: I will try to do that to
21 the best of my ability.

22 COMMISSIONER PINKERT: Thank you. Now,
23 turning to the Mexican producers, I'm sure you noted
24 that Nucor has said that DeAcero and SICARTSA are
25 planning production capacity expansions in Mexico.

1 Can you respond to that and can you tell me
2 specifically, either here or in the post-hearing, when
3 any production from any increased capacity is expected
4 to come on line?

5 MR.GUHL: The DeAcero expansion that Nucor
6 referred to this morning has already happened. In
7 fact, that plant has been operating, started operating
8 last year, and I believe that is one of the reasons
9 our balance of imports have changed in Mexico. Mexico
10 is today a net importer of wire rod. It is not a net
11 exporter. In 2006, the number was significantly
12 larger than it was in 2007, which, I think, goes to
13 the fact that the Mexican market has absorbed
14 DeAcero's capacity.

15 As for ArcelorMittal's plans, I really would
16 not be able to enlighten you a whole lot on that.
17 That plant of theirs in Mexico, in the west coast of
18 Mexico is a slab and long products plant and I
19 wouldn't be able to tell you if that is -- if any
20 investment that may have been announced for that plant
21 is going particularly towards slabs or towards wire
22 rod or rebars.

23 MR. NEELY: And on behalf of DeAcero, I
24 might just add that what you see in our data very
25 clearly that in almost every year, we have increased

1 capacity. What you also see is that after we've
2 increased the capacity, our capacity utilization
3 returns to more or less the same levels. So, it has
4 been consistently a company that while it does
5 increase capacity, has always used up that capacity
6 for products within Mexico, the further processed
7 products. And at the moment, as far as I know, I
8 don't see any major increase in capacity.

9 COMMISSIONER PINKERT: Thank you. Now,
10 turning to Ivaco, could you discuss whether producers
11 in Canada would export more product to the U.S.
12 market, if the order were lifted, given that they
13 remained in the U.S. market during the period of the
14 order?

15 MR. GOLDSMITH: David Goldsmith. No, we
16 would not. As we've explained in various responses,
17 we're operating effectively at full capacity now. We
18 have a significant amount of our capacity dedicated to
19 our Canadian affiliates. We have a business plan,
20 which we've given to the Commission, which shows that
21 our strategy going forward is to increase
22 participation with our Canadian affiliates to grow,
23 because they are in markets which they are
24 successfully growing. And so we're going to have less
25 and less material available for export to the U.S.

1 going forward.

2 COMMISSIONER PINKERT: Again, with reference
3 to Canada, can you discuss any differences in the
4 product mix by subject producers in Canada versus the
5 domestic industry and how that might have changed
6 since the original investigation?

7 MR. GOLDSMITH: There is a range of products
8 obviously, as you've heard today, available in the
9 market. The Canadian production, in general, not just
10 Ivaco, but the ArcelorMittal plant in Canada, tend to
11 be focused on the higher end of the market, I think
12 largely because of the steel supply. A good portion
13 of rod quality results from the steel, to start with,
14 the billets. And both Ivaco and ArcelorMittal Canada
15 have access to very high quality billets, not entirely
16 scrap-based billets, which is what most of the U.S.
17 industry uses -- not 100 percent, but most of it.
18 There are U.S. producers, who successfully product at
19 the high end of the market and I think you should hear
20 perhaps from some of the purchasers what their opinion
21 of the relative qualities is between U.S. producers
22 and Canadian ones. But, if you look at the producers
23 as a group, as opposed to any particular individual,
24 the majority of the producers do not and do not have
25 the equipment to allow them to produce at the very

1 high end of the market that we do produce in.

2 We, also -- having to change over since the
3 original investigation?

4 COMMISSIONER PINKERT: Correct, if you could
5 give me a comparison. In other words, there are some
6 differences in product mix between the Canadian
7 industry and the U.S. industry. Has that been a
8 constant since 2002, for example, or has there been a
9 shift?

10 MR. GOLDSMITH: Well, as one of the
11 witnesses pointed out from the -- and I believe it was
12 Mr. Malashevich pointed out from the staff report, the
13 mix from the U.S. side hasn't changed. I can tell you
14 that what has happened in our case is that we
15 underwent -- we invested in modernizing our mill to
16 help us move to the high end of the product range and
17 that took us about four years, from 1996 through 2000.
18 We started up the last of that new equipment in
19 January of 2000 and spent most of the year 2000
20 learning how to use it. So, some of the higher end
21 products that we make today, we only learned it -- we
22 only gained the capability to make and learned how to
23 make starting at around 2001. So, you will see a
24 growth in the capabilities from our mill starting
25 around 2001 and growing from there.

1 COMMISSIONER PINKERT: Thank you. And I was
2 remiss in not thanking this entire panel for being
3 here today. And, again, I regret that I won't be able
4 to sit through the remainder of the questions and
5 answers, but I will review them very carefully. Thank
6 you. Thank you, Mr. Chairman.

7 CHAIRMAN PEARSON: Commissioner Pinkert, if
8 you have additional time for questions now, I would
9 happily yield you as much of my time as you would
10 require.

11 COMMISSIONER PINKERT: If it weren't for my
12 commitment, I would take you up on that. But, I do
13 have to proceed. Thank you.

14 CHAIRMAN PEARSON: Thank you. Well, the
15 marketplace for commissioners continues to tighten.

16 (Laughter.)

17 CHAIRMAN PEARSON: I think that the rest of
18 us are able to hang in here with you. I will be here
19 until the end. This morning, I raised a question
20 about why we see the demand in the United States for
21 steel wire rod bouncing around so much. Our figures
22 for apparent consumption, which are part of the public
23 report, show that between 2002 and 2003, we had a drop
24 in consumption of, I don't know, 1.2 million tons,
25 something like that. Then, in 2004, it bounced back,

1 rising about 1.6 million. In 2005, it comes down
2 again by 1.6, 1.7 and then it turns around and comes
3 up again in 2006 by 600,000 and down again in 2007.
4 Now, the 2007 decline I think I can understand,
5 because of the turndown in housing. But, what's been
6 going on earlier in this period? This is a pattern
7 unlike what I'm accustomed to seeing in other steel
8 cases. So, I still don't understand what's been
9 happening in the marketplace.

10 MR. WOLTZ: I'm H. Woltz from Insteel
11 Industries. I think if you go back to the early
12 2000s, you would see that we're coming out of really a
13 severe downturn in the economy that accounts, in my
14 view, for the lower consumption. No sooner than had
15 things begun to improve some in late 2003, 2004 came
16 along and we had a huge supply crunch. By March or
17 April of 2004, my company, and I suspect others, as
18 well, were buying anything that they could anywhere at
19 any price. And later in 2004, all those chickens came
20 home to roost, if you will, and by the end of 2004 and
21 beginning in 2005, inventories were tremendous, not
22 only our inventories of wire rod, but our customers
23 inventories of our products on their yards. And we
24 saw a significant contraction in business activity and
25 production and consumption of wire rod in 2005, as

1 those inventories adjusted. Two-thousand-six, on the
2 other hand, was a year of robust demand on one hand
3 and the beneficiary of an inventory situation that had
4 largely been corrected. So, in my view, you would
5 have seen the shipments and production of wire rod
6 more accurately reflect the underlying level of
7 demand, because of the lack of inventory distortions.

8 CHAIRMAN PEARSON: Mr. Robertson?

9 MR. ROBERTSON: Clearly, it's restocking and
10 destocking, a phenomena that we've seen historically
11 in the steel business and other industries. The best
12 example that I can give you, in 2003, we were running
13 along at a fairly mediocre pace in our industry and
14 later in that year, world demand picked up not unlike
15 the current period. Commodities became tight around
16 the world, certainly driven by the Chinese and India
17 phenomena. And in addition to the wire rod that we're
18 all so focused on, the shipments, the shipments
19 between 2003 and 2004, the shipments of wire, wire
20 products, and fasteners, year over year, increased
21 850,000 tons. Our downstream customers found when the
22 market was all about availability in 2004, our
23 downstream customers found a way to purchase wire and
24 wire products to supplement their needs and bought an
25 additional 850,000 tons. By the end of 2004, much to

1 the surprise of many of us, the market was saturated
2 with inventory, again, not just the wire rod pipeline
3 that we've all discussed and we've known that imports
4 of wire rod surged, but downstream from us, we had
5 that same phenomena. The combination of both of these
6 created that destocking in 2005, restock in -- it's a
7 cycle that we had gotten into and it really is driving
8 some of the distortions you see.

9 CHAIRMAN PEARSON: Okay. Well, that's
10 helpful. And we're now at a time when inventories are
11 relatively low. Is that what you see in the
12 marketplace?

13 MR. ROBERTSON: Yes.

14 CHAIRMAN PEARSON: Okay.

15 MR. ROBERTSON: And I would add, you know,
16 we're always -- all of us, whether you're a rod
17 producer or a wire products producer, you are very
18 concerned about what's the status of inventory. We've
19 all seen the same phenomena that you point out. And
20 the fact is when we look at our customers and we see a
21 200 -- we're raising the price of coat head and wire -
22 - we're a major coat head and wire producer for the
23 fastener industry, we're seeing an unprecedented price
24 increase May 1st. My fear was that we would begin to
25 see our order rate deteriorate and it just isn't

1 happening. We're booking May just as robustly in our
2 coat and wire business, as we had been January,
3 February, March, and April. So, even in the face of
4 significant cost increases, our customers are buying
5 products. It tells me they've got to be using their
6 product to make something that they're going to sell
7 and not build inventory. No one, I believe, would
8 choose to build inventory confronted with those kind
9 of cost increases.

10 CHAIRMAN PEARSON: Okay. Well, given the
11 tendency for this industry to build inventory and then
12 destock, how do you respond to the point that I think
13 the domestic industry was making this morning, that if
14 we lift the orders, that the likely effect will be
15 that there will be a rebuilding surge in inventory and
16 then that will have to go to -- the market will then
17 over supply and then we'll get into a destocking phase
18 and things will not be good perhaps in 2009, which
19 arguably is well within the reasonably foreseeable
20 period that we have to look at? In other words, if we
21 lift the orders, are we just setting ourselves up for
22 another one of these inventory gyrations?

23 MR. ROBERTSON: If you saw the inventory
24 data that the -- within AWP, many of our members
25 report their end month inventory data and if you --

1 which we're happy to share with you, but if you look
2 at that data and you see what's happened since January
3 of 2007, really this year, and you listen to what Bob
4 said, people that have insights into what is happening
5 around the world, the likelihood of that happening
6 appears very remote. Everyone that you're looking at
7 here, we're all concerned about having enough wire rod
8 to literally run our plants, as we get into the late
9 spring and summer months.

10 CHAIRMAN PEARSON: And looking around the
11 world, it is hard to find the country that can put on
12 --

13 MR. ROBERTSON: You know, we -- my company
14 has been able to purchase rods from Japan and South
15 Korea, some premium product, not a lot of tonnage,
16 over the years. But, it's very meaningful for us, the
17 quality levels are quite high. In fact, in Japan,
18 they just raised the price of steel \$250 a ton April
19 1st. They're trying to negotiate those prices with
20 their domestic customers and they have no interest in
21 quoting any exports. So, things that -- again, just
22 add to the list of things that are of great concern,
23 as we try to understand how we're going to run our
24 businesses successfully, have enough product to do
25 that.

1 CHAIRMAN PEARSON: Okay. Well, let me take
2 you up on your offer to provide the inventory data,
3 the AWWPA data, and preferably through the period of
4 review. It will give us another window into this
5 question.

6 Some of you have mentioned the question of -
7 - the degree of integration of the North American
8 market and how producers and consumers might view the
9 production of Canada and Mexico. To what extent is it
10 fair to see that market as totally integrated? And
11 part of the reason that I ask that is that I see a
12 different pattern going on in trade between Canada and
13 the United States than I do between Canada and Mexico.

14 MR. ROBERTSON: Mr. Pearson, I was the first
15 U.S. sales manager for Ivaco in 1983. I ran the
16 office in Baltimore, Maryland and I know today, we
17 regard the Canadian mills as just typical domestic
18 suppliers. And I can assure you that the business
19 that I ran back then, and I've had experience with
20 other rod mills, as well, is identical, identical to
21 running any domestic rod sales or rod business.
22 They're just -- I mean, we regard them as a domestic
23 supplier.

24 CHAIRMAN PEARSON: Okay. And my light is
25 changing, but let me just follow-up. Why aren't we

1 seeing more imports from Mexico? Is Mexico equally
2 integrated with the U.S. market as is Canada?

3 MR.GUHL: I think geography plays an
4 important part, particularly the geography of the
5 industrial base of the United States. Canada, I
6 think, is a lot more relevant to most of the gentlemen
7 that are here right now. Their plants are located
8 primarily up north. I think across some product
9 lines, customers in the southwestern United States may
10 see more integration with Mexico. But, in this
11 particular case, I think when you look at where the
12 mills in Mexico are located, the U.S. doesn't make a
13 lot of sense, as far as these huge increases in
14 freight is concerned.

15 CHAIRMAN PEARSON: Okay. Just for
16 clarification, you had indicated earlier that your
17 company's mill is located near Mexico City.

18 MR.GUHL: Right.

19 CHAIRMAN PEARSON: Are there any mills near
20 Monterey or closer to the U.S. border?

21 MR.GUHL: Yes. DeAcero has a plant in
22 Saltillo, Mexico, which is fairly close to Monterey.
23 The other plant is in central Mexico.

24 MR. NEELY: That's right. But, of course,
25 that plant is really dedicated to producing the

1 further manufactured products in Mexico. So while
2 it's in the north, it doesn't really do anything as
3 far as supplying the U.S. market.

4 CHAIRMAN PEARSON: Okay. I've abused the
5 red light privilege too much. Let me turn now to
6 Commissioner Lane. You, too, may abuse the red light
7 privilege, given that I've done it.

8 COMMISSIONER LANE: I was going to make the
9 observation that obviously, we don't have a life and
10 our other three Commissioners do and we're sitting
11 here talking about the steel wire rod and they're
12 probably off having fun or something.

13 (Laughter.)

14 COMMISSIONER LANE: Okay. I'm a little
15 confused at this point. We've been hearing that, I
16 will use the word 'a slowdown' in the economy, rather
17 than the 'R' word. But, at the same time, I keep
18 hearing you all talking about the demand is so great
19 that you can't get enough of the product. So, what is
20 driving the demand for this product? Mr. Robertson,
21 let's start with you.

22 MR. ROBERTSON: I think it has a lot to do
23 with the market sectors. Clearly, anything related to
24 construction, it's cyclical certainly and I would
25 guess you would be very fortunate to have -- to be

1 able to make a statement that your business would be
2 anywhere near normal if that were the case. But, you
3 could say that about automotive. I mean, we all read
4 the paper, we all hear the news about what's happening
5 with the big three. Automotive sales will probably be
6 around 14.5 million units this year. But, as I said
7 in my statement, it is my belief, because my customers
8 tell me, that the percentage of domestic demand that
9 the U.S. producers are enjoying is considerably higher
10 than three to five years ago and it's all about
11 exchange rates. The fact is that many of our fastener
12 producing customers have been bringing in fasteners,
13 finished fasteners to supplement their sales in the
14 U.S. from Taiwan, let's say. And today, that's just
15 not happening or it's not happening to the degree that
16 it was.

17 The exchange rate, the weak dollar has had a
18 major impact on the behavior and the decisions that
19 many of our customers are making. And that's just --
20 that's just that one example of the fastener. If you
21 look at the Industrial Fastener Institute and the
22 information that they would send to their members,
23 that's exactly what they're telling everyone, that
24 basically many of their members are buying a
25 significantly higher percentage of their fasteners.

1 They're making them in the states, even though
2 probably demand is down, the world demand is down, the
3 percentage of what they're making in the states is
4 much higher. So, those kinds of things I believe are
5 happening and it's driven by the things I've talked
6 about, by the weak dollar, by overseas transportation
7 costs, by the behavior of the Chinese government.
8 Although one doesn't necessarily have to be satisfied
9 with the way that the Chinese government is playing
10 with their subsidies and some of the export taxes, the
11 fact is they've reduced their subsidies on finished
12 goods downstream products from 15 to five percent.
13 It's having an impact on people's decisions, people's
14 behavior, as far as where they're actually making
15 product.

16 MR. DESHANE: This is Michael Deshane of
17 Lincoln Electric. I just wanted to add an additional
18 point. Our markets have actually been very strong.
19 Our company continues to grow, that's both sales here
20 with the United States, as well as export sales. The
21 strongest part of our markets is the energy market.
22 It's been very strong for us. And I would also add
23 that our sales in the welding business, and if you
24 keep in mind welding is putting pieces to metal
25 together or putting steel together, our business

1 parallels the steel industry very well and we do have
2 an optimistic outlook.

3 COMMISSIONER LANE: Okay. Would you educate
4 me a little bit then? What do you sell to the energy
5 market?

6 MR. DESHANE: You can imagine all pipelines
7 for different types of fuels and energy components.
8 The pipe must be welded. That's a significant part of
9 our business. Power plants for electrical power
10 generation have a lot of metal and a lot of welding
11 involved in that, as well.

12 COMMISSIONER LANE: Okay. Mr. Moffitt?

13 MR. MOFFITT: Okay. I'll jump in. As I
14 said earlier, we have five to seven reasons. Each of
15 them addresses a slightly different market.

16 Our Los Angeles facility, for example,
17 provides a great deal of their business to the
18 residential construction market; and that business, as
19 you well know, is very far off.

20 The mills that we do deal with, the domestic
21 mills, Cascade, as I've said, have been very
22 supportive and continue to supply us for the needs
23 that we have in our Seattle, Washington facility. I
24 would say the same is true also in Pueblo, Colorado
25 with support from Rocky Mountain Steel Mills.

1 But we also do sell into some of the energy
2 markets. We supply a structural component that goes
3 into the high lines. We expect that business to be
4 very good. But the problem we do face, though, is
5 that while our business may well be off, for example,
6 in many of our facilities, it's the shortage of
7 imported rod that's putting us in a bind right now,
8 where we are having, on occasion, difficulties in
9 meeting our smaller demand.

10 COMMISSIONER LANE: Okay, thank you.

11 What actions are any of you taking to
12 encourage the U. S. mills to make the required
13 investments in their staffing and in their facilities
14 to expand production?

15 MR. DeSHANE: I'll take the lead on that, if
16 I may. Michael Deshane from Lincoln Electric.

17 We have a gentleman that has over thirty
18 years experience in welding quality wire rod; and we
19 facilitate and cooperate with the domestic producers
20 to try to improve their quality so that they can meet
21 our specifications.

22 In many cases that includes our
23 recommendations of better processes, or better ways to
24 make the steel. Certainly, I'll say, we're
25 disappointed that we haven't seen the capital

1 investments required to make big strides forward.

2 We certainly make those recommendations
3 where we see that as a benefit, and that's often based
4 upon our experience in other high-quality producing
5 steel mills.

6 But I would say that we've spent a lot of
7 time and a lot of effort to do everything we can to
8 improve their quality, so then they can supply more
9 steel to us. I will say that the cooperation has been
10 good and we've made strides forward. But we are still
11 significantly short in meeting the quality standards
12 that we have, in having enough tons available to meet
13 all of our requirements.

14 MR. MOFFITT: Bob Moffitt again, at Heico
15 Wire Group again.

16 In our case, we are having discussions with
17 one of the Petitioners, in particular about taking on
18 a new shift. We've been discussing this with them for
19 some time. Hopefully, it will bring some fruition
20 here, perhaps as early as next week.

21 COMMISSIONER LANE: Okay, thank you.

22 MR. LYNCH: Madame Commissioner, Mike Lynch
23 of Illinois Tool Works.

24 In 2007, our global steel buy was a million
25 tons. So many of the parent companies of the

1 Petitioners, as well as other mills around the globe,
2 are reaching to us to attempt to get some, or some
3 portion of our business.

4 As they do that, we operate very
5 decentralized businesses where the purchasing managers
6 of these different business units are themselves
7 challenging the industry in order to ensure that they
8 have options available to them.

9 And we have very strict, as Mr. DeShane
10 said, in welding wire. We also are a large producer
11 of welding materials, both components and consumables,
12 fasteners and a variety of other products as well as
13 flat goods.

14 We lay out for them: the quality and the
15 tolerances. And we challenge them to meet those in
16 part because it's what our customers require it of us.
17 For example, in the auto industry there is this
18 concept in the quality-control system called: PEEPAP.

19 It's where everything you do for a part,
20 even if you've invented the part, has to go through a
21 process within the now Detroit 3. And you can't just
22 substitute materials, because they actually have to
23 approve the mills that you're going to buy product
24 from in order to produce the components.

25 So it's at least three months of trialing

1 material in order to convince our customers that
2 having this option available to us is going to meet
3 their requirements as well. So every day, every year,
4 we're challenging the industry around the globe to
5 meet our needs because we continue to grow.

6 COMMISSIONER LANE: Okay, thank you.

7 Thank you, Mr. Chairman.

8 CHAIRMAN PEARSON: Commissioner Williamson?

9 COMMISSIONER WILLIAMSON: Thank you, Mr.
10 Chairman. I, too, want to express my appreciation for
11 the testimony that the witnesses provided this
12 afternoon, and for taking the time to come here to do
13 it.

14 Unlike Commissioner Lane, I think I want to
15 use the recession word. I want to find out: Are we
16 talking about almost like different industries here?

17 My original question was going to be: At
18 what point in the business cycle do you see the U. S.
19 market now? But it seems like you're saying that some
20 businesses may be in recession, and some are booming.

21 I want to find out: Is that true for say
22 certain types of steel wire rod -- certain industries
23 it's being used in and in others, it's not.

24 CHAIRMAN PEARSON: Commissioner Williamson?

25 MR. WOLTZ: I think Walt alluded to it

1 earlier: that it does depend on your end markets. The
2 Petitioners, this morning, we're kind enough to point
3 out that my company is a public company.

4 We made a normal quarterly report this week
5 where we stated that overall demand for our products,
6 which are purely construction related, we produce
7 reinforcing products for concrete construction.

8 Overall, our shipments compared to last year
9 we're down 6.5 percent. Those markets that we
10 identify primarily as residential oriented we're down
11 21 percent; and those markets that we identify as non-
12 res and infrastructure, shipments were actually up 15
13 percent, but our total shipments were down 6.5
14 percent.

15 I would say that in certain segments of the
16 construction market conditions are as recessionary as
17 I've ever seen in terms of the volume that we're
18 shipping into those end uses.

19 COMMISSIONER WILLIAMSON: Someone else?

20 MR. ROBERTSON: Your fundamental demand is
21 down. If we're not in a recession, it certainly feels
22 like one. Again, you don't have to do a lot of
23 research to see what's happening in most forms of
24 construction.

25 Certainly, the automotive sector, even the

1 transplant sales, are down considerably. But, again,
2 there are some things happening within that framework
3 that are allowing some levels of business to be quite
4 good.

5 Again, I believe it's exactly related to the
6 weak dollar. And it's my belief that it's time that
7 we ought to all be focused on trying to get back some
8 of this lost demand that we've lost to imports in one
9 form or another.

10 When you look at our wire rod friends or
11 vendors, they've lost that first ton if they lose to
12 an import of wire rod, but they've also lost
13 potentially a ton of rod to an imported wire product.
14 It's a combination of those that really has dragged
15 the industry down over time.

16 It's my belief that, even in the midst of
17 what is certainly a very difficult macro-economic
18 situation, we have some opportunities to do something
19 about that. We are competitive today probably to the
20 degree we haven't been for many, many years as far as
21 our ability to compete in our market and be more of an
22 exporter.

23 In my relatively small company, I was
24 entertaining some guys from Switzerland that make
25 chain saws on Tuesday morning, and we picked up a 50-

1 truck order to send wire to Switzerland to help make
2 chain saws. These are the things that are kind of
3 happening that would help, in a way, to characterize
4 the opportunity.

5 COMMISSIONER WILLIAMSON: But are we talking
6 about a situation where say the product lines are
7 really where you have the largest volume are in
8 trouble. But if you're making the high-tech, or the
9 higher-end quality products, you're doing well?

10 There was one article in the Times the other
11 day about the rich still buying a lot of the high-
12 quality products, that they're selling well, is that
13 what you're saying?

14 MR. ROBERTSON: No, I wouldn't characterize
15 it that way. I think there's opportunities throughout
16 the marketplace. Again, I think they're in the midst
17 of certainly a general trend down in demand.

18 That's a fact. There is no question about
19 it. Within all this, there are opportunities.

20 We have a couple of very good customers that
21 are in the electrical power business. They are doing
22 very well. We know what's happening in a variety of
23 fronts there.

24 The products that we sell are very
25 unsophisticated products. They're making something

1 interesting out of it that is going to be sold either
2 in the growth of the electrical power grid in the
3 United States, where if there's any kinds of
4 hurricanes or storms, they've got to replace things.
5 I don't consider those very sophisticated products.
6 But it's part of the good side of the demand story.

7 COMMISSIONER WILLIAMSON: Okay, thank you.
8 David Goldsmith?

9 MR. GOLDSMITH: Commissioner, I was just
10 going to say that I think the answer to your question
11 is: Overall demand is down. That's clear from the
12 apparent consumption figures.

13 There are opportunities, as Mr. Robertson
14 has said, and there are individual companies who are
15 perhaps maximizing their opportunities, but the demand
16 is down.

17 Even given that, the domestic industry
18 hasn't been able to supply all of that demand; and
19 because there is a lack of imports, the domestic
20 purchasers are left with a short-fall in supply.

21 COMMISSIONER WILLIAMSON: Okay, thank you
22 for those answers.

23 Several of you have talked about how you've
24 never seen it like this before. It's totally
25 unprecedented with I guess the price rises. I was

1 wondering whether the cost increases developed for
2 this product and other products which you may be
3 consuming, are they in a rather unprecedented
4 situation too?

5 Then, I guess the question is: How long do
6 you think that's going to last? You've talked about
7 the stocking and the re-stocking. It seems like
8 that's rather been able to correct itself within a
9 year, a half-year period. Are we seeing that possibly
10 here?

11 MR. MOFFITT: Well, I think from our case,
12 for example, you know we're under pressure from our
13 owners because of the market to get our inventories
14 down, which unfortunately we're doing very well in
15 doing that, not by design.

16 But we look at certain opportunities that
17 have come along. For example, there's talk that this
18 big fence is going to go across the southern border
19 here to control immigration, or something like that,
20 and perhaps that's an opportunity.

21 But the pricing certainly has impacted us.
22 Oftentimes while we are certainly trying to get our
23 prices up, and have had a great deal of success in
24 doing that, if you get an announcement on the 3rd of
25 April that the prices are going up \$178 a ton on the

1 4th of April, it's often difficult to get our prices
2 up quite that quickly.

3 We are working at it. We do understand why
4 the domestics are having to raise their prices, we see
5 that all the time. But I think, as you move down the
6 food chain, you're getting a little bit closer to the
7 end user, and it's often much more difficult for us to
8 pass on increases to say farmers or someone who may or
9 may not decide to put a fence up in the spring. The
10 automotive industry where people aren't really willing
11 to pay more for a car, so I think we are more impacted
12 by it than perhaps the mill is.

13 Although we do understand that their
14 increases are being impacted as well.

15 MR. ROBERTSON: There are I think a couple
16 of sides to this. clearly, the fellahs who run these
17 steel mills, all of us are. These increases are
18 unprecedented, let's put it that way.

19 Clearly, there's the risk that whatever
20 we're producing from that more costly material,
21 someone down that value chain is going to vote: No, we
22 just can't afford it, so there is certainly that risk.

23 But the other side of this, and again this
24 is the point that I've continued to make: It's all
25 about being competitive. Around the world, when iron

1 ore and coke have gone up dramatically and much of the
2 steel produced around the world to make wire rods is
3 integrated, and these guys are raising prices \$200,
4 \$250 bucks a ton April 1st. Some of the customers
5 we've raised prices to, have said to us: I'll get back
6 to you tomorrow.

7 Well, in that interim period, they went and
8 found out if what we're doing passes mustard. Can
9 they buy that product cheaper from somebody else? And
10 the next day, they call and place the order. So my
11 sense, again, is that, even with these unprecedented
12 increases here in the states, we remain competitive as
13 far as being world-wide competitive.

14 MR. LYNCH: Mr. Williamson, Mike Lynch with
15 ITW. Being out of pocket, I'm dependent upon my PDA
16 for information about my own company.

17 Yesterday, I opened up an e-mail from Crane
18 Chicago Business where ITW released its earnings
19 report for the first quarter, and our profits are down
20 25 percent over last year, globally. This morning
21 when I opened up my e-mails, I saw one from our CEO to
22 senior management announcing that we're now on Plan B
23 Budgets.

24 In terms of describing the reasons for this
25 necessary move, he cited raw material costs, globally,

1 that we simply can't get the increases back from our
2 customers when we try to pass them along. As a
3 result, we're losing competitive opportunities out
4 there.

5 CHAIRMAN PEARSON: Thank you.

6 Commissioner Williamson, I'll come back to
7 you.

8 MR. MOFFITT: Just real quickly. Concerning
9 the boom bust de-stocking, stocking scenario, one
10 difference this time around as compared to 2004 and
11 2005 is that, at least for my company, a large driver
12 of the over-stocking that occurred late in 2004 was
13 that when we could not get the product from our
14 domestic supply base, we were able to import it.

15 We imported significant quantities at
16 competitive prices; and the lead time to receive those
17 deliveries was three- to six months. We basically
18 could not turn off those commitments. They rolled in
19 towards the last part of the year.

20 It's completely different now where we're
21 unable to purchase competitively imports off shore.
22 So the risk to our company of seeing that huge
23 inventory run up is much lower this time around.

24 COMMISSIONER WILLIAMSON: Thank you. Thank you
25 very much. I apologize for using the red button.

1 CHAIRMAN PEARSON: It's not a problem. I
2 think we can take a casual approach this afternoon.

3 I'd like to follow-up on Mr. Williamson's
4 question regarding the cost increases that you see
5 being passed through your industry.

6 Mr. McCall, in your prepared statement, you
7 commented on the price increases that you're seeing
8 from the domestic wire rod suppliers.

9 Is it your view that those price increases
10 are justified by the cost increases that they're
11 seeing, or are they now increasing prices to such an
12 extent that they will be making more money than they
13 ought to?

14 MR. McCALL: I don't have access to their
15 books, but I am aware that scrap has gone up
16 considerably. So I would have to say that a large
17 percentage of that increase is attributed to the scrap
18 factors, and the costs in their mills.

19 And we are seeing the world price on wire
20 rod raise at the same level. So the domestics are not
21 alone in what they've done, as we've stated in here.
22 As a matter of fact, the pricing here is still under
23 what the world price is on wire rod.

24 CHAIRMAN PEARSON: Okay. Any other
25 thoughts?

1 I mean: The cost increases that you've seen
2 from the domestic industry are they pretty well
3 explained by what seems to be going on in the raw
4 material end of things?

5 MR. MOFFITT: I'd like to think that the
6 domestics have been honest with this. I think we have
7 a very, very good relationship with the people who at
8 least I deal with.

9 I know with one of the mills, for example,
10 you asked in the earlier session: Had the prices
11 pretty much stayed in line with each other, depending
12 on the quality?

13 In general, that has been true. Although
14 recently, we've seen a little bit of an uptick. For
15 example, in bead rod and weld rod, it's been explained
16 that whereas in generic high carbon, they might be
17 using shredded scrap; with the bead rod, they have to
18 go to particular bush-link quality to get the lower
19 residuals.

20 The same is true of the weld rod, so there
21 has been a greater price disparity between those
22 items.

23 I think most of this can be supported in
24 different trade journals and in reporting, and what
25 not. I mean we don't obviously have access to what

1 they are paying for scrap, but I have no reason not to
2 believe what they've said about their cost increases.

3 CHAIRMAN PEARSON: Mr. DeShane?

4 MR. DeSHANE: This is Michael DeShane from
5 Lincoln Electric. I'd certainly agree that the price
6 increases on rod are cost driven. I think that's very
7 well documented and accepted.

8 I would say, though, it's just my personal
9 belief that they are taking it maybe a little step
10 further. We've heard how they're concerned over their
11 operating margins, and I think they are seizing the
12 opportunity to better their position.

13 We want our suppliers to be healthy. I
14 certainly will say that, so that they can continue to
15 invest in their business and grow and develop. I do
16 sense that there's a little bit of that going on.
17 Whether it's deserved or not, I suppose is up for
18 debate. The fact is that they can do that now because
19 there are not imports and there is no threat to their
20 sales.

21 I think we are somewhat of a view that this
22 can continue for some time, which will give them the
23 opportunity to be healthy.

24 CHAIRMAN PEARSON: But there would be a
25 general view that the domestic industry needs to earn

1 more than a 3 percent margin over time, or it would be
2 difficult for them to --

3 MR. MOFFITT: If I could just add, though, I
4 expect that if scrap prices were to go down that the
5 price would not necessarily go down.

6 CHAIRMAN PEARSON: It probably would depend
7 on the competitive pressures in the marketplace, and
8 the skill of purchasers to negotiate.

9 MR. ROBERTSON: Clearly, the fall-out from
10 financial under-performance is what we're living with
11 today.

12 Obviously, we'd all be better off if they
13 could earn the kind of returns they needed, and make
14 the kind of decisions that we would hope to support
15 increased production, yes.

16 CHAIRMAN PEARSON: I like it when firms make
17 money too.

18 MR. ROBERTSON: Absolutely. There is no
19 issue with us in that respect. Everyone deserves a
20 chance to be profitable.

21 CHAIRMAN PEARSON: Right. If you had your
22 choice of making money and staying with your Plan A
23 Budget or not making much money going with Plan B, as
24 was just cited, Plan A is a lot better.

25 MR. McCALL: Well, I think we all would

1 agree we need our domestic mills to stay in business.
2 To do that, they have to make money.

3 CHAIRMAN PEARSON: Mr. DeShane, I wanted to
4 go back to something that you had said. Let me just
5 clarify. The Lincoln Company, is it involved also in
6 the manufacture of electric arc welders, or do you
7 just work on the rods themselves?

8 MR. DeSHANE: We manufacture both welding
9 equipment and welding consumables. So, yes, we make
10 the art welders. That is our business, art welding.

11 CHAIRMAN PEARSON: I had that suspicion, but
12 now that it's confirmed, I suppose I should confess
13 that when I was younger and actually had more brown
14 hair, I had an opportunity to use some of your
15 products.

16 I would just like to clarify that, at that
17 time, the quality of your welding rods far exceeded
18 the quality of the operator who was trying to use
19 them, who was me. Yes, under good conditions, I can
20 do an adequate job of welding.

21 MR. DeSHANE: We love all welders.

22 CHAIRMAN PEARSON: Let's just say that Adam
23 Smith's invisible hand works in wondrous ways, and I
24 may have a stronger competitive advantage doing trade
25 policy work and serving at the Commission, than I had

1 as a welder. A couple of my brothers are really quite
2 good, however.

3 Let's see, I had a question, though, not
4 just rambling here. You referenced that you had one
5 or more discussions with the domestic industry about
6 longer term arrangements to get them to provide
7 supply. Could you talk a little bit more about that?

8 Did they not like your suggestion just
9 because it was impossible to agree on a price? What
10 was going on there?

11 MR. DESHANE: We certainly prefer long-term
12 agreements. It's mainly driven from the standpoint
13 of: We have a predictable supply from quantity and
14 also a known quantity.

15 Actually, in the last few years, we had a
16 rather unique agreement with one of the producers
17 where we guaranteed them a profit. So we guaranteed
18 them a certain amount of business; we guaranteed them
19 a profit. It was, overall, a good long-term
20 agreement.

21 That agreement has since fallen apart. The
22 main reason was that the quality diminished. In our
23 view of let's say preparing for 2008, we again
24 frequently offered to have long-term agreements. For
25 us, long-term is defined as one year or more.

1 We have offered our tons up to several
2 producers from the standpoint of a long-term
3 agreement. I'd say one comment that always comes back
4 is: We're not sure if this is good for us, or good for
5 you. So there has always been a certain amount of
6 hesitation on the domestic producers' perspective in
7 that it's a double-edged sword.

8 Our general position is that we're buying on
9 quality, so, therefore, if it requires some type of
10 price adjustments within a contract, we're going to
11 talk about that, and we're going to come to some
12 agreement.

13 I don't have much more of, I guess, a clear,
14 concise answer than that, but most long-term contracts
15 have been hard to come by prior to 2004.

16 CHAIRMAN PEARSON: What's been the
17 experience of members of the panel?

18 Mr. Lynch, did you want to add?

19 MR. LYNCH: Yes, Mr. Chair. As the producer
20 of the blue welding equipment, --

21 CHAIRMAN PEARSON: I'd try not to use that
22 answer.

23 MR. LYNCH: -- I want to take a slight step
24 back to Mr. DeShane's comment, which I alluded to
25 somewhat obliquely in mine.

1 The quality is very critical. I don't want
2 to understate that because companies the size of
3 Lincoln, and the size of ITW, are subject to lawsuits
4 on a daily basis.

5 And the degree to which we specify a
6 chemistry, and the tolerances for that chemistry,
7 ultimately come back, either in the form of satisfied
8 customers or lawyers knocking on our doorsteps. I
9 just don't want to under-emphasize this whole issue of
10 quality and its consequences.

11 CHAIRMAN PEARSON: Okay. In the welding rod
12 business and other high-quality specifications, you
13 had some concern entering into a long-term agreement
14 if you have any doubt about the ability of quality to
15 be maintained.

16 MR. LYNCH: Absolutely. For example, look
17 at the chandelier over Mr. Moffitt's head. It's held
18 into the ceiling by a post-installed anchor bolt
19 that's made out of high-end CHQ, which is subject to
20 an ASTM standard that the steel industry, along with
21 the consumers came together to develop.

22 To the extent that the chemistry and the
23 material that the companies want to sell us don't meet
24 those specifications, we're going to be subject to the
25 potential of that chandelier removing Mr. Moffitt from

1 our company.

2 We don't want to see that happen, so we will
3 pay the price and look around the globe for whomever
4 is going to provide us with the quality of the product
5 that our customers also will pay for.

6 CHAIRMAN PEARSON: Okay, thank you very
7 much. The light has just turned red.

8 I would just observe: I'm awfully glad to
9 learn that that's held up by a CHQ product because I
10 had kind of made the assumption that it was held up by
11 a threaded rod, which we have to vote on tomorrow,
12 which is a different case.

13 MR. LYNCH: Well, I would suggest that
14 what's probably happening is that your fire-
15 suppression system is held up by threaded rod, but the
16 chandelier, in all likelihood, is a high CHQ product.

17 CHAIRMAN PEARSON: Thank you.

18 Commissioner Lane, can you top that? We're
19 going to all watch that chandelier now.

20 COMMISSIONER LANE: I'd be a little
21 concerned that it might drop on you now that we've
22 talked about it so much.

23 I have some questions for the Mexican
24 producers. In your pre-hearing brief, you indicate
25 that Mexican producers may export clean steel

1 precision bar in coils.

2 Could you please fully describe that
3 product? And, as part of your response, please look
4 at Table 4-5 in the pre-hearing report where there are
5 six specific categories of wire rod listed, and
6 indicate which of those categories clean steel
7 precision bar falls into?

8 MR. WINTON: I have to take responsibility
9 for the clean steel and precision bar. It is with the
10 Hylsa people.

11 At the time of the original investigation,
12 when we were trying to describe to the Commission what
13 made our product different, we argued that it was a
14 separate-like product; and the Commission ruled that
15 it was not a separate-like product.

16 As Mr. Gould has explained, Hylsa is no
17 longer exporting that product; Hylsa is not exporting
18 any products.

19 The notion of clean steel and precision bar,
20 to the extent that you want to know about it --

21 COMMISSIONER LANE: Could you get a little
22 bit closer to your microphone?

23 MR. WINTON: Sure, I'm sorry. There were
24 two characteristics that we were focusing on. One was
25 the quality of the steel itself in terms of

1 impurities, in terms of meeting specifications, in
2 terms of how well the steel was made. That was the
3 clean steel part of it.

4 And the precision bar part of it was in
5 terms of the dimensions of the rod. You know, there
6 is a concept of ovality, which is how much of a circle
7 you are as opposed to off a circle. And then there
8 are questions of how consistent is your product. Is
9 it the same diameter all the way through, or does the
10 diameter vary, although slightly, you know thin in
11 some places, thicker in others?

12 What we were communicating was that Hylsa
13 had invested to be able to control the physical
14 dimensions of its product, as well as the chemical
15 dimensions of its product. So the term we came up
16 with was clean steel precision bar and coils.

17 In terms of where it falls into the
18 categories you have given, I'll defer to Mike on that
19 one.

20 MR. GUHL: Well, on the questionnaire, I
21 think, for the most part, it falls into product No. 5,
22 which here, we'd probably refer to as cold-heading
23 quality material, a high-end product.

24 MR. WINTON: Although we're still open to
25 somebody saying it's a different-like product, but we

1 didn't want to argue that.

2 COMMISSIONER LANE: Okay, thank you.

3 Sticking with you two: In your pre-hearing
4 brief, you argued that Mexico has become a net
5 importer; and, due to the booming demand in Mexico,
6 Mexican producers are unable to satisfy Mexican
7 demand. You used this as support for your argument
8 that Mexican producers will not resume any meaningful
9 exports to the United States.

10 If, hypothetically, the Commission
11 determines that there is some available capacity in
12 any subject country, why shouldn't the Commission
13 conclude that such capacity could be used to produce
14 wire rod for export?

15 MR. WINTON: I'm sorry. I may have
16 misunderstood the question.

17 I think, in terms of capacity, you can look
18 at capacity in terms of: What is the nameplate on the
19 machine? You know some engineer makes a calculation,
20 but capacity is really what people can do.

21 There are a number of constraints on
22 capacity. One very real constraint that you heard
23 about this morning is having billets. It doesn't mean
24 how many billets you could roll if you don't have the
25 billets to roll. So one of the issues you have is:

1 Where's the raw material?

2 You have a company like ArcelorMittal's
3 Mexican subsidiary which makes not only billets but
4 slabs, so it has to decide where it's going to put its
5 raw materials. Does it go into billets or slabs?
6 Then, if it has billets, does it use that to make
7 rebar or steel wire rod given the capacity it has?

8 So there are constraints on their capacity
9 that are independent of how much they can just roll if
10 they had all the material they needed to roll.

11 We're looking at a world-wide situation. I
12 think when you see things like scrap prices going up,
13 it's not that somebody with a scrap yard decided:
14 Let's raise the price of scrap today.

15 The reason that scrap prices are going up is
16 because globally there's an enormous demand for steel
17 for raw materials. You see iron ore prices going up;
18 you see scrap prices going up.

19 What that's telling you is: In terms of raw
20 steel making, there's enormous demand around the
21 world; and, to some extent there's a shortage, which
22 is why prices are going up.

23 When we talk about what is the capacity, I
24 think you need to consider not just what could you
25 roll, but what material do you have, especially

1 having heard this morning from a number of people who
2 said they don't have the material they need to roll.

3 I think we can answer, in our confidential
4 submission information, about what's going on in
5 Mexico in terms of that.

6 But the other way to look at it is: If the
7 Mexican producers could produce more, they would have
8 been because the demand in Mexico is there; and our
9 statistics are a little different from your
10 statistics. Ours came from the Mexican Central
11 Information Administration and we attach them.

12 The big difference, though, between our
13 statistics and yours is: We've included a category for
14 imported rod that's processed in Mexico and then
15 exported as a processed product. It's the 9802 Tariff
16 classification.

17 But whether you include that or not, what
18 you see is that there are much greater imports into
19 Mexico than exports. Mexico has become a net
20 importer of steel wire rod.

21 Clearly, if they had the capacity to make
22 more steel wire rod, they would make more steel wire
23 rod to supply the Mexican market, and they're not.
24 They're importing because there is not enough steel
25 wire rod to satisfy demand in Mexico.

1 MR. NEELEY: I'd like to add something with
2 regard to DeAcero since we are the largest producer of
3 wire rod in Mexico, and that is regardless of what the
4 theoretical excess capacity might be or might not be,
5 if you look at the statistics, you see that DeAcero is
6 not an exporter of wire rod, period, and that's not
7 just to the United States.

8 I think that's important because while you
9 can argue that perhaps we didn't export to the United
10 States because of the dumping order, although I don't
11 think that that's the case, we can export to any place
12 regardless of whether there is a dumping or not; I
13 think that's an important thing to take into account
14 for the company that's the largest producer of wire
15 rod in Mexico.

16 MR. WINTON: If I may add just two
17 additional points?

18 COMMISSIONER LANE: Yes, go ahead.

19 MR. WINTON: Mr. Guhl just mentioned to me,
20 in Hylsa's case, we are at rolling capacity.

21 MR. GUHL: Since 2006 we are totally sold
22 out, maxed out our rolling capacity and we are not
23 melt short. I mean we have the ability to make more
24 liquid steel. It's just our rolling mill simply
25 cannot accommodate any more tonnage.

1 MR. WINTON: The other point I'd make is if
2 you look at the import statistics, and we basically
3 know who's exporting from Mexico because we hear Mr.
4 Neely say it's not them, and we know how much is us,
5 and it's pretty much not us. The exporter from Mexico
6 is, for better or worse, it's SICARTSA which is now
7 owned by ArcelorMittal. And in 2004 they were able to
8 export a fairly large volume, not fairly large, but
9 68,000 tons of imports from Mexico in 2004. How much
10 of that is us, very little. How much of that must be
11 SICARTSA? Most of that. But even for SICARTSA, the
12 quantities have come down and it's not because of the
13 dumping order. SICARTSA dumping margin, they found in
14 the last review they were subjected to is 1.26
15 percent. And the US industry doesn't mind that
16 because they requested a reviewc of SICARTSA the next
17 year and then withdrew their request. In other words
18 they said 1.26 percent sounds fine to us. And if it
19 didn't, all they had to do was leave the request for
20 review on the record.

21 So you have a country that could have
22 exported with a very low duty rate, but you can see
23 the imports from Mexico going down. You have 68,000
24 imports in 2004, down to 11,000 in 2005, down to 4,000
25 in 2006. So if there were capacity it would be

1 SICARTSA that you'd be worried about, and they've cut
2 out their exports as well. The only explanation that
3 makes sense to us is that they don't have real
4 capacity to tax support more.

5 COMMISSIONER LANE: I've got one more
6 question. Should I go now or wait until the next
7 round?

8 CHAIRMAN PEARSON: Go ahead and go now.

9 COMMISSIONER LANE: Okay, without getting
10 into confidential information, I would like for you to
11 examine the prices that Mexican producers could get in
12 the United States versus home market prices. I
13 realize the AUVs are not necessarily a good
14 comparison, but I would like you to compare the home
15 market AUVs that Mexican producers are receiving as
16 reported on Table IV-24 of the pre-hearing report, to
17 the AUVs that domestic producers are receiving on
18 their US deliveries.

19 MR. WINTON: I'm trying to find the US
20 prices.

21 MR. GUHL: Talking about the market in
22 general, while Jeff is finding the table, I can tell
23 you that mexican prices track very closely to the US
24 prices and at this point in time we believe that they
25 are higher than the US market prices.

1 COMMISSIONER LANE: I'm sorry, US prices are
2 higher?

3 MR. GUHL: Mexican domestic prices are
4 higher than US prices. Having said that, we're
5 currently not selling the product in the United
6 States. I am not negotiating with a single person
7 here, so I don't know for a fact what the prices are,
8 but at this point we've seen Mexican domestic prices
9 typically move higher than US prices, and that's not
10 accounting for freight. Actual transaction prices.

11 COMMISSIONER LANE: Thank you.

12 MR. DeSHANE: This is Michael DeShane from
13 Lincoln Electric.

14 I'll just add, the fact that we have a
15 factory in Mexico and obviously the United States, and
16 it's my view that the prices for Mexican wire rod are
17 ahead of the US. They're leading the US and they're
18 currently higher.

19 COMMISSIONER LANE: Thank you.

20 Mr. Winton?

21 MR. WINTON: I'm still lost in the staff
22 report, I'm embarrassed to admit.

23 COMMISSIONER LANE: If you can remember my
24 question, I'll get to you on my next round for the
25 answer, or you can do it in post-hearing.

1 Thank you. Thank you, Mr. Chairman.

2 CHAIRMAN PEARSON: I would just note with
3 pleasure that the supply of Commissioners has
4 increased and the market is now closer in balance.

5 A very quick summary of what's transpired.
6 I can advise that Respondents agree with the domestic
7 industry that steel wire rod is a very important
8 product. On other issues there have been differences.

9 Commissioner Williamson, over to you.

10 COMMISSIONER WILLIAMSON: Thank you, Mr.
11 Chairman.

12 Ivaco has indicated that it's focused on
13 very high quality wire rod that's not readily
14 available from other countries or from US mills. I
15 was wondering if you could give us a little bit of
16 elaboration on what are the end uses for this type of
17 wire rod, and are there different production processes
18 involved in making it?

19 MR. GOLDSMITH: Well, that's two different
20 questions.

21 In terms of end use, they're in general
22 terms similar to the end uses of the normal wire rod.
23 Some of it is very high end cold heading; some of it
24 is the welding quality product that Mr. DeShane and
25 others have talked about that they can't get because

1 of special steelmaking requirements.

2 The process differences are in the
3 steelmaking in the first instance. And as I said, the
4 Canadian producers have access to non-scrap-based
5 steel which some, I guess one US producer, Republic,
6 which is basically a bar mill, but nonetheless is an
7 integrated producer, has access to that and other
8 mills through billet purchases have access to that,
9 although they haven't been buying the billets for some
10 reason. That's one part of the difference.

11 I think the other part of the difference is
12 in the rolling process itself. The rolling process is
13 in principle similar from one mill to the next. You
14 have a series of rolls that squeeze the seal further
15 and further down until you get to your final size and
16 you coil it up and you cool it and you band it and
17 away it goes.

18 But the quality differentials come in
19 various parts of that process. Surface quality is a
20 function of how you design your rolling mill. The
21 things that Mr. Winton was just talking about with
22 respect to size tolerance, ovality, dimensional
23 control, that's a function of your rolling equipment.
24 Your physical properties of the material once it's
25 finished rolling is a function of your cooling process

1 to a large extent. It's a function of the heating
2 process but also the cooling at the end of the mill.

3 Just about every rod mill I think in this
4 case uses the Stelmor cooling process. The Stelmor
5 cooling process was an invention 40 years ago of
6 Stelmor in Canada and the Morgan Construction Company
7 in Worcester, Massachusetts who now owns the patent.
8 It's a means of using water and air together to cool
9 the rod.

10 If you were to go to Morgan today and order
11 a Stelmor conveyor, they would ask you a number of
12 questions, but the primary question they would ask you
13 is what product do you want to make? If you said I
14 want to make welding product you'd get one Stelmor.
15 If you want to make cold heading product they'll give
16 you a different Stelmor. And if you want to make low
17 carbon IQ they'll give you a different Stelmor. And
18 if you want to make all of the above or some
19 combination of the above, they'll adjust the Stelmor
20 to do that.

21 When I said earlier that many of the US
22 mills just don't have the capability to make some of
23 the products that we can make that's one of the
24 reasons. Their Stelmor is designed for one product
25 range and they can't make the other product range on

1 that Stelmore.

2 Other differences, I think we heard from, I
3 think hit was Nucor Connecticut who mentioned this
4 morning that if they could justify the returns they
5 would invest in their roughing mill and their reheat
6 furnace to improve the quality of the mill. Perhaps
7 some capacity, but it would improve the quality of the
8 output.

9 It's the same process. You heat the billet
10 and you roll it and you coil it. But how you do it,
11 the equipment you use to do it, and the capacity of
12 that equipment determines whether you can make the
13 high end qualities.

14 Another high end quality, as an example we
15 talk about cold heading. Some of the most difficult
16 cold headed products, a cold headed product is one
17 where you take the rod and you just keep smashing it
18 to form it into the head of some kind of a fastener.
19 Some of the fasteners you see at Home Depot or Lowes
20 are just a hex head screw with a thread on it that you
21 use at home to hold your deck in place or something;
22 but some of the most difficult ones of those products
23 to make are recess head fasteners. Those are
24 fasteners where you form the head and then you form a
25 shape into the head for a tool, such as a torques

1 wrench or an allen key or something like that. To
2 flow that material precisely to form that head, have
3 nothing left over and have no cracks and no pieces
4 missing in that head is a hugely difficult process and
5 it's extremely taxing on the seal you use.

6 There are many people who can make these
7 simple cold heading products. There are not too many
8 people who can make the difficult cold heading
9 products.

10 COMMISSIONER WILLIAMSON: Thank you for that
11 explanation.

12 Would you say the difference is sufficient
13 that maybe you should have recommended that very high
14 quality carbon wire as an additional product, as a
15 breakout in your questionnaire?

16 MR. GOLDSMITH: Yes.

17 COMMISSIONER WILLIAMSON: Thank you.

18 I think also the Canadian producers explore
19 a different product mix than do other subject
20 countries. And I was just wondering what makes it
21 capable of doing that. Are you talking about the
22 investment that's been made in this technology to do
23 the high quality or something else?

24 MR. GOLDSMITH: I think that our comments in
25 that regard are based on the fact of what's being

1 imported as opposed to any particular knowledge of
2 what those other mills are capable of doing.

3 I can talk about what the domestic mills are
4 capable of doing. I've been in most of them myself.
5 I can't comment too much on the foreign mills or the
6 other subject mills.

7 COMMISSIONER WILLIAMSON: What makes then
8 Canada so unique or not so uniquely special in this
9 regard?

10 MR. GOLDSMITH: One of the key factors when
11 you're making the high end quality, aside from the
12 quality of the product itself, is the nature of the
13 buying of the product, the people who buy the product
14 and how they apply it.

15 Those heading processes are very complex and
16 each company that does it has developed its own
17 techniques for making it and its own steel
18 specifications for making it. What you find for a
19 cold heading as opposed to many other products in the
20 wire rod business, and indeed in other parts of the
21 steel business, is that cold heading orders largely
22 consist of small lot sizes, of different sizes of rod
23 and different grades of steel.

24 We make 225 different grades of steel in our
25 mill and we roll something like 40 different sizes I

1 think it is. And what you don't get with cold
2 heading, give me a boat load, 25,000 tons of one
3 diameter and one grade of rod; or a couple of
4 diameters and a couple of grades of rod. What you get
5 is, I need a truckload. I need 20 tons or even 10
6 tons or even 5 tons of this size and grade and 5 tons
7 of that size and grade and 20 tons of that size and
8 grade. You put the two or three little orders on a
9 truck and you ship it out to the customer. It's
10 extremely difficult, if not impossible, to do that if
11 you're not essentially part of the integrated market.

12 COMMISSIONER WILLIAMSON: Thank you for
13 those answers.

14 I have no further questions at this time.

15 CHAIRMAN PEARSON: As my time wrapped up
16 before we were discussing the possibility of entering
17 into some longer term supply arrangements with
18 domestic producers and what considerations went into
19 that. The point was made that for real specific
20 quality product, it can be hard to have a long term
21 agreement if you had questions about the consistency
22 of the quality that would be coming. But how about
23 for some other products where the specs might not be
24 quite so tight? Have some of you been involved in
25 discussions with the domestic industry about longer

1 term supply arrangements?

2 MR. ROBERTSON: The mills that we do
3 business with, we've really never had any formal
4 agreements with them but we have I think real implied
5 understanding. We have been in very very consistent
6 with each of these mills over the years in giving them
7 a share of our business. I'm not sure, long term
8 contract, I'm not exactly sure how to discuss that
9 because it's something I've never considered. The
10 mills we do business with, they have really understood
11 that we're going to be there, we're going to be
12 consistent. They've never asked me for a long term
13 contract so it's very difficult for me to respond.

14 CHAIRMAN PEARSON: Mr. Woltz?

15 MR. WOLTZ: I'd just add that we've had no
16 suppliers interested in long term contracts recently.
17 But over time my company's had a number of long term
18 contracts, some that worked very well and survived for
19 over 10 years, and some of which didn't work at all.

20 I would tell you that in the case of the one
21 that worked very well, while it was a formal document
22 and presumably enforceable, it really was more of an
23 intention of the parties to work together on a
24 consistent basis and use flexibility to address change
25 in market conditions, and more often than not the

1 companies operated outside the formal terms of the
2 agreement in the interest of coming together for
3 something that was mutually advantageous.

4 Wire rod represents between 70 and 80
5 percent of cost of sales for our company, so a mistake
6 in purchasing wire rod undoes everything else that may
7 be good about your company. And similarly, for the
8 wire rod producer, they're selling large quantities to
9 a relatively small number of customers, so they can't
10 afford to make mistakes either. I think that mutually
11 assured destruction is one of the issues that prevents
12 a hard, tight, fast contract from being workable in
13 this industry.

14 CHAIRMAN PEARSON: Maybe a hard and fast
15 contract isn't what the domestic industry had in mind.
16 But I understood them to be saying this morning that
17 they might be able to add another shift if they could
18 have sufficient guarantees that domestic customers
19 actually would want a product, so they don't have to
20 start a line up and then close it down again six
21 months later. Start a shift up, rather, and then
22 close it down later.

23 What I'm trying to learn from your side of
24 the equation is whether indeed there have been
25 discussions along that line. Mr. McCall?

1 MR. McCALL: I think we have two things
2 here. One, in the past I believe that it was possible
3 to do long term contracts that included tonnage and a
4 price because the market was somewhat more stable than
5 it is today. I don't think any of the mills would be
6 willing to use a set price for any period of time,
7 even though you can enter into agreements for an
8 amount of tonnage over a month or two months or
9 quarter or what have you, it's almost impossible I
10 think to tie a price to that that both parties could
11 probably live with for that duration given what's
12 happened in the last six months on the pricing side.

13 CHAIRMAN PEARSON: So any agreement that
14 could be viable from the point of view of the users
15 would be one that might specify a quantity but the
16 price would be what, set more frequently, or
17 negotiated on an ongoing basis or whatever.

18 MR. McCALL: Under today's market
19 conditions, I would say yes.

20 CHAIRMAN PEARSON: And had the domestic
21 industry approached any of you with the thought that
22 hey, we could add another shift and actually increase
23 domestic supply if you guys would be more forthcoming
24 and give us some assurance that we wouldn't go broke
25 doing it?

1 MR. MOFFITT: Bob Moffitt, Heico Wire Group.
2 We're actually discussing that very issue with someone
3 right now and they've not, at least in the discussions
4 we've had, asked us for a written contract. But what
5 they have asked us is if we would make some form of
6 commitment. I'm guessing that they're also talking to
7 others in the industry also because the tonnage that
8 we've talked about probably wouldn't justify a fourth
9 shift, but with others in the industry I'm sure it
10 would. But they've not asked us for a formal
11 contract, but just a commitment in kind. I think even
12 with today's turbulent times we've been able to come
13 to some agreement on price with the vendors. We have
14 had in the past, though, a contract with one of the
15 suppliers. When we acquired the wire mill and their
16 facility we did have a 10-year contract.

17 The difficulty of it is what mechanics you
18 use to arrive at a price in a contract. Sometimes it
19 may work to our advantage; other times to their
20 advantage. I think what we both want is something
21 that works for both of us. We've come, I think to the
22 conclusion at least in part of that that the fellow
23 that I deal with at the mill, we'll come to some price
24 agreement. That seems to work.

25 We have been very consistent in the number

1 of tons we have place with most of our domestic
2 suppliers.

3 MR. McCALL: Mike McCall again.

4 There are occasions, and I think we've heard
5 it here, where we do have or we know how much tonnage
6 we will get from a mill in a given month. I think
7 part of the problem has been that that's not enough
8 given the market today. We could use more. That's
9 what brings about the shortfall that we have.

10 MR. DeSHANE: Chairman Pearson, I'd like to
11 add, this is Michael DeShane from Lincoln Electric.

12 I think the biggest barrier for contracts,
13 regardless of the quality of the rod, is the lack of
14 billet supply. There are several of the mills that do
15 not have enough billet supply to feed the wire rod
16 mills to then meet these contract commitments, so I
17 personally do think that's the constraint. The
18 constraint is the availability of steel that's melted
19 into billets to then be able to meet the requests of
20 these contracts.

21 CHAIRMAN PEARSON: Was there another
22 comment? No, okay.

23 This is an interesting case relative to some
24 other steel cases in that we have a situation in which
25 the domestic producers have indicated an interest in

1 producing more; the users have indicated an interest
2 in buying more. So go do business, you know? But
3 I'll stay out of the way.

4 Mr. Robertson, you commented earlier on
5 exports of products that your customers make from what
6 you sell to them, I think that was basically it. I
7 wanted to follow up on that with other firms. Do you
8 see customers that are having more export
9 opportunities? If so, is this a change from what
10 you've seen in the past?

11 MR. McCALL: We actually have had inquiries
12 for exports. Oftentimes, in our case, we're imperial
13 and a lot of what they want is metric.

14 CHAIRMAN PEARSON: This is --

15 MR. McCALL: Yes.

16 CHAIRMAN PEARSON: -- rather than your
17 customer.

18 MR. McCALL: But also some of our customers
19 as well.

20 The exports that we do do are generally
21 through someone else in a downstream product, so that
22 does leave the country, Iraq, places like that. But
23 we find that unfortunately the Chinese are very strong
24 in a lot of different places, and so where we have had
25 increase, for example, to New Zealand and places like

1 that, we are competing with them head on there too.
2 So it's not just that competition here in the US, but
3 also there as well.

4 MR. DeSHANE: This is Michael DeShane from
5 Lincoln.

6 We are seeing increased exports in the
7 highest quality specialty products. It's kind of
8 ironic because those are the same products where we
9 can't get the high quality steel here in the US.

10 MR. ROBERTSON: I would add to that, we've
11 had several of our fastener producing customers over
12 the last five to eight years close operations in the
13 US, build plants in China, change really a
14 distribution model in the US. We've had several of
15 these customers just in the last two months come back.
16 They're definitely exploring manufacturing in the US
17 again. For the same reasons, I believe.

18 CHAIRMAN PEARSON: But they aren't yet
19 exploring buying product from you to ship to China to
20 manufacture there.

21 MR. ROBERTSON: No.

22 CHAIRMAN PEARSON: It's interesting that we
23 see some strength in exports for wire rod related
24 products at a time when there is an economic slow-down
25 in the United States, regardless of what exactly we

1 call it.

2 If there's anything about this that could be
3 put onto the record, that might be interesting. I
4 don't know whether the AWPA has compiled any data or
5 whether there's been any article written about this.
6 But if there was something that could be put on the
7 record, please do so.

8 My time having expired, Vice Chairman
9 Aranoff.

10 VICE CHAIRMAN ARANOFF: Thank you, Mr.
11 Chairman.

12 I want to apologize to the parties for my
13 necessary absence earlier this afternoon. I will
14 review everything in the transcript.

15 I have a few questions and I've tried to
16 check them with folks that were here to make sure they
17 haven't been asked and answered, but if they have
18 been, feel free to tell me so that I don't waste
19 anybody else's time.

20 I know that the subject of the significance
21 of ArcelorMittal's US presence relative to its
22 presence in a number of the subject countries has come
23 up. Just to make sure that the question gets
24 addressed in the way that I'm thinking about it, the
25 Commission has seen the situation both with

1 ArcelorMittal and other US producers that have
2 affiliates in subject countries in a number of recent
3 cases. Some of them have looked a lot like, I think
4 the most recently one was maybe the hot-rolled case
5 where the Commission found that because the US
6 presence of ArcelorMittal was substantial and that
7 they control most or all of the production in the
8 subject countries that those two facts together
9 suggested that the company would not import product
10 into the US in a way that would disrupt their US
11 operations and thereby the rest of the domestic
12 market. But we've had other cases where we've found
13 with respect to similar related situations that either
14 the US presence was very small relative to the
15 presence in the subject country or that the affiliates
16 of the US company weren't large enough to control most
17 of the production in the subject country. That didn't
18 hold.

19 This strikes me as a case that falls
20 somewhere in between the cases that we've seen in the
21 past, so I'm struggling with which way to look at it.
22 I don't know if anyone wants to comment on that now,
23 but I would also welcome briefing on that.

24 MR. HEFFNER: Doug Heffner of Hunton and
25 Williams for Ivaco. I'd like to just address the

1 situation involving Mittal Canada. I think it's a
2 different animal than some of the other companies out
3 there.

4 Before, and when you do your analysis you
5 have often looked at what is the export profile, what
6 are the prices, what are the capacity, what are the
7 capacity utilization, what type of specialty products
8 do particular companies within the Arcelor Mittal
9 group have? It's sort of APL information here so I
10 really can't get into a lot of it. But if you look at
11 the record with regard to Mittal Canada you will see
12 that their capacity, their capacity utilization, the
13 type of products that they export, the prices, are all
14 different compared to, and I can't compare them
15 strictly to ArcelorMittal companies, but if you look
16 at the subject producers as a whole, they're
17 substantially different. I think based on that
18 analysis you could say that Mittal Canada itself is
19 not going to surge after the order is, if the order
20 were lifted. Thank you.

21 MR. MOFFITT: Bob Moffitt.

22 Over the years we have bought from, Heico
23 Wire Group, we have bought from their mill in Canada,
24 we have bought from their mill in Mexico, we have
25 bought from their mill in Ukraine, we have bought from

1 their mill in Brazil, we were the only buyer of the
2 rod from Indonesia. Now that is technically not an
3 ArcelorMittal mill, but it is a Mittal mill. I can
4 assure you that the folks in Chicago will decide what
5 does get offered. We have not in recent years
6 purchased anything from them, except from their US
7 mill that is, but I really feel that they have
8 absolute control over anything that comes into this
9 country.

10 MR. ROBERTSON: And many of us have
11 historically bought from Georgetown Steel. They've got
12 a real role in this marketplace. They make an
13 excellent product. They've got new operational
14 leadership down there. They seem to be investing
15 capital. I would believe that they're an important
16 part of the Mittal organization. I don't see any
17 reason why they would compromise that with their
18 behavior that's been suggested today. It just doesn't
19 make sense to me that they would do that.

20 We buy a lot from Georgetown, we buy a lot
21 from Mittal Canada, but they're very different
22 products. We're buying virtually all cold heading
23 from Mittal Canada, although certainly they can make,
24 Mittal Canada can probably make what Georgetown, South
25 Carolina makes. In many respects Georgetown really

1 can't make what Mittal Canada can make, some of the
2 higher grade, the cold heading and other maybe upscale
3 products in that particular market. But Georgetown is
4 an excellent mill and has a real important role in the
5 US marketplace.

6 MR. DeSHANE: This is Michael DeShane of
7 Lincoln.

8 I was just going to agree with what Mr.
9 Moffitt said. We are definitely convinced that any
10 imports to the United States from any ArcelorMittal
11 mill around the world will go through their wire rod
12 organization in Chicago.

13 MR. WINTON: We'll address the legal issue
14 in our post-hearing brief, but since you missed it,
15 and I love to repeat myself I'll do it very briefly.
16 The ArcelorMittal mill in Mexico, Cigarsa, had the
17 ability to export to the United States. It did export
18 tens of thousands of tons. It stopped exporting. It
19 exported after the anti-dumping order. Its dumping
20 margin was found to be only 1.26 percent. It could
21 continue to export at that dumping margin, and the US
22 producers haven't objected to that dumping margin.
23 They've withdrawn the only review that they requested
24 after that.

25 So we see it that SICARTSA is not exporting

1 for reasons that are Mexico specific, SICARTSA
2 specific. But if you add to that the fact that now
3 they're affiliated with the US producer, and to the
4 extent that the ArcelorMittal sales are essentially
5 controlled, that's just an additional reason not to
6 expect exports from SICARTSA in Mexico. We think it
7 reinforces our position. However you ultimately rule
8 on the legal issue, as a factual matter it certainly
9 provides an additional reason not to expect increased
10 exports from Mexico.

11 VICE CHAIRMAN ARANOFF: I appreciate all
12 those answers. I'll look forward to any further
13 comments in the post-hearing brief.

14 One other question, this is somewhere
15 between a question and a philosophical musing. But in
16 thinking about this case, I can't help at some point
17 thinking about the domestic industry producing steel
18 wire rod as sort of a structurally vulnerable
19 industry. They're in a position where on the one hand
20 they need to cover very unprecedented cost increases,
21 which they by and large are doing, and everyone has
22 agreed that the prices have been going up with the
23 cost; but if they raise their prices too much so that
24 they're making a big profit over those cost increases
25 they run the risk of driving you, their customers, out

1 of business because you can either move overseas or
2 you can lose your business to competition with imports
3 of downstream products.

4 So it seems as though they're almost in a
5 position where they could never really do better than
6 how they're doing now, and things could only get worse
7 if you look at it that way.

8 Does anyone want to comment on this idea?

9 MR. MOFFITT: I would prefer not to
10 encourage them to raise their prices.

11 (Laughter.)

12 MR. ROBERTSON: You could makes strong case,
13 and David Goldsmith alluded to it this morning, that
14 by expanding production you might end up reducing your
15 unit cost and positioning yourself from a profit
16 perspective far better than they are today.

17 I'll take advantage of the fact that the
18 Mittal guys aren't here today. Georgetown, South
19 Carolina, a mill that historically could make 725,000,
20 750,000 tons a year, I was part of the group that ran
21 that mill for some years, is a mill that I think last
22 year probably made and shipped about 400,000 or less.

23 When you run an operation like that, and
24 I've run a number of wire rod operations in my life,
25 it's all about conversion costs. I mean these other

1 costs are vital.

2 When you look at steel metallics and these
3 other inputs, what your conversion cost in the melt
4 shop, your conversion cost in the rod mill, those are
5 pretty important numbers to deal with. Again, it's
6 all based on units produced.

7 So many of the mills have positioned
8 themselves where it's very difficult to be low cost
9 suppliers. I'm encouraging some of these mills to
10 really consider expanding their operations and I think
11 the benefits would be real.

12 Is there a risk out there? There's always a
13 risk. Who's going to ever say that the business is
14 going to be great for five years? We live in a
15 cyclical world. But the fact is, the real risk is
16 waiting. Because the factors in place are real. I
17 think we all see them. I don't think they're going to
18 change for the foreseeable future. But the real risk
19 is waiting.

20 MR. WOLTZ: One other comment on that. To
21 the extent that this is a global phenomenon, at our
22 level of the supply chain, our international
23 competitors are contending with these same issues. I
24 really don't perceive that tight band that they have
25 to work in exactly that way.

1 VICE CHAIRMAN ARANOFF: Okay.

2 MR. GOLDSMITH: David Goldsmith from Ivaco.

3 I just wanted to mention a couple of points
4 that were talked about while you were out that are
5 relevant to this point.

6 In the first instance Ivaco endured a strike
7 in late '05 and early '06. Following the strike,
8 Ivaco came back on three shifts for about three
9 months, and then went to four shifts. We did that, we
10 made that decision at a time when we were selling the
11 product, we were overselling the domestic industry for
12 a product that is supposedly fungible and sold
13 entirely on price. We did it while there was an order
14 in place and we did it without any commitments from
15 customers.

16 So I'm not sure why the domestic industry
17 isn't increasing prices any more than it already is.

18 The second point that I'd like to make is
19 that since the first quarter of 2004, which is the
20 last time there was a shortage in the industry, the
21 shortage lasted all of '04 as far as we're concerned,
22 but that's when it started, we have had a scrap
23 surcharge in place, and a short time after that we
24 added alloy surcharges onto our product. Those
25 surcharges remain in place today. They have not

1 changed in the last almost four years now. They're
2 calculated monthly and they're applied to all of our
3 product. Automatically. We don't do price
4 announcements because it's based on a published index
5 and when the index is published the price changes and
6 that's the way it is.

7 On top of that we have had three additional
8 price increases in the last six months to our base
9 price. That's just increasing our margin. It covers
10 anything else that we might want it to cover. All of
11 those price increases are there in the market and the
12 product is still being sold and the mill is still
13 full.

14 VICE CHAIRMAN ARANOFF: I appreciate that
15 answer. My time has run out. Thank you very much.

16 CHAIRMAN PEARSON: Commissioner Lane?

17 COMMISSIONER LANE: Thank you.

18 Vice Chairman Aranoff, since you weren't
19 here this afternoon we just threw the time limits out
20 the window and we just go as long as we like and the
21 Chairman lets us because he's the biggest abuser.

22 (Laughter.)

23 COMMISSIONER LANE: Mr. Winton, I'm back to
24 you. I think I didn't make myself really clear, that
25 the reason my question was so obscure was because the

1 domestic industry prices are public and your prices
2 are BPI. So that made it a little obscure as to what
3 I was asking.

4 What I want you to do is to take those
5 numbers and tell me what is your argument against
6 using such comparisons to support or refute an
7 assumption that the US market is an attractive market
8 for subject producers. You can do that post-hearing
9 if you like.

10 MR. WINTON: We'll do it in the post-
11 hearing, but I think without looking at the actual
12 numbers, a lot of this is going to be product mix
13 issues.

14 I took a look at Hylsa's information and the
15 Hylsa home market price data is much higher than the
16 average unit value for the US producers listed here.
17 That's not surprising, because as we've been
18 describing Hylsa is really at the high end of the
19 value-added rod.

20 You have a number of Mexican producers who
21 are primarily in the wire mesh business, making rod
22 for their own consumption for use in making wire mesh
23 and that's really at the lowest end of the price
24 spectrum and it's an internal transfer. I'm not sure
25 how the internal transfers were priced. But it

1 strikes me that you're going to see it's going to be a
2 product mix issue.

3 You can see that in the Mexican import
4 values as well, when Hylsa leaves the US market the
5 average unit values for imports into the United States
6 go down as well. But it depends. You have to compare
7 what the mix is in the United States as well. I'm not
8 sure I'm going to be able to give you precise data
9 because I don't think we have in all the
10 questionnaires the pricing by product category that
11 would allow us to detail it. I think you're left with
12 a situation, and we have to remember, we're in, as was
13 described before, we're in a volatile situation.
14 Costs are going up, prices are going up very quickly
15 now, and the testimony you have, and I think it's
16 unrefuted testimony, from people who purchase in both
17 markets, as of right now, today, prices in Mexico are
18 higher. They've moved faster than the prices in the
19 US.

20 COMMISSIONER LANE: Thank you.

21 I have a similar question to the American
22 Wire Producers Association. On page two of your pre-
23 hearing brief you indicate that prices in overseas
24 markets are higher today than prices in the United
25 States. I would like you to turn to Table IV-43 in

1 the staff pre-hearing report and indicate how that
2 data supports your argument.

3 And since this data is BPI, you can respond
4 in post-hearing brief.

5 MR. WAITE: Madame Commissioner, Fred Waite,
6 General Counsel, AWPA. Unfortunately, due to the
7 wisdom of our Congress, I cannot respond to your
8 question either now or in the post-hearing brief. We
9 are not eligible for APO status because the members of
10 the American Wire Producers Association, although they
11 represent purchases of 85 to 90 percent of all wire
12 rod in the United States, although they are in fact
13 the reason we're all here today, do not qualify as
14 interested parties. I apologize.

15 COMMISSIONER LANE: Okay, I hope you've
16 enjoyed sitting here all afternoon.

17 (Laughter.)

18 MR. WAITE: There are certain things that
19 are not in the APO record that I think are also
20 telling, and it has been a delight to be here with all
21 of you this afternoon.

22 COMMISSIONER LANE: Thank you.

23 MR. HEFFNER: Commissioner Lane? Doug
24 Heffner. we'll be glad to provide information on
25 that.

1 COMMISSIONER LANE: Thank you.

2 I had two more questions and now I'm not
3 sure. If I have more questions I'll just submit them
4 through the staff. Thank you.

5 CHAIRMAN PEARSON: Commissioner Williamson?

6 COMMISSIONER WILLIAMSON: Thank you, Mr.
7 Chairman. I just have one final question for Ivaco.

8 You state that Canadian producers are
9 turning away US orders. What are the reasons for
10 this?

11 MR. GOLDSMITH: Because our mill is full.
12 We're fully booked up. We are taking US orders. We
13 are still selling into the US, but at no greater rate
14 than we have been historically.

15 We're running at full capacity. We can't
16 put any more steel out of the mill. We're already
17 running 160 out of 168 hours in the week. Our order
18 backlog is twice what it normally is. Our mill is
19 booked up to mid summer already. And that's not
20 normal. So there's just no steel available to sell to
21 the US or to Canada. We don't have any steel
22 available, period.

23 MR. LACHAPELLE: I'm Luke Lachapelle from
24 Ivaco. I just wanted to add to that.

25 Our order books are very full at this time

1 which we have not seen in quite a while. Demand
2 throughout North America is very very high. I guess
3 one of the barometers that I have used in the past is
4 the interest that we're getting on our web site. The
5 hits from countries all over the world. There are
6 companies that seem to be coming out of the woodwork
7 and have been since the month of November. We're
8 getting probably three or four requests a day from
9 everywhere in the world, be it Russia, India,
10 Pakistan. People are looking for rod all over the
11 globe right now.

12 What we're doing, as David indicated, is we
13 have a customer base. We're honoring as best as we
14 can the demand from our regular customers and we
15 simply have to turn some people back right now because
16 there's no more capacity on our mill. We're operating
17 flat out and have been for quite a while.

18 COMMISSIONER WILLIAMSON: I take it this
19 applies to all your product lines?

20 MR. LACHAPELLE: Absolutely, yes.

21 COMMISSIONER WILLIAMSON: I was going to ask
22 if you could provide to us post-hearing some evidence
23 to support this. To the extent that it's practical to
24 do so.

25 MR. LACHAPELLE: Yes, we will.

1 COMMISSIONER WILLIAMSON: That's all I have,
2 thank you.

3 And I want to thank the witnesses for their
4 testimony today.

5 CHAIRMAN PEARSON: I have a question for the
6 Mexican respondents.

7 You made arguments in your brief that seemed
8 to be predicated on the assumption that the Commission
9 will decline to exercise its discretion to cumulate
10 imports from Mexico with imports from other subject
11 countries. On what basis would you suggest that the
12 Commission make that decision?

13 MR. WINTON: Any basis that gets you there.

14 (Laughter.)

15 MR. WINTON: We had argued in our brief that
16 there will be no discernible adverse impact due to
17 imports from Mexico, and that's clearly a basis to
18 decline to cumulate. Even if you were to find --

19 CHAIRMAN PEARSON: That would preclude our
20 ability to cumulate.

21 MR. WINTON: Yes. But even if you were to
22 find there might be a discernible adverse impact, I
23 think there are other grounds not to cumulate the
24 location of Mexico and product mix and various things.
25 We can address those in our post-hearing brief, but

1 our primary argument was no discernible adverse
2 impact.

3 CHAIRMAN PEARSON: For purposes of post-
4 hearing, if you could elaborate more fully on how we
5 might look at some of the other discretionary factors
6 related to cumulation, that could be helpful.

7 For Canadian producers, your brief indicates
8 that currently specialized products account for a
9 majority of the wire rod shipments from Canada. My
10 question is, was that also true before the order went
11 into effect?

12 MR. GOLDSMITH: Yes, it was. But the
13 percentages have changed. In other words it was
14 always, I shouldn't say always, but in the timeframe
15 you're talking about it's always been a majority of
16 our product.

17 CHAIRMAN PEARSON: Has that percentage
18 increased over time? Is that the direction of change?

19 MR. GOLDSMITH: That's correct.

20 CHAIRMAN PEARSON: For purposes of the post-
21 hearing could you provide us some data on that? This
22 is an issue that potentially relates to cumulation in
23 regard to Canada.

24 MR. GOLDSMITH: Yes, we can.

25 CHAIRMAN PEARSON: Thank you. Those are all

1 the questions that I have right now.

2 Madame Vice Chairman?

3 (No response.)

4 CHAIRMAN PEARSON: Commissioner Lane?

5 COMMISSIONER LANE: I decided I did want to
6 ask these last two questions. This is for the
7 American Wire Producers Association.

8 You argue in your pre-hearing brief that US
9 wire rod producers' affiliation with subject producers
10 mean that the foreign producers would have no interest
11 in disrupting the US market. For wire rod there are a
12 relatively large number of US producers and none have
13 a majority or even close to a majority market share.
14 Moreover, there is a wide range of products within the
15 wire rod category. Given those conditions of
16 competition in the US market, wouldn't there be
17 significant opportunities for foreign subject
18 producers that have affiliates in the United States to
19 enter the United States market in ways that would
20 produce an overall net benefit for the affiliated
21 group while injuring non-affiliated domestic
22 producers?

23 MR. WAITE: Fred Waite, General Counsel,
24 AWPA.

25 We heard this morning from the panel of the

Heritage Reporting Corporation
(202) 628-4888

1 domestic industry that imports that come into the
2 United States regardless of the nature of the imports
3 have a rippling effect throughout the industry. So by
4 their own analysis, even if a foreign affiliated mill
5 were to ship in a product, and this is all
6 hypothetical because the domestic industry also said
7 they make everything and the foreign producers make
8 everything. But if an affiliated foreign mill were to
9 bring in product that hypothetically is not made by
10 their US affiliate, there would still be a rippling
11 effect that could have a negative impact on the US
12 affiliate.

13 Our position and it's one that's based not
14 on first-hand knowledge of the internal policies and
15 guidelines of ArcelorMittal or Gerdau Ameristeel for
16 that matter, but based on conversations with their
17 marketing people, as you've heard today those
18 marketing people in the United States control imports
19 from their affiliated mills. Any purchases from the
20 affiliated mills are made through the US affiliates.
21 It seems as a matter of corporate policy, short-
22 sighted and even foolhardy to engage in practices that
23 could have a negative effect on your US operations.

24 Now I know the domestic industry this
25 morning were making an argument well Mittal Georgetown

1 in Georgetown, South Carolina, is a small operation.
2 It's insignificant. Again, we are very uncomfortable
3 speaking for ArcelorMittal. Like the Vice Chairman, I
4 think like the rest of the Commissioners, we were
5 looking forward to ArcelorMittal explaining to you
6 what their corporate policies are. They haven't. And
7 they haven't done it in a public forum. They've done
8 it in other cases but they've not done it in this one.
9 I draw my own conclusions from that, but I think your
10 conclusions need to be drawn from communications
11 directly with that company.

12 We also heard this morning from Gerdau, and
13 I believe it was Mr. Kerkvliet's words, sometimes the
14 left hand doesn't know what the right hand is doing or
15 the right hand doesn't know what the left hand is
16 doing. I guess they're ambidextrous. And that it
17 could have an occasion where the foreign affiliated
18 mill was shipping into the United States and the
19 domestic mill didn't know.

20 Again, that's contrary to the
21 representations made by Gerdau Ameristeel and
22 ArcelorMittal to our members, and indeed we presented
23 to you in our pre-hearing brief, it's in Exhibit 3,
24 information. In fact it's a series of letters going
25 back to mid 2007 from Gerdau Ameristeel to customers

1 in the United States signed by their sales
2 representative, Doug Webber, offering product from the
3 Gerdau Ameristeel mills in the United States, but also
4 from their mill in Brazil. Same product.

5 Interesting, different prices. The Brazilian price is
6 higher than the American price. But it strikes me as
7 peculiar to be told that Gerdau Ameristeel may not
8 know what Gerdau Brazil is doing when in fact they're
9 marketing their products to our members directly.

10 Again, Madame Commissioner, we cannot speak
11 for ArcelorMittal, and I would hope that the questions
12 that were directed to counsel for ArcelorMittal are
13 conveyed to ArcelorMittal so you can hear directly
14 from them what their policies and practices are and
15 whether they would engage in any marketing activities
16 in the United States that could have an adverse impact
17 on the domestic industry.

18 I think not. And our members have certainly
19 been told that when they deal with the company they
20 deal only with the Chicago sales office and not with
21 the foreign sales offices.

22 COMMISSIONER LANE: I have one more
23 question.

24 One of the primary points that you argue is
25 that the domestic industry is enjoying record profits.

1 To make that point you focus on financial results for
2 2004 rather than current results. You also argue that
3 the industry has increased its prices substantially
4 since 2004. However, I'm not sure those two arguments
5 can be put together without also looking at cost
6 increases since 2004. Since 2004 the domestic
7 industry's ratio of operating income to revenues has
8 dropped from 14 percent to 3.2 percent.

9 Regardless of the "record profits" you
10 mentioned for 2004, isn't the present condition of the
11 industry and the trend since 2004 a warning signal
12 that this industry could be in trouble and vulnerable?

13 MR. WAITE: Madame Commissioner, Fred Waite
14 again.

15 We spoke of 2004 I believe only in the
16 context that that was a record year for the domestic
17 industry. I do not believe during the course of this
18 review that we have made any comments or
19 representations about the profitability or the desired
20 profitability of the domestic industry.

21 Again, we're speaking for ourselves as
22 customers. We have supplied to you extensive
23 information about price increases, and of course that
24 comes from the domestic mills themselves. All of the
25 price increase announcements that we included in our

1 brief, all of the communications from the domestic
2 mills about price increases and the reasons for the
3 price increases are from their own lips. We're not
4 putting words in their mouths. And we're not
5 characterizing those price increases as price gouging,
6 as I heard this morning.

7 Quite the contrary, you've heard all
8 afternoon that the members of our association and
9 other purchasers who are here recognize that these
10 record price increases are being driven by cost
11 increases in metallics and in some instances energy
12 and other factors.

13 So we are simply focusing on the price
14 increases for the purpose of showing first, domestic
15 prices are going up and they're sticking.

16 It was very interesting this morning when a
17 question was asked of the domestic industry panel, are
18 these price increases that we've seen announced over
19 the last year, sticking?

20 Again, Mr. Kerkvliet answered first. And
21 instead of responding whether or not they are
22 sticking, he was explaining well, it's not enough to
23 recapture our increased costs. That's not the issue.

24 The issue from our perspective is are the
25 prices sticking? These members can tell you right

1 now, that yes, the price increases, and especially the
2 phenomenal price increases that have occurred since
3 the beginning of this year are sticking and they're
4 paying those prices.

5 Mr. Cheek responded, I think, that they
6 weren't sticking and I think that should be pursued
7 further. Again, our members who buy from Mr. Cheek as
8 well as all the other domestic mills report yes, the
9 price increases are sticking, they're paying the price
10 increases because they can't get the steel without it.

11 Point two, the increase in price. Even with
12 these increases in pricing, the domestic prices are
13 below world prices. you don't have to take our word
14 for that. This morning Commissioner Williamson quoted
15 to Mr. Cheek a letter that his colleague and a good
16 friend of mine, Richard Webb, sent to his customers
17 about pricing worldwide this year. What Mr. Webb of
18 Keystone stated was, wire rod prices in the rest of
19 the world remain significantly higher than in the US.
20 And he went on to say this. "Therefore, foreign mills
21 have no incentive to ship to our market."

22 The third point is directly related to that
23 which is import prices of wire rod in the United
24 States today are higher than domestic prices, and
25 you've heard that repeatedly from the gentlemen here

1 who buy about 1.5 million tons of wire rod a year, and
2 they're telling you that the foreign price is between
3 \$50 to \$100 higher than the domestic price.

4 COMMISSIONER LANE: Thank you.

5 Thank you, Mr. Chairman, that's all I have.

6 CHAIRMAN PEARSON: Are there any further
7 questions from the dais?

8 (No response.)

9 CHAIRMAN PEARSON: Do members of the staff
10 have questions for this panel?

11 MR. BERNSTEIN: Yes, this is Marc Bernstein,
12 Office of General Counsel. I have one brief question
13 and one request on cumulation.

14 The question is for the attorneys at Hunton
15 & Williams. Just to clarify one of your arguments, at
16 pages five to eight of your pre-hearing submission you
17 argue that the Canadian subject producers export a
18 different product mix than do producers from the other
19 subject countries. Are you arguing that there's not a
20 likely reasonable overlap of competition between the
21 subject imports from Canada and imports from subject
22 countries? Or does this merely go to your argument
23 that the Commission should exercise its discretion not
24 to cumulate subject imports from Canada because of
25 differences in likely conditions of competition?

1 MR. HEFFNER: Doug Heffner from Hunton &
2 William. That goes to the latter point you were
3 making, conditions of competition.

4 MR. BERNSTEIN: Thank you for the
5 clarification.

6 The request is directed to counsel
7 generally.

8 In your post-hearing submission if you have
9 a different position on the eligibility of subject
10 imports from Trinidad and Tobago to be cumulated, than
11 the position that was stated this morning by Ms.
12 Cannon in response to a Commissioner question, we
13 would appreciate if you could inform us of that in
14 your post-hearing submission.

15 That is all. Thank you.

16 CHAIRMAN PEARSON: Does counsel for the
17 domestic industry have questions for this panel?

18 VOICE: No.

19 CHAIRMAN PEARSON: Very well.

20 That concludes the panel, then. Thank you
21 all very much. It's been a most interesting afternoon
22 and I've appreciated the good spirited way in which
23 we've been able to address these issues. You're
24 dismissed.

25 Time check.

1 The domestic industry has a total of seven
2 minutes left from the direct presentation, five
3 minutes for closing, for a total of 12.

4 Those in opposition to continuing the order
5 have one minute left from the direct presentation,
6 five for closing, for a total of six.

7 Mr. Rosenthal, how would you like to
8 proceed? Do you want separate time for rebuttal, or
9 do you want to just let the 12 minutes run together?
10 Mr. Price needs time, too.

11 MR. ROSENTHAL: We'll have the 12 minutes
12 run together. Mr. Price will take the first three or
13 so, then I'll continue from there.

14 CHAIRMAN PEARSON: Okay. You trust him to -
15 -

16 (Laughter.)

17 MR. ROSENTHAL: No, but I'm sitting very
18 close to him.

19 (Laughter.)

20 CHAIRMAN PEARSON: Okay, great.

21 Please proceed when you're ready.

22 MR. PRICE: Thank you, Chairman Pearson and
23 members of the Commission. First I'm going to hit
24 just a few points here. This is a fairly unusual
25 case with a fairly unusual set of issues in it.

1 Commissioner Aranoff, I understand the philosophical
2 questions there in the musings, but the issue today is
3 whether the US rod industry will be injured by
4 revocation of this order in the reasonably foreseeable
5 future. The issues of the wire industry are not
6 particularly relevant here. I know you know that.
7 But the wire people always try to put that on the
8 table. Somehow that there's some weighing here.
9 There's no weighing of the downstream consumers here.

10 With regard to cumulation, I'm going to
11 submit to you a slightly different way of thinking
12 about this case, but consistent with your past
13 precedent, the only issue that is really before you,
14 perhaps, is whether or not you should be cumulating
15 Moldova with all the other countries here because of
16 the presence of ArcelorMittal or Mittal in six of the
17 seven countries. Because of that, that may be what
18 your issue is down to on cumulation.

19 Finally, Chairman Pearson, my answer on this
20 is fairly clear and fairly direct and exactly what my
21 client told me. Yes, there will be a restocking and
22 collapse if this order is revoked. The patterns that
23 we have seen repeatedly in this industry will recur.
24 They will recur in the reasonably foreseeable future.
25 The boom and bust cycle that exists as a matter of

1 history in this case will not stop. One of the
2 important ways of stopping that and limiting the harm
3 of that boom and bust cycle is to keep these orders in
4 place.

5 Three percent, frankly, long term is
6 inadequate as a rate of return, and the customers here
7 are price driven. They are out there seeking imports.
8 The US market will be attractive. It historically is,
9 and that historical relationship while it changes
10 every once in a while, for small periods will not
11 change. The likelihood is that the US market will be
12 sufficiently attractive to attract imports.
13 Regardless of the self-select group of witnesses that
14 were here, I recommend that you look at the purchaser
15 questionnaires. A number of those questionnaires were
16 pretty straightforward. That if these orders are
17 lifted, prices will go down, imports will increase,
18 and as a result, the industry will not return the
19 levels of profit adequate to justify the investment
20 and to fully and properly service this market.

21 Thank you.

22 MR. ROSENTHAL: Very briefly I want to
23 return to some fundamentals that I think the
24 Respondents have completely ignored today and in their
25 briefs.

1 The domestic industry does not have to
2 supply the entire market in order to get import relief
3 in the first instance or to keep import relief in a
4 sunset review. Ninety percent of the testimony today
5 was about can you supply the market. It's ridiculous.
6 And this issue under the statute, that's ridiculous.

7 Mr. Waite's complaint about not being
8 statutorily authorized to be under APO is absolutely
9 correct because as a downstream customer he does not
10 have a right and his clients don't have a right to
11 relief here if they can't get the product.

12 So what are we focusing on? What's going to
13 happen if the order is revoked?

14 It's ironic here that you have the Canadians
15 and the Mexicans coming in and saying we are full up,
16 our capacity is totally used up in supplying the
17 Canadian market and the Mexican market, and so if the
18 order is revoked we're not going to ship any more to
19 the US.

20 What are they doing here then? Why do they
21 care if they can't supply this market? I'm sorry no
22 one asked them that question. I'm pretty sure this is
23 not a philosophical debate for them.

24 And I have to say that it's kind of
25 frustrating when you hear some of the folks on both

1 sides, who I respect, some of them are actually my
2 clients, who were here a couple of years ago during
3 the China case, and now are exactly describing the
4 marketplace as we described it then. Look what
5 happened, boom and bust cycle concerning the rushing
6 in of the imported product, the Chinese product; the
7 buildup of inventories; the collapse of the market.
8 It happened exactly the way we said it would happen a
9 couple of years ago.

10 I don't blame the Commission entirely for
11 the vote then, because you got faulty data. If you
12 had gone to a full investigation I think you would
13 have come to a different conclusion. I fault you for
14 making the decision in the prelim and not going to the
15 final. But if you actually compare some of the
16 profitability data you have in today's record, it's
17 different than the one you got in your quick prelim.

18 But exactly what we said would happen is
19 what did happen in a couple of years and the market
20 went from 14 percent down to 3 percent in terms of
21 profitability.

22 That's not sustainable. Even the
23 Respondents today said that's not sustainable.

24 So what's going to happen if this order is
25 revoked? One of the witnesses, and I'll submit this

1 article for the record, I don't want to embarrass him
2 publicly. Well, he wouldn't be embarrassed by this.
3 It's a statement that's true and I respect him. But
4 he basically in response to a question about what's
5 going to happen with China and imports says, "If we
6 felt more comfortable with the direction of the
7 economy I think you'd see the rod back in the US
8 market."

9 There's no structural problem with imports,
10 it's a question of whether the importers feel they
11 need to import the Chinese product.

12 While we were sitting in this hearing
13 earlier today, one of my clients in the back of the
14 room got two e-mails forwarded by their wire-producing
15 subsidiary from Chinese sources offering Chinese rod
16 for delivery later this year. We'll submit those for
17 the record.

18 Do not think because of exchange rates or
19 anything you've heard today, that the imports from
20 China and other sources will not be back in this
21 market. And please don't think that if you revoke
22 these orders anything other than what the purchasers
23 and importers have said to you in the questionnaires
24 will take place. That is higher volumes of imports
25 and lower prices.

1 This industry is barely able to cover the
2 rapid cost increases you've heard about. I was happy
3 to hear the Canadian witness urge the industry to
4 raise prices even higher. I'm sure the purchasers
5 were not exactly on board there. But they haven't
6 been able to do that.

7 There is nothing that can happen in this
8 industry other than lower prices and higher volumes if
9 you revoke these orders. That is the inevitable
10 consequence.

11 You don't have to take my word for it.
12 Listen to the importers, listen to the purchasers.

13 We have a lot more to say, I just have one
14 or two cleanup items.

15 Mr. Williamson asked a couple of times and
16 so did Commissioner Pinkert, about the industry
17 shifting into higher valued, higher end product. In
18 fact it has happened. The data is there. We should
19 have pointed it out earlier, but I want to make sure
20 you know about it and Commissioner Pinkert knows about
21 it.

22 Commissioner Aranoff I know was pressing us
23 on the business plans. I understand that one other
24 business plan has been submitted that you haven't
25 seen, and it's there. I'd ask Commissioner Aranoff to

1 make a similar plea to the foreign producers as well.
2 Ivaco made a well-known or celebrated by them pitch
3 that we actually submitted, they submitted their
4 business plan. They're the only ones who have done
5 it. And I would argue in a sunset review it's more
6 important for the foreign producers to be submitting
7 their plans than it is for the domestic producers.
8 You need to know what their intentions are. In too
9 many investigations the foreign producers don't reply
10 at all, they don't supply their business plans.

11 We'll give you what you asked for,
12 Commissioner Aranoff. I hope you insist on the similar
13 responses by the Respondents here.

14 We want this industry to survive. I know
15 you do too. I think there's actual progress being
16 made because there are discussions, as you've heard,
17 between certain members of the domestic industry and
18 certain of the customers for long term deals, whether
19 they're written contracts or not. That's what this
20 industry needs for stability to do what it can to get
21 to the profitability to be sustaining.

22 But for purposes of your decision, you have
23 to look at the statutory factors. What will happen if
24 these orders are revoked? There is no question what
25 the result will be. We're not talking about a

1 recurrence of injury. This industry at a three percent
2 profit level for the last couple of years, given what
3 it needs to do to maintain its competitive nature,
4 cannot survive. It is currently being injured and it
5 will be in worse condition and there will be more
6 bankruptcies. Four of the companies are now operating
7 at a loss. The three percent figure actually masks
8 what's going on in this industry. Four companies are
9 operating at a loss. That's going to deepen. There
10 will be more companies at loss and they'll be out of
11 business.

12 So please, we urge an affirmative
13 determination in this case. Thank you.

14 CHAIRMAN PEARSON: Thank you Mr. Price and
15 Mr. Rosenthal.

16 Mr. Silverman?

17 All counsel who are planning to participate,
18 please come forward.

19 Do you wish to separate your one minute and
20 rebut separately? Or do you want to run the six
21 minutes together?

22 MR. SILVERMAN: He needs 30 seconds.

23 MR. WINTON: I'll speak quickly.

24 CHAIRMAN PEARSON: That will be fine.

25 MR. WINTON: I'm really disappointed in Mr.

1 Rosenthal who finished, I like him a great deal and I
2 respect him a great deal but he finished by saying why
3 are we here? It's a shame nobody asked us.

4 Of course you did ask Mr. Rosenthal if he
5 had any questions for the panel, and it slipped his
6 mind because he just wanted to make a rhetorical
7 point.

8 The reason we're here is quite obvious. The
9 Mexican steel industry believes quite strongly that
10 the integration of the North American industry is the
11 key to the survival of all of the producers in North
12 America, and that antidumping orders of any type are a
13 problem for integration. They also want to clean the
14 slate of the US-Mexico trade. They don't like this
15 sort of dispute.

16 Finally I think you have to bear in mind,
17 although my client assures me they have no intention
18 to export, when they do the administrative costs of an
19 administrative review at Commerce, which don't depend
20 on how much you export. You export one tone or a
21 million tons, it's really almost the same amount of
22 work. It prevents even small exports, it especially
23 prevents small exports if you're subject to the
24 tyranny of pointless administrative reviews.

25 That's why we're here, and thank you, Paul,

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1 for giving me the opportunity to answer the question
2 you didn't ask.

3 MR. MALASHEVICH: Members of the Commission,
4 my remarks are directed of course generally but mostly
5 to Commissioner Aranoff's philosophy and also to
6 Commissioner Lane's concern about the adequacy of the
7 domestic industry's profitability.

8 If I understand the idea of structural
9 vulnerability correctly, I don't think it's applicable
10 in this proceeding. Essentially the same reasons
11 explain why the domestic industry's profitability is
12 and has been adequate.

13 The Commission enjoys an unusual time series
14 of domestic industry financial data going back almost
15 20 years. It's analyzed in the Ivaco brief. It's
16 simply not plausible that an industry can be
17 structurally vulnerable while continuing to produce,
18 invest and very recently even expand its production
19 capacity over two decades.

20 For the same reason, its profitability in
21 fact has been adequate in the Ivaco brief.

22 I personally believe this is an industry
23 that has always produced and traditionally produced
24 low margins of operating income. From the standpoint
25 of the major steel companies that now control the

1 majority of US production, rod is basically a marginal
2 product. That's what came out in the discussion of
3 business plans today. And is only expected to achieve
4 a marginal profit and that has been adequate.

5 Thank you.

6 MR. SILVERMAN: Mr. Chairman and members of
7 the Commission, this has been really a historic kind
8 of proceeding for me. I've practiced before the
9 Commission for many years on the Respondent side. I
10 think it was historic for me because for many years we
11 on the Respondent side have felt that the Commission
12 was being stiffed time and time again when you asked
13 for business plans and other supporting documents. In
14 this case there are 13 questions in the questionnaire
15 that use that term on key financial information. For
16 the domestic industry to be very clever and say
17 business plan, well, we don't have that word in our
18 vocabulary, there's no statutory definition of
19 business plan. I understand that. But that's not the
20 intention of the Commission. They use the word
21 business plan and other supporting documents. You
22 don't have to have a PhD in linguistics or anything
23 else to understand what the Commission was after and I
24 think it's outrageous in this case as in many cases
25 that the Commission has been stiffed on a key issue.

1 And if they provide anything now it's too
2 late for us because they'll put it with their post-
3 hearing brief.

4 So I urge you to use the evil word. Maybe
5 it will work some day. It starts with an S and it's
6 not Silverman. Subpoenas. Because these people will
7 run you around in circles as they did in this case.
8 It's vital information. They don't make investments.
9 They don't make acquisitions without serious financial
10 information, analysis, et cetera, and they've spun you
11 around by saying it's not a business plan just for
12 this product. That's not what the questionnaire says
13 in 13 places. It's not what the e-mail from the staff
14 said. Other documentation. Anybody who understands
15 discovery knows how words are brought.

16 So I think it's a very important day to hear
17 that raised to the level of let's get serious here and
18 stop being stiffed.

19 Second, this is a case about the future.
20 That's what a sunset is. And the predictions about
21 what's likely to happen. It's very unusual in this
22 case that you have, you might say, a control group.
23 You heard their predictions 2.5 years ago in the
24 Chinese case. You heard all those predictions. I
25 read three of them at the beginning. I've got a

1 longer list. I started counting your predictions
2 today. I ran out of paper. They're making so many of
3 these predictions. That's what it's all about.

4 But you saw in that case and ruled against
5 them because you didn't believe their predictions that
6 they didn't support their predictions, and now 2.5
7 years later you can look and see in our record how the
8 bulk of their predictions did not apply.

9 Last, and therefore, I recommend that you
10 beware of a new round of self-serving, unreliable
11 predictions. We already know they failed on that test
12 before and they're doing it again.

13 And last, if you look at the trend in all
14 these measures of economic profitability, et cetera,
15 and you plot changes in those against imports from
16 Canada, there is no correlation.

17 The Commission used that analytical tool in
18 the Chinese case to find no causation. The same
19 analysis should be applied here.

20 If you try to apply changes in their
21 profitability against changes in Canadian imports or
22 imports from all countries, there is no correlation.
23 Therefore there is no causation. They can say it as
24 many times as they want. That's an empirical basis.
25 The Commission has used it just 2.5 years ago, and it

1 applies here. Thank you.

2 CHAIRMAN PEARSON: Thank you.

3 Now I get to read a closing statement.

4 In accordance with Title 7 of the Tariff Act
5 of 1930, posthearing briefs, statements responsive to
6 questions and requests of the Commission and
7 corrections to the transcript must be filed by
8 April 28, 2008; closing of the record and final
9 release of data to the parties due on May 22; final
10 comments due May 27. Thank you all very much. This
11 hearing is adjourned.

12 (Whereupon, at 5:23 p.m., the hearing in the
13 above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Carbon and Certain Alloy Steel

INVESTIGATION NOs: 701-TA-417 and 731-TA-953, 954, 957-959, 961, and 962 (Review)

HEARING DATE: April 17, 2008

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

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

DATE: April 17, 2008

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos E. Gamez
Signature of Proofreader

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

SIGNED: Barbara Berney
Signature of Court Reporter