UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
CERTAIN OIL COUNTRY TUBULAR	)	701-TA-463 and
GOODS (OCTG) FROM CHINA	)	731-TA-1159 (Final)

Pages: 1 through 417

Place: Washington, D.C.

Date: December 1, 2009

HERITAGE REPORTING CORPORATION
Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005
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Tuesday,
December 1, 2009

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

The hearing commenced, pursuant to notice, at 9:31 a.m. before the Commissioners of the United States International Trade Commission, the Honorable SHARA L. ARANOFF, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

SHARA L. ARANOFF, CHAIRMAN
DANIEL R. PEARSON, VICE CHAIRMAN
DEANNA TANNER OKUN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
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THE HONORABLE ARLEN SPECTER, United States Senator, Pennsylvania
THE HONORABLE BLANCHE L. LINCOLN, United States Senator, Arkansas
THE HONORABLE SHERROD C. BROWN, United States Senator, Ohio

STATE GOVERNMENT APPEARANCES:

THE HONORABLE EDWARD G. RENDELL, Governor of Pennsylvania
THE HONORABLE TED STRICKLAND, Governor of Ohio

U.S. HOUSE OF REPRESENTATIVE APPEARANCES:

THE HONORABLE JOHN P. MURTHA, U.S. Representative, 12th District, Pennsylvania
THE HONORABLE ALAN B. MOLLOHAN, U.S. Representative, 1st District, West Virginia
THE HONORABLE PETER J. VISCLOSKY, U.S. Representative, 1st District, Indiana
THE HONORABLE DENNIS J. KUCINICH, U.S. Representative, 10th District, Ohio
THE HONORABLE TIMOTHY F. MURPHY, U.S. Representative, 18th District, Pennsylvania
THE HONORABLE TIMOTHY J. RYAN, U.S. Representative, 17th District, Ohio
THE HONORABLE JASON ALTMIRE, U.S. Representative, 4th District, Pennsylvania
THE HONORABLE BETTY SUTTON, U.S. Representative, 13th District, Ohio
THE HONORABLE KATHLEEN A. DAHLKEMPER, U.S. Representative, 3rd District, Pennsylvania

APPEARANCES: (Cont'd.)

LOCAL GOVERNMENT OFFICIAL APPEARANCE:

THE HONORABLE JAY WILLIAMS, Mayor of Youngstown, Ohio

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

On behalf of TMK IPSCO, Evraz Rocky Mountain Steel, V&M Star, L.P., V&M TCA, LLC, Wheatland Tube Company, Northwest Pipe Company and United Steel Workers:

LEO GERARD, President, United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC
JAMES HERALD, Managing Director, V&M OCTG North America
ROGER LINDGREN, President, V&M Star
MICHAEL JARDON, President, V&M USA Corporation
L. SCOTT BARNES, Senior Vice President & Chief Commercial Officer, TMK IPSCO
WILLIAM KERINS, President, Wheatland Tube
RALPH BOSWELL, Vice President for North American Sales, Atlas Tube
ROBERT SIMON, Vice President & General Manager, Evraz Rocky Mountain Steel
ROBERT OKRZESIK, Director of Seamless Sales, Evraz Rocky Mountain Steel
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SCOTT DUBOIS, President, Premier Pipe, L.P.
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ROLAND BALKENENDE, President, Tenaris Global Services (USA) (Maverick Sales Division in the United States)
GUILLERMO VOGEL, Vice President, Finance, Board Member, Tenaris S.A.
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On behalf of Chinese Respondent Producers of OCTG:

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P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN ARANOFF: Good morning. On behalf of the U.S. International Trade Commission I welcome you to this hearing on Investigation Nos. 701-TA-463 and 731-TA-1159 (Final) involving Certain Oil Country Tubular Goods From China.

The purpose of these investigations is to determine whether an industry in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of subsidized and less than fair value imports of certain oil country tubular goods from China.

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

All witnesses must be sworn in by the Secretary before presenting testimony. I understand that parties are aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary. Speakers are reminded not to refer in their remarks or answers to questions to business proprietary information. Please speak clearly into the microphones and state your name for the record for the benefit of the court reporter.

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

Mr. Secretary, are there any preliminary matters?

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

(Witnesses sworn.)

CHAIRMAN ARANOFF: Thank you. Will you please announce our first congressional witness?

MR. BISHOP: The Honorable Arlen Specter, United States Senator, Pennsylvania.

CHAIRMAN ARANOFF: Senator Specter, welcome back to the Commission.

MR. SPECTER: Thank you, Madam Chair. Chairman Aranoff and members of the Commission, I appreciate the opportunity to testify before you today in support of the petition filed on April 8, 2009, by the domestic industry producing oil country tubular goods, OCTG, seeking relief from market disruption caused by the recent surge of imports of OCTG from the People's Republic of China.

At issue are Chinese imports of seamless and welded steel tubular products used in drilling for oil and gas. Overall, the domestic OCTG industry consists of seven products with 11 OCTG producing plants in eight states. In Pennsylvania, TMK IPSCO Enterprises employs 300 workers in Ambridge and 450 workers in Koppel, Pennsylvania. Wheatland Tube Corporation employs over 800 workers in Wheatland and Sharon, Pennsylvania.

OCTG is a vital, high value steel product whose supply chain involves virtually all aspects of the domestic still industry, including ore production, raw steel production and the making of hot-rolled steel, which is the primary input for welded OCTG products. As such, unfair trade in this sector negatively impacts the entire steel industry.

I submit to the Commission that the facts of the case demonstrate that a surge of imports has occurred and that it has caused market disruption to the domestic producers.

1) Imports of OCTG from China surged 203 percent from 2006 to 2008, making China the largest

single exporter of OCTG to the U.S. market. To put this surge in context, imports of OCTG from all sources increased by only 27.4 percent during the same period.

The surge in Chinese OCTG imports has continued in 2009, as over 700,000 net tons of OCTG has entered the United States during the first three quarters of this year. This surge in Chinese imports in 2008 and into this year, in combination with the economic downturn, has led to one of the most massive inventory buildups in history.

2) Chinese OCTG products are priced well below such imports from other countries. In 2008, the average unit value of Chinese OCTG was $1,277 per net ton while the average unit value of all other imports excluding China was $1,676 per net ton.

3) U.S. producer market share fell from 59.2 percent in 2006 to 44.4 percent in 2008 to 33.9 percent in 2009. During this period, China's market share increased from 15 percent in 2006 to 33 percent in 2008 to 37 percent in 2009.

4) Domestic industry and its workers have suffered substantially. More than 2,100 domestic workers have lost their jobs over the past year, and countless more jobs were lost among suppliers and

related industries.

By spring 2009, six OCTG producing facilities were idled, including the TMK-IPSCO mills in Koppel and Ambridge, Pennsylvania. While these plants are now operating at minimum capacity, overall capacity utilization for the industry has dropped from 68.5 percent in 2006 to 17.6 percent in 2009.

While the facts demonstrate that there has been serious market disruption, I would also like to address a few legal points:

First, the Commission is charged with examining whether imports have caused "material injury" or whether they threaten material injury to the domestic industry. I would submit to this Commission that there is no greater indication of material injury than the impacts that have been felt by our workers.

Lost jobs, reduced hours, plant shutdowns and the larger effects on our communities represent the most severe and intolerable harm from unfair trade. Our law clearly recognizes these impacts as material injury, and I would submit they are the worst form of injury.

Second, the economic crisis can in no way excuse the behavior of Chinese mills. No doubt, these companies will suggest that the downturn is responsible for the current state of the domestic industry. This argument completely ignores the impact of more than two million tons of unfairly traded imports into this market in 2008 and more than 700,000 additional tons in 2009 after the economic crisis hit.

Whether in times of economic boom or bust, this type of volume of dumped and subsidized product will have highly injurious effects. Our law makes clear that foreign producers are responsible for the negative effects associated with unfair trade, no matter where that harm occurs in the business cycle.

Third, the lack of cooperation by Chinese producers should weigh heavily. As I understand it, the Commission received responses to its information requests from only about a dozen Chinese producers, when nearly 200 Chinese producers of OCTG were identified by Petitioners or the Commission staff.

It is inconceivable that the United States would subject its OCTG industry or workers to additional unfair trade when the vast majority of Chinese producers do not even participate or provide useable information in the Commission's investigation. Our law specifically allows the Commission to make adverse inferences in response to such noncooperation, and I would submit that this is the kind of circumstance that dictates such a course of action.

The record demonstrates that the recent surge in OCTG imports from China has caused market disruption, negatively affecting domestic workers and producers. If relief is not granted, our domestic production facilities and the workers employed there will remain at risk.

American workers and their families continue to face severe economic challenges as China continues to engage in unfair trade and anticompetitive business practices, which have included subsidized capacity expansion, limited workplace and environmental standards and currency manipulation. Relief should be implemented on behalf of the domestic industry so that it may compete on a level playing field with China.

I urge the Commission to consider fully and fairly the evidence presented in the petition, as well as the testimony provided here today, and issue an affirmative finding on behalf of U.S. workers and the domestic industry. I thank the Chair and I thank the Commission. I'd be glad to respond to questions and, as I always say, I'd be glad not to respond to questions.

CHAIRMAN ARANOFF: Thank you, Senator. Does anyone have a question for Senator Specter?

(No response.)

CHAIRMAN ARANOFF: Thank you very much for coming this morning.

MR. SPECTER: Thank you.

MR. BISHOP: The Honorable Sherrod C. Brown, United States Senator, Ohio.

CHAIRMAN ARANOFF: Welcome, Senator Brown.

MR. BROWN: Thanks. It's great to be back. Thank you for your work. Thank you for your courage on the decision on Chinese tires already. In Findlay, Ohio, more than a hundred workers have been hired back, even in times of a terrible recession and lower demand overall, and I believe in Texarkana, which I can speak for, several hundred were hired by Cooper Tire there also, so thank you for your presence and your good sense. I appreciate that.

Madam Chair, members of the committee, I am here today in support of the workers in my state and around the country whose jobs have been lost or whose jobs are on the line due to subsidized oil country tubular goods from China. I hope someday I'll come before this Commission, Madam Chair, under better circumstances, but over the past two years I've come before you with a similar message in trade cases as varied as thermal paper, tires and hot-rolled steel.

The message is that American manufacturers are again suffering a double blow from the economic recession and from unfair trade practices in China. American workers can compete with China when our trade laws are enforced, but when these laws are not enforced we lose jobs, we lose wealth, we lose economic strength, we lose in community after community teachers and firefighters and police officers as people lose their jobs and as plants either scale back production or actually close.

If not for our trade laws and safeguards, we would be seeing depression-like situations in communities throughout Ohio. We see it in Findlay, as I mentioned, at Cooper Tire. Since the President's decision to exercise Section 421 safeguards against Chinese tires, workers in Findlay face a much brighter future again because of your decision and President Obama's decision.

I think fellow congressional witnesses will agree rigorous enforcement of U.S. trade law is critical to the viability of domestic manufacturing and the economic security of our workers. Ohio is home to U.S. Steel in Lorain, to V&M Star in Youngstown, to Wheatland Tube in Warren. Workers from those companies are here today in this room.

All of these companies manufacture oil country tubular goods. These products are essential to equip our energy market. The steel pipe workers of my state have quite simply had the rug pulled out from under them due to one of the most inexcusable floods of dumped and subsidized products in history. The Commerce Department issued a determination last week that the Chinese have subsidized imports at levels ranging from 10 to 15 percent of product cost. How can anybody compete with that?

The workers and their families affected by this anticompetitive behavior are going into this holiday season fearful and apprehensive. They want to work. They want to be in the middle class. They want to contribute to the community. But they face an economy with a scarcity of jobs and an OCTG industry, the industry that provided their livelihoods, with a target on its back.

As you know, 2008 was a good year for oil and gas and for the OCTG industry. Chinese mills responded by shipping 2.2 million tons of dumped and subsidized products into this market. This equated to 32.7 percent of the U.S. market. What country in the world, Madam Chair, allows this to happen? What country in the world would allow this to happen?

In the fourth quarter of 2008 alone, the Chinese shipped more than 960,000 tons of OCTG into the United States. To give you an order of magnitude, that level of shipments represented more than 70 percent -- seven zero, 70 percent -- of end use consumption in one of the most dynamic markets in history. Annualized it would account for virtually all of the OCTG needed in our country.

While I'm sure you hear the word flood tossed around in ITC hearings frequently, this was more than a flood. It was a tidal wave. With OCTG inventories at near record levels during one of the most severe economic downturns in memory, Chinese producers sent more than 700,000 tons of OCTG to this market in the first five months of 2009. This is at a time, mind you, when the domestic industry had largely shut down or was operating at skeleton rates.

In 2009, Chinese producers took an even larger share of the market, accounting for 37 percent of the U.S. OCTG market during the first three quarters. The effects on our industry have been horrendous. One of the two mills in Lorain, about seven miles from my house, was shut down in March. V&M had the first layoffs in his history at its

Youngstown plant, a town that's had way too much suffering already from Chinese imports.

By the end of the first quarter of this year, all mills across the country were either closed or operating at less than 30 percent of their capacity. Again, I say what other country in the world would allow this to happen to their steel industry and not enforce its trade laws?

More than 2,000 jobs were lost in this industry. That doesn't include the numerous jobs lost among suppliers and ripple effects in communities and the entire supply chain and the ripple effects it has. With inventories still at astronomical levels, the situation has barely improved at all through the year. If we cannot deal effectively with this type of predatory market behavior, we have no chance to re-establish the health of manufacturing in this country.

Madam Chair, I read an article written by a fairly conservative economist out of George Mason in the *New York Times* on Sunday, and in spite of what we all want to think, that the Chinese are going to become a consumer society as they get wealthier and wealthier, the facts do not support that. The Chinese consumption as a percentage of its GDP has actually declined in the last 10 years, and the Chinese are going to continue to follow this business model of overcapacity, produce as much as they can and flood every market around the world that will let them.

That's their business model. They'll continue that business model as a nation as we continue to see jobs in this country outsourced, if you will, to China. That's why your work is so very, very important and that's why it's so important that we simply stop giving away our industrial base to China and to other countries.

I've been chairing hearings in the Economic Policy Subcommittee and the Banking Committee on the major opportunities and challenges facing American manufacturing. From these hearings it's clear to me that fair trade policies, trade policies that demand and enforce a level playing field and that preserve the economic and social and environmental progress our nation has made, must be part of our national manufacturing strategy.

Strong trade enforcement is the force that turns fair trade rules into fair trade fact as you did with Chinese tires. It's vital to our nation's global competitiveness. I urge you to render an affirmative decision and prevent further unfair trade from harming our workers and our industries. Thank you, Madam Chair, for considering my views.

CHAIRMAN ARANOFF: Thank you very much, Senator. Does anyone have a question?

(No response.)

CHAIRMAN ARANOFF: Thank you for coming this morning.

MR. BISHOP: The Honorable Edward G. Rendell, Governor of Pennsylvania.

MR. RENDELL: If it would please the Commission, I'm going to sit. I'm not as young as the previous two speakers.

CHAIRMAN ARANOFF: We're pleased to have you testify sitting down. Just make sure you turn on your microphone.

MR. RENDELL: It's on.

CHAIRMAN ARANOFF: Welcome to the Commission, Governor.

MR. RENDELL: Welcome. I was listening to the two prior speakers, and you're going to hear a lot of the same facts. I'll try to whip through them or leave them out because you've already heard them.

Chairman Aranoff and members of the Commission, thanks for the opportunity to come before you and testify. I don't take this responsibility lightly. As mayor of Philadelphia and now as governor, I have always supported free trade. I supported free trade with China, supported NAFTA, and I believe in free trade and I believe it's very, very vitally important to not only the world's economy, which as we have learned affects all of us, but it's very important to the nation's economy as well.

One of the things I've done as governor of Pennsylvania is not only seek to have more exports, and Pennsylvania has increased its exports in my six years as governor by 111 percent from $17 billion a year to about $34.5 billion a year, and it's happened because we've helped our small and mid sized businesses with a program called World Trade PA. We've tried to lead them into the export market and given them help and assistance getting into that market and understanding what happens in foreign countries.

But we also have investment representatives in 32 countries of the world trying to get foreign businesses to come set up shop and invest in Pennsylvania, and that's been very, very, very successful. For example, we're the only state to have an investment and a trade representative in the burgeoning economy of the nation of India.

So I am by nature a free trader. In fact, when I ran for governor Leo Girard and the steelworkers supported my opponent in the Democratic primary, and the toughest meeting I had was after I won the primary meeting Leo Girard to try to get his support for the general election because Leo misunderstood my position. I'm for free trade. I think free trade is essential to this country, but it has to be fair trade.

Make no mistake about it. This country has been a patsy for too long, and we are getting the living you know what kicked out of us because of it. Just look at the difference between the level of complaints that the Clinton Administration lodged in the WTO as opposed to the Bush Administration and now the Obama Administration. People will take advantage of you as long as they think they can get away with it. As long as they think there are no consequences for bad actions, they will continue to act poorly.

That's my message in a nutshell. You don't have to hear me repeat statistics about the finding of the Commerce Department about the fact that this is illegal dumping and unfair subsidies. You know the facts better than I do. The first two speakers have told you them. They're in here as well. You don't need me to go over that, number one.

Number two, the injury here is absolutely crystal clear. The injury here is to a very important component of American manufacturing. And understand, as we sit here I think the greatest threat to the economic viability of this country isn't the worldwide economic recession. We'll eventually come back from that. The greatest threat to our economy, ladies and gentlemen, is the fact that we are fast becoming a nation that doesn't produce anything. We don't make anything anymore. And if that happens, woe on us. We'll be a third rate economic power. Our national security will be threatened.

Think about the day that we absolutely depend on foreign companies for the importation of steel. We don't make steel anymore in America. You may think that's farfetched, but that's the road we're going down. Think about it. We don't make steel anymore. We depend on foreign imports for our steel.

All of a sudden there's some sort of conflict. Foreign countries decide not to import steel to America. Where are we? It took us time to gear up for World War II to start manufacturing stuff, but we had a manufacturing industry. We had a core. We don't have that anymore. Think of where we are.

The consequences are enough to make you shutter, and that's what this is all about. Are we going to start fighting back? Are we going to stop being kicked around and being kicked around by a country that this isn't their first offense? This isn't the only place where they've tried to nail us. They try to nail us by not enforcing tested intellectual property. They try to nail us by manipulating their own currency, and they sure as heck subsidize their products and dump them on the American market.

And I know that they own a lot of our debt and I know some people think we have to tiptoe through the mine field. I think the Chinese are very smart and they're waiting for us to fight back. They're waiting for us to say okay, folks. We caught you. It's over. Stop it.

And I believe they will stop it and they'll go on to their next area of enterprise, but they're looking to us to take definitive action. If they don't they'll keep doing it and keep doing it. They'll keep pushing the envelope to see how far our tolerance will go, and I believe the day of being tolerant for this type of aberrant behavior is over.

Now let me see if there's anything. On the question of injury, there are some Pennsylvania specific facts that I want to give you. The rest of my testimony is basically a regurgitation of what the prior two witnesses have told you and what you already know so I won't bore you with that, but let me close by just giving you an idea of the injury impact on Pennsylvania and the impact of steel to a state like Pennsylvania.

On the one hand, our steel and rolling mills employ only 22,000 people. In a big state like ours we don't say only 22,000, but that doesn't sound like a huge part of the Pennsylvania economy. But consider that these highly skilled and well paid jobs directly support another 180,000 Pennsylvania workers who manufacture fabricated metal products, work in machine shops and forging and stamping firms, produce architectural and structural metal goods and work for railroad rolling stock manufacturers, so that 22,000 turns into over 200,000 when you count the workers who work in supplying the steel industry.

To give you an example of the multiplier effect, take one firm, U.S. Steel, and you all of course are familiar with U.S. Steel. Take one firm. U.S. Steel has contracts with 1,000 vendors in southwest Pennsylvania. Let me repeat that. One thousand vendors. Those contracts total over $1.8 billion.

Now, when it's 1,000 vendors you can see that there are a lot of small businesses who depend for their livelihood, for their very existence, on U.S. Steel. One thousand contracts, $1.88 billion. All told, the payroll of U.S. Steel is a half a billion dollars just in Pennsylvania itself.

These companies and their employees are part of the lifeblood of the commonwealth's economy. In addition to providing jobs that support thousands of Pennsylvania families and some of the best paying blue collar jobs where you do not have to have a college education to earn a good wage, in addition to all of that these entities' economic activities provide significant revenue for the commonwealth and for our operations, and steel firms and their employees likewise contributed millions of dollars to charitable and civic endeavors.

The injury that's come from this illegal dumping and subsidization in Pennsylvania has been clear. You will hear from the U.S. steelworkers that Chinese imports, which as Senator Brown told you now account for 37 percent of the U.S. market, according to our steelworkers, and these are facts that I am far too aware of because every time there's a layoff of workers or a closing of a plant in Pennsylvania I know about it. It's accounted for more than 2,000 American workers being laid off on companies that make OCTG.

In Pittsburgh we have steel firms. We are home to U.S. Steel, Wheatland Tube, TMK-IPSCO, and all three firms produce OCTG and have facilities located in Pennsylvania, including operations in Pittsburgh, but McKeesport, Sharon, Wheatland, Ambridge and Koppel. And I want to repeat those last four towns: McKeesport, Sharon, Wheatland, Ambridge and Koppel.

Let's picture again what I said at the outset of my testimony. Picture that there's no steel manufacturing industry in the United States. Anybody want to hazard a guess on the Commission what happens to the economy of McKeesport, Sharon, Wheatland, Ambridge and Koppel? Let me tell you. They become ghost towns. They become ghost towns, plain and simple as that.

You know, President Obama has said that he wants to build a national rail system, a passenger rail system to rival the best systems in Europe and Asia. I think that's a great idea. I think it's good for the environment, I think it's important for our quality of life, and I think it would be an incredible jobs producer and an incredible boost for American manufacturing.

There's a steel plant in a town right across the river from Harrisburg, our capital city. The town's name is Steel, and the steel mill is again the center and the heart of that town. It now is down to 600 workers. If we were to have a steel industry ready when we decide we can fund a national passenger rail system that firm has told me, and it's ArcelorMittal, the biggest steel company in the world. They have said that in steel alone we would triple to quadruple the number of workers because the steel plant makes railroad ties.

But if there's no steel manufacturing left in America and we decide to build out a passenger rail system we'll be creating jobs in Brazil. We'll be creating jobs in China. We'll be creating jobs everywhere but America. Everywhere but America.

So, ladies and gentlemen of the panel and Madam Chairman, the injury is clear here. The injury is clear here. The activity, the illegal activity, is crystal clear here. The message that needs to be sent to the People's Republic of China is also clear. The message is stop. We're not going to take it anymore. There are things that are important to the core of what we do as Americans.

Look, we can, given a fair and level playing field, compete with everyone. Look at the progress the steel industry has made. You can't find an industry where labor and management have come together to fight back better and more effectively. You can't find an industry where labor and management have come together to increase productivity and efficiency anywhere like the steel industry.

The steel industry should be a model for every other industry with their labor and management relations, with the concessions that have been made, with the productivity enhancements that have been made. This industry can and will compete if given a fair shot. American steelmaking can hold its own with anywhere in the world. Just give it a chance. Thank you.

(Applause.)

CHAIRMAN ARANOFF: Thank you, Governor. Does anyone have a question?

(No response.)

CHAIRMAN ARANOFF: We very much appreciate your being here this morning.

MR. BISHOP: The Honorable John P. Murtha, United States Representative, 12th District, Pennsylvania.

MR. MURTHA: Good morning to this distinguished panel.

CHAIRMAN ARANOFF: Welcome back.

MR. MURTHA: Thank you. I appreciate the opportunity. I'm not going to waste any time, but let me just tell you this ITC was the key to saving the steel industry a few years ago. We worked our way through the Carter Administration into the Reagan Administration.

Now, I represent Johnstown, Pennsylvania. We used to have 12,000 steelworkers in Johnstown. We had a flood in 1977, a flood of water, but we had a flood of imports right after that, and those flood of imports caused us 24 percent unemployment in the district that I represent.

As we worked our way through, ITC made the decision there was subsidized steel coming in from all over the world. Now, China wasn't even a player then. But they made the decision and then we worked a voluntary restraint agreement out with the President, negotiated it and gave five years for the steel industry to recover.

We need your help again. No question in my mind that these countries are subsidizing their steel coming into the United States. We can't compete with that. We play by the rules, and our steel industry, working with the unions, have modernized and have got the best steel industry in the world right now, but we can't compete, Madam Chairman, with subsidized steel coming into the United States.

You know what everybody else has done. You know the decisions that have been made. It's a blow to our economy. I've got some written stuff here that you know about. I'm just telling you. You helped us before. We need your help again. We need you to make the decision that I know is the right decision, and that's to reduce the amount of subsidized steel coming into the United States so we'll have a prosperous steel industry.

We got this worked out by going to President Reagan, who was a free trader, and he forced his Cabinet to go along with the voluntary restraint agreements. Some of you are not old enough to remember that, but I'll tell you it worked.

Those negotiations went on a long time. That wasn't the end of it, just making the deal. They negotiated, and in the end we got the imports down from 30 percent to 18 percent to save the steel industry. That was the companies working with the unions to modernize the facilities, and we've now got one of the most competitive steel industries. We've got a playing field.

I'd be glad to answer any questions you have, but we need your help. We need you to make a decision based on the facts, and the facts are they're subsidizing their steel coming into the United States.

Just remember the flood at Johnstown. Fifty thousand people outside their homes didn't have near the impact, as terrible and as tragic as it was, as the flood of imports of steel coming into the United States. We lost 12,000 jobs we lost because of the subsidized steel in the end because it was an old plant. We just couldn't survive.

CHAIRMAN ARANOFF: Thank you very much for your statement. Does anyone have a question?

(No response.)

CHAIRMAN ARANOFF: We appreciate your coming this morning.

MR. MURTHA: We'll keep you on time.

CHAIRMAN ARANOFF: Thank you.

MR. BISHOP: The Honorable Peter J. Visclosky, United States Representative, 1st District, Indiana.

CHAIRMAN ARANOFF: Welcome back to the

Commission.

MR. VISCLOSKY: Thank you very much. Madam Chair and members of the Commission, I appreciate again the opportunity to testify before you today on the antidumping and countervailing duty orders on certain oil country tubular goods from China.

I also would like to thank you and your staff for your continued efforts to enforce our trade laws. I truly value the hard work and serious consideration you have always demonstrated in the cases before you, and I also appreciate time in and time out your willingness to hear my position.

I appear before you today as a representative of the 1st Congressional District of the State of Indiana and also the Chairman of the Congressional Steel Caucus. While the 1st Congressional District of Indiana does not explicitly produce oil country tubular goods, I did feel compelled to appear before you today because if the trade laws of our nation have been violated appropriate enforcement action does need to be taken.

Your responsibility obviously is to determine whether or not injury has or will occur to the domestic industry. It is my belief that the testimony that you will hear today will establish that more than 2,000 of our fellow citizens have lost their jobs because of unfairly dumped steel.

I would simply conclude you will hear a lot today about job loss. You have already heard about it. The one thing I would like to keep in mind is all of those Americans who are working today because of the important work you have done when you have recognized injury has occurred and actions have been taken to make sure Americans are protected and for the careful deliberation and consideration you have given in the past, the same that I know you will apply to this case.

I want to conclude simply by thanking you again for the privilege of testifying before you and for your continued consideration and exercising of your responsibilities.

CHAIRMAN ARANOFF: Thank you very much. Are there questions?

(No response.)

CHAIRMAN ARANOFF: Thank you very much for appearing here this morning.

MR. VISCLOSKY: Thank you very much.

MR. BISHOP: The Honorable Dennis J. Kucinich, United States Representative, 10th District, Ohio.

CHAIRMAN ARANOFF: Welcome.

MR. KUCINICH: Thank you very much, Madam Chair and members. I appreciate the opportunity to testify before you today regarding certain oil country tubular goods, imports from China and their devastating effect on the domestic steel industry.

The domestic OCTG industry has ground to a halt as Chinese imports increased by over 200 percent from 2006 to 2008. Despite the concurrence of a decrease in market demand for OCTG and the economic downturn, Chinese imports to the U.S. continued to surge through the first quarter of 2009. As a result, the domestic OCTG industry has witnessed one of the most rapid inventory overbuilds in history resulting in massive layoffs and forcing the idling or closing of manufacturing plants producing OCTG.

As the United States second largest trade partner, China accepted the inclusion of a safeguard petition in the U.S.-China Relations Act, allowing domestic industries to file petitions with the International Trade Commission requesting investigations into dramatic surges of product specific imports from China.

China accepted this provision in return for permanent normal trade relations and admission into the World Trade Organization. China's actions in the OCTG case indicate a complete disregard of these very trade rules and threaten continued significant material injury to local manufacturers of OCTG.

Preliminary findings of the Department of Commerce antidumping determination show that all but one of the Chinese producers exporting to the U.S. dumped OCTG into the domestic market at prices ranging from zero to 99.14 percent less than normal value. The Department of Commerce has specifically identified almost 40 Chinese producers that have actively engaged in unfair trade.

This hearing today hopefully will be about demanding the International Trade Commission to remedy a dire situation and to do everything in its power to protect our domestic manufacturing base from further material injury. It's also an indication that we must do more to ensure that American industries are seen as a foundational part of our economy and that they will remain strong.

My state of Ohio has seen far too much news of idling manufacturing mills and hundreds of long-time steelworkers being laid off. According to *Public Citizen*, of the 22 million jobs expected to be created in the U.S. between 2000 and 2010, only 187,000 or 1 percent -- that's 0.1 percent -- will be manufacturing jobs.

The Economic Policy Institute reports that two-thirds of the jobs displaced by China trade deficit from 2001 to 2007 were in the manufacturing sector. Ohio is one of the top 10 states posting the biggest job losses in this sector.

Now, we cannot have a strong American economy without a strong industrial manufacturing sector that includes not only the steel industry, but also automotive, shipping and aerospace industries. I am the proud author of H.Res. 444 which says that the steel, automotive, aerospace and shipping industries are vital to America's national and economic security.

We need a coordinated federal policy that puts the manufacturing sector back in its rightful place as an engine of the American economy. At a minimum, the ITC must put our manufacturing communities first and ensure enforcement of our trade laws that protect them.

In the long term I will continue to work towards a national manufacturing policy to shore up our communities and our nation, and I believe that Congress also has the responsibility to look at our trade agreements. Where we come here to ask for your help today, we also have to realize our own power to address some of the underlying issues that were created when Congress passed normalization of trade with China.

And so I want to thank you for giving me the opportunity to testify, and I wish you well in your deliberations. Thank you.

CHAIRMAN ARANOFF: Thank you very much. Does anyone have a question?

(No response.)

CHAIRMAN ARANOFF: We appreciate your coming this morning.

MR. KUCINICH: Thank you.

MR. BISHOP: The Honorable Jason Altmire, United States Representative, 4th District, Pennsylvania.

CHAIRMAN ARANOFF: Good morning. Welcome back to the Commission.

MR. ALTMIRE: Good morning. Thank you, Madam Chairwoman and members of the Commission, for providing me with the opportunity again to offer my input regarding oil country tubular goods imported from China.

I represent the 4th Congressional District of Pennsylvania, which lies just north of Pittsburgh and is home to one of the Petitioners in this case, TMK-IPSCO. TMK-IPSCO has operations in two towns in Pennsylvania's 4th District. It manufactures oil country tubular goods in Ambridge and uses steel billets sourced from a plant in Koppel.

Additionally, a second Petitioner in this case, the United Steelworkers, represents many of the Pennsylvanians in the 4th District who make their livelihoods producing these goods.

For generations, the communities of western Pennsylvania have been at the heart of United States steel production, and as a region we are rightfully proud of our contribution to building the U.S. economy and we know that when American companies and workers are given a fair chance they can produce the highest quality and most competitive steel products anywhere in the world.

But we're here today to address the concern that American companies may not be competing on a truly level playing field. When China was admitted into the World Trade Organization in 2001, that nation made a commitment to trade products in compliance with international free trade rules, but despite this assurance the United States Department of Commerce issued preliminary findings on September 9 indicating that Chinese oil country tubular goods imports have been heavily subsidized, as well as preliminary findings on November 5 that these Chinese goods have been dumped into our markets.

Illegal subsidies and dumping have always been a problem in open markets such as the United States. This issue becomes a real threat when a nation has considerable resources and capacity, a nation like China. U.S. imports of Chinese oil country tubular goods have tripled in recent years, rising from 725,000 net tons in 2006 to 2.2 million in 2008, and by the fourth quarter of 2008 more than 70 percent of oil country tubular goods consumed in the United States were imported from China.

China has engaged in a massive production of build up of its oil country tubular goods. The Chinese are now unable to consume the excess production in their own market or sell these goods into other markets at fair prices, so to offload this excess product the Chinese have opted to ship oil country tubular goods to nations such as ours in order to dump them at subsidized prices. This surge of imports has caused one of the most rapid inventory overbuilds in history.

Normally there are six months or less of these goods in U.S. inventories. In May 2009, there were more than 16 months of inventory. This extreme excess leads to shutdowns and layoffs across our domestic oil country tubular goods industry. Companies have been forced to reduce shifts and lay off workers to maintain production.

TMK-IPSCO in my district has made the decision to keep operations going. While as of today TMK-IPSCO has had only to lay off 50 workers, United Steelworkers estimate that nationally more than 2,000 Americans were laid off when this case was filed.

But these figures don't tell the whole story. The decision you reach on this case will impact far more Americans than the Petitioners who brought this case before you, the residents of western Pennsylvania counting on your help or even U.S. oil country tubular goods plants. The decision that you make will also have consequences for all sectors of the steel industry that supply the tube industry, such as processors and fabricators.

Madam Chairwoman and members of the Commission, I believe we are at a crossroads. History has shown open trade is a necessity for prosperous nations, provided it is conducted within the rules of fair play. These rules were designed to guide us in difficult and uncertain times, times such as these.

As our nation rolls up its sleeves to build its way out of this recession, now is not the time to second guess ourselves. Likewise, as we channel funding into new infrastructure, particularly energy infrastructure, to stimulate our economy it would only undermine our efforts to use unfairly traded materials.

So I would respectfully urge the Commission to make an affirmative final determination in this investigation, and again I thank you for the opportunity to appear before you today.

CHAIRMAN ARANOFF: Thank you very much for your testimony.

MR. ALTMIRE: Thank you.

CHAIRMAN ARANOFF: Are there any questions?

(No response.)

CHAIRMAN ARANOFF: We appreciate your taking the time.

MR. BISHOP: The Honorable Timothy F. Murphy, United States Representative, 18th District, Pennsylvania.

CHAIRMAN ARANOFF: Good morning, Congressman Murphy, and welcome to the Commission.

MR. MURPHY: Good morning, and thank you for allowing me to come speak to you, Chairman Aranoff and members of the Commission. I am Vice Chair of the Congressional Steel Caucus in the Congress. I'm from Pennsylvania's 18th Congressional District in the suburban Pittsburgh area. Today I'm here, like so many of my colleagues, to address an issue of critical importance to people of my district, my state and our nation.

Unfairly traded imports from China have dramatically changed the United States market for oil country tubular goods, known in the industry as OCTG, and pose a substantial, severe and imminent threat to domestic steel producers. Thank you for the opportunity to be before you today on behalf on our people of Pennsylvania and to once again stand up for steel.

The steel industry is an integral part of the State of Pennsylvania and essential to the history and future of American industry. The steel industry has undergone massive change over the last two decades as it made a transition into the competitive global marketplace. It is more productive, more efficient and cleaner than ever. If all of the world's steel industry used the same rules to compete, there is no doubt of a globally cleaner and more efficient steel industry.

But that is not the case before you here. In the preliminary phase of this investigation the Commission found that the Chinese imports increased by more than 200 percent. They went up to 2.2 million tons. Even at a time of slack demand for steel pipe, the volume of Chinese imports in the early part of 2009 was more than double that of 2008.

This Commission is already familiar with the harm caused by steel products from China that are dumped into the domestic market. The story is one with which we are all too familiar. These products are imported into the United States at artificially low prices that significantly erode the domestic industry's market share and lead to people back home losing their livelihoods.

Further, the Department of Commerce has found that the production of this steel is being encouraged by the grant of subsidies by the Chinese Government. As a result, 62 percent of China's OCTG exports in 2008 were shipped to the United States. If unchecked, it will lead to a destruction not only of U.S. jobs in the short term, but to the industry's long-term ability to exist.

Enforcing our trade laws will provide the

American steel pipe industry and workers with the needed confidence that unfair and illegal competition will not be tolerated by you. The American steel industry should not have to wait for enforcement until dumped or subsidized imports from China have again doubled, U.S. steel mills have permanently closed, and more American workers have lost their jobs.

The evidence is clear. Chinese imports have caused significant harm to the U.S. steel industry and will continue to do so if the law is not enforced. Having a strong and viable manufacturing sector and steel industry is a key to any economic recovery. America did not become what it is today by accident. We work hard. We believe in free and fair markets. We are proud of our industrial strength. We are proud of our freedom and our independence.

But we will not remain great if we sit by and let other nations take advantage of us, grow their economy while controlling ours and ultimately make the U.S. dependent on other countries for our goods.

Bear this in mind. This issue of wrongful trade practices that hurt the U.S. is not an isolated event. Over the past decade China has sent us toys, lunch boxes and Boy Scout merit badges with lead paint, fungus contaminated diapers, poisoned pet food and toothpaste, carcinogenic baby pacifiers, contaminated baby bottles, reused chopsticks and toxic drywall.

That's not all. China manipulates its currency to affect prices of exports, hacks into our computers, spies on us, sells weapons to our enemies and breaks our patents and copyrights by reverse engineering products.

I'm grateful that the Commission is carefully examining the evidence in this matter and I urge the Commission to take the necessary action for the workers in my state and our nation who are threatened by unfair competition from China. The role of this Commission is critical to our economy and the functioning of a fair and open trading system. That role will be of even greater significance as our country faces one of the most severe economic challenges in our history.

But regardless of the condition of our economy, the concern about China's steel dumping remains the same. I urge you to act expeditiously to prevent further harm to our workers and manufacturers in this industry. I urge you to act to uphold our nation's trade laws and in doing so provide the nation's steel industry with the opportunity to fairly and effectively compete in the U.S. and global marketplace. Thank you.

CHAIRMAN ARANOFF: Thank you very much for your testimony. Are there any questions?

(No response.)

CHAIRMAN ARANOFF: We appreciate your being here this morning.

MR. MURPHY: Thank you so much.

MR. BISHOP: The Honorable Jay Williams, Mayor of Youngstown, Ohio.

CHAIRMAN ARANOFF: Mr. Mayor, welcome to the Commission.

MR. WILLIAMS: Thank you very much. Good morning, Chairman Aranoff and members of the Commission. I am Jay Williams, Mayor of the City of Youngstown, Ohio. I have served as the mayor of Youngstown since 2005. There is nothing more important for my city today than this hearing and the outcome of the antidumping and countervailing duty cases against imports of OCTG from China.

Our population in Youngstown has declined by more than half over the last six years. All of the sprawling steel mills that were once Youngstown Sheet & Tube have been shuttered. What was once the Youngstown plant of LTV Tubular was shuttered by

Maverick after they purchased the assets out of bankruptcy in 2003.

The largest private employer that our city has and a prominent corporate citizen is V&M Star. Their main product is OCTG. They are making steel in Youngstown which is made into OCTG. Our city's unemployment rate is 14 percent, which is significantly higher than both the state and the national average. Our underemployment rate is much higher.

I can tell you that there are no better jobs for manufacturing workers in Youngstown than the jobs at V&M Star. In addition to their direct employment, the company creates thousands of additional indirect jobs, including work in the distribution, service and transportation industries in our community.

Approximately a year and a half ago V&M approached us about the possibility of nearly doubling the size of their steel mill and building a new seamless pipe mill on property adjacent to their plant and their current facility. We have worked tirelessly with our own city council, the county government, the government of the adjoining City of Girard, with state and federal agencies, to protect this dream in order to make this investment a reality.

This includes environmental remediation work on the site. That work is going on even if V&M Star does not utilize this site, but then it would be prepared for another potential industrial use. However, it might take years or decades for another company to come along and put up a plant on that site that would even approach the investment that V&M is contemplating making.

There are no guarantees in business, just as there are no guarantees in politics. I recently went to Paris, France, to meet with senior executives of V&M to find out how we could maintain and possibly expand their employment in Youngstown, Ohio. The company unfortunately had significant layoffs in Youngstown in April of 2009 and significantly reduced the work hours of the remaining workforce.

The outcome of their unfair trade cases against China is critical to maintaining and possibly expanding these jobs. We need to prevent future surges of unfairly traded Chinese OCTG so that we can return these jobs to Youngstown and other Ohio communities with OCTG plants.

Simple common sense tells all of us that no company in their right mind would make an investment in existing or new facilities in the United States if they knew they had to compete with mills in China that are either government owned, government financed or government subsidized. China has targeted the steel industry and in particular the OCTG industry.

Our OCTG consumption is double the size of China's, many times the size of the OCTG consumption in China, but China has actively developed this industry so they may export to the United States, steal our jobs and endanger our communities. Every mayor in the United States wants factories in their cities to remain open and wants new investment in new facilities to supply U.S. consumption.

Manufacturing has a long and proud history in the Mahoning Valley, and our citizens stand ready to compete to keep these jobs in our community. I ask you -- indeed, I even implore you -- to please give the City of Youngstown and other communities across this country a chance.

I think we are well on our way to rebuilding our city, and such a revitalization program will only be possible with continued manufacturing employment and a strong industrial base. Thank you for the opportunity to appear here today.

CHAIRMAN ARANOFF: Thank you very much for your testimony. Are there questions?

(No response.)

CHAIRMAN ARANOFF: Thank you for coming.

MR. WILLIAMS: Thank you.

MR. BISHOP: The Honorable Betty Sutton, United States Representative, 13th District, Ohio.

CHAIRMAN ARANOFF: Good morning, and welcome back to the Commission.

MS. SUTTON: Thank you very much. Thank you, Chairman Aranoff, Vice Chairman Pearson and members of the Commission for the opportunity to testify at this important hearing on antidumping and countervailing petitions regarding oil country tubular goods from China.

As a Member of Congress from the 13th District of Ohio, I proudly represent the men and women who work at U.S. Steel in Lorain. From my perspective and that of my constituents, this is one of the most important hearings this Commission has ever held. This case is so important to my constituents that I took the unusual step of testifying at the preliminary conference, and I'm here this morning to ensure that the terrible and unfair situation facing my constituents is addressed.

Let me explain why this case matters so much. U.S. Steel has two seamless pipe mills in

Lorain. The No. 4 mill makes pipe from 1.9 to 4.5 inches in outside diameter, and the No. 3 mill makes pipe from 10.75 to 26 inches in outside diameter. These are two outstanding mills capable of producing some of the best and most advanced tubular products in the world.

In fact, a few years ago U.S. Steel spent $85 million to expand the heat treating capacity of the No. 3 mill, significantly improving its ability to produce higher end OCTG. I have toured this plant and visited with the workers and the management. There is absolutely no question that these mills are highly competitive and would be highly successful under fair market conditions.

And that was the case last year. Last year the orders were full and the plant was booming. Last year U.S. Steel was hiring in Lorain, seeking to boost output as demand increased. But that's all stopped now. It stopped because the Chinese Government built new OCTG mills, mills that cannot be justified by market forces, mills that force our workers to face the constant threat of unfairly traded Chinese imports endangering their jobs.

What is happening in the plant in Lorain and plants around the country is not just the result of a recession. Dumped and subsidized imports of OCTG from China surged from 725,000 tons in 2006 and 861,000 tons in 2007 to an astonishing 2.2 million tons last year. That's an increase of over 155 percent of OCTG into the U.S., overwhelming the market. This resulted in one of the most rapid, massive and devastating overbuilds of inventory in the history of the industry.

It's my understanding the distributors normally prefer three to six months worth of OCTG in inventory, but these Chinese products continued to flood into the U.S. market long after the economic slowdown began. By March 2009, they had over 14 months worth of inventory, and as a result distributors stopped ordering OCTG from domestic mills.

From September 30, 2008, to March 31, 2009, a period of only six months, domestic orders of OCTG dropped by over 90 percent, forcing domestic producers like U.S. Steel to slash production. For most of this year, one of the two lines at Lorain was shut down completely while the other operated on a substantially reduced schedule. Over 100 men and women at Lorain were laid off, and 53 are still laid off.

The men and women of Lorain are not alone in their suffering. According to the International Trade Commission's own data, almost 2,100 workers nationwide lost their jobs. In Ohio, the unemployment rate is currently 10.5 percent, above the national average. I ask you, Commissioners, what are my constituents supposed to do? Indeed, nothing that happened to them was their fault. My constituents did their part. They worked hard and created a world class product.

The bottom line is China has subsidized millions of tons of unnecessary OCTG capacity. Chinese mills have shipped a virtually unlimited supply of OCTG to the U.S. regardless of market forces. Their jobs were specifically targeted by the Chinese Government, and now all that my constituents are asking for is that our nation's trade laws are enforced.

Without the rule of law, my constituents, their families and our communities have literally no recourse for the harm they've suffered. Their state depends upon you. What we have experienced is exactly the kind of situation our trade laws are meant to address, and our trade laws make it clear that you must consider how unfairly traded imports have affected American workers, as well as American businesses.

In considering the impact of dumped and subsidized imports on the domestic industry, you must evaluate the negative effects of these imports on employment and wages. In this case, those factors are highly significant because the effect on our workers has been devastating. I see their suffering every time I'm in Lorain. I assure you that there is no question about whether our workers are suffering present material injury. If you believe there is, please come to Lorain with me and see for yourself.

My constituents and thousands of Americans are sitting at home without work, victims of unfair and illegal trading practices. What has happened to these hardworking men and women is not fair. It is not right, and it is absolutely unacceptable to anyone who cares about the long-term prosperity of this country.

The American people will not and should not tolerate a system that allows foreign governments to attack one American industry after another. If we do not stand up -- if this Commission does not stand up and say no, this is unfair trade and let's stop -- then the domestic industry will continue to be threatened with additional material injury. Hardworking, honest Americans are suffering.

Please do not rob this industry of a chance to recover and rebuild by allowing China to continue to break the rules, to break the law. In this case, the appropriate response is a strong ruling in favor of the domestic industry and I urge you to issue such a ruling.

I have brought with me a letter signed by 43 Members of Congress urging this Commission to fully and effectively enforce our trade laws to prevent unfair trade from entering this market, and I thank you again for your time and consideration.

CHAIRMAN ARANOFF: Thank you very much for your testimony. Are there any questions?

(No response.)

CHAIRMAN ARANOFF: We appreciate your being here this morning.

MS. SUTTON: Thank you.

MR. BISHOP: The Honorable Kathleen A. Dahlkemper, United States Representative, 3rd District, Pennsylvania.

CHAIRMAN ARANOFF: Good morning, and welcome to the Commission.

MS. DAHLKEMPER: Good morning. Thank you. I appreciate the opportunity to speak in front of you today. Madam Chairwoman and members of the

Commission, I am pleased to have the opportunity to testify before you today with regard to your consideration of the antidumping and countervailing duty cases involving imports of certain oil country tubular goods or OCTG from China.

I represent the 3rd Congressional District of Pennsylvania. Although I am new to Congress, I am not new to the damaging effects on our economy nationally and locally of unfair trade practices conducted by some of our foreign trading partners. While I strongly support free trade and am committed to opening new markets for U.S. exports, I also believe that it's imperative that all producers play by the rules.

The question before this Commission is whether these unfairly traded OCTG imports from China have injured domestic producers in the United States. One only needs to visit the communities that rely upon steel production for their livelihood to know that the injury is real and it is painful. Chinese disregard of trade rules have all but devastated the domestic industry, including the industry in my region of the country.

Although I represent the heart of what has traditionally been known as steel country, this is not a regional issue. From Pennsylvania to Texas and many states in between, domestic producers of OCTG products have been forced to reduce production and lay off workers.

And it's not simply OCTG production that's impacted. Upstream suppliers of hot-rolled steel and iron ore, among other products that go into making OCTG, are hurt with our foreign trading partners breaking the rules. The only path to true free trade is to establish and then enforce strong trade rules.

My constituents in western Pennsylvania depend on this Commission to strictly enforce our antidumping and countervailing duty laws. My constituents in western Pennsylvania are suffering from this unfair trade, and I believe that as the Commission reviews the facts in this case you will find that domestic steel producers have been injured by unfairly traded imports.

The Department of Commerce is completing its investigation of OCTG goods imported from China and recently issued a final determination that these Chinese imports have benefitted significantly from government subsidies. Although the Department's final antidumping margins are not available until early 2010, the preliminary determination is that Chinese producers have been dumping their products into the U.S. market at rates ranging from 31 percent to 99 percent. This is a clear violation of trade laws regarding currency manipulation, subsidy of industry and dumping.

In 2008, 62 percent of all Chinese OCTG exports arrived in the United States, illustrating the dependency of these producers on our country's market. These Chinese imports consistently undersold the domestic like product, often by hundreds of dollars per ton.

Meanwhile, other key markets, including Canada, the EU and India, are on the verge of implementing trade relief against Chinese steel tubular products. If these markets enact trade relief while the United States does not, our domestic producers will suffer as the Chinese grow even more dependent on our market.

Compounding the problem is that China stands to increase production of OCTG. It currently has large amounts of unused capacity and continues to develop significant additional capacity. This enormous untapped capacity, together with China's reliance on the U.S. market, creates a dangerous situation for domestic producers and the thousands of workers they employ.

This panel must take action to prevent such a risk to our workers and to their jobs. Implementation of trade relief is the only end in sight to the flood of Chinese OCTG. The question of how the United States should deal with China's rapidly growing economy and its role in the global economic community is yet unresolved. These are important and complex questions that must be considered carefully.

Nevertheless, in this case now before you the answer is clear. The China OCTG producers are benefitting from subsidies and they are dumping their products into the United States. There is normally around six months or less of OCTG product in the United States inventories. By May of 2009, however, there was over a 16 month supply of OCTG in inventory.

These practices are devastating companies, communities and families within my district of western Pennsylvania and, as I said, throughout the United States. At a time when our workers and companies are trying to recover from a severe recession they are being pushed down by China's producers who are not playing by the rules and who are not adhering to trade laws.

Hundreds of my constituents and thousands of

Americans have lost their jobs as a result of illegal trading practices. Hardworking, dedicated workers. It is time to bring justice to our trade with China. I urge you to reach an affirmative determination in this case that there has been injury caused by unfairly traded OCTG imports from China.

I appreciate your consideration, and I appreciate the opportunity to speak in front of you today. Thank you for your time.

CHAIRMAN ARANOFF: Thank you very much for your testimony. Are there any questions?

(No response.)

CHAIRMAN ARANOFF: Thank you for coming this morning.

MR. BISHOP: Madam Chairman, that concludes our congressional witnesses at this time.

CHAIRMAN ARANOFF: I believe then that we are just about ready for opening statements. Just to let the parties know, we do have I believe four more elected officials who have expressed an interest in testifying before the Commission today. Several of them have planes that don't get in to Washington until a little later today. We will try to proceed as smoothly as possibly while making time for those witnesses to appear.

MR. BISHOP: Opening remarks on behalf of Petitioners will be by Roger B. Schagrin, Schagrin Associates.

MR. SCHAGRIN: Good morning, Chairman Aranoff and members of the Commission. The U.S. industry producing OCTG has suffered injury. In 2009, the U.S. industry's share of its own market was only 34 percent, down from nearly 60 percent in 2006. In contrast, Chinese market share increased two and a half times, from 15 to 37 percent, over the POI. Their market share increased inexorably in each year of the POI whether consumption was increasing or decreasing. That's not lag, that's export-oriented excess capacity and underselling at work. The U.S. industry's capacity utilization rate fell to only 17.6 percent in 2009, employment data has fallen by more than half with more than 2,400 workers losing their jobs and order books fell by as much as 90 percent.

This industry lost $141 million in the second and third quarters of 2009. I can say that with certainty because the Commission has questionnaire responses from virtually the entire domestic industry in both the preliminary and final phases of this investigation. That is a clear difference from the foreign producers and importers, a number of whom filed responses in the preliminary investigation but failed to cooperate in the final investigation, and many more, in fact, most, never cooperated in any phase. It is amazing that the government of China can complain about this case to the President of the United States, to the Department of the Treasury, to the Trade Representative's Office, to the Secretary of Commerce, they even tried it here at the Commission, but they can't get their own industry to file questionnaire responses with the ITC?

There are two main fallacies in the Chinese Respondents' defense to their behavior in this market. First is the concept that in 2008 a market shortage required massive quantities of Chinese imports. This is simply untrue. The Chinese surge of 2.2 million tons in 2008 and three-quarters of a million tons in 2009 were not needed by the market, but came here because they were sold at dumped and subsidized prices. Not only do U.S. OCTG users not need additional dumped and subsidized OCTG from China, but it is clear that the U.S. industry, or major parts of it, cannot survive additional unfairly traded imports from China.

The second major fallacy in the Chinese Respondents' argument is that massive inventories of

Chinese OCTG in the U.S. did not matter or can be explained away. They do matter and cannot be explained away. In fact, purchasers accounting for about one quarter of all U.S. OCTG inventories held at the end of September 2009 reported that their inventories of U.S. OCTG fell by nearly 100,000 tons over the POI while the inventories of Chinese OCTG increased by 220,000 tons. U.S. importers reported 350,000 tons of Chinese OCTG inventory at the end of September, and Petitioners believe that at least half, or 1.5 million tons, of present OCTG inventories are of Chinese OCTG.

It is indeed these inventories that domestic producers have been competing with throughout 2009 and have hammered their production, shipments, prices, profits and employment. This is an injury case, but if the Commission considers threat of injury, then these inventories, a statutory threat factor, are also very important. There is massive Chinese overcapacity, significant margins of underselling and a truly export-oriented industry in spite of attempted numerological magic by Chinese producers. Major export market after major export market has been inoculated from the disease of Chinese overcapacity which means exports from China will come to the U.S.

if this Commission fails to find injury.

Amazingly, the Chinese brought no Chinese OCTG executives to testify here today, but if you want to know loud and clear what they will do if you make a negative determination, here it is. William Zhang, Vice President of Strategic Planning for Wook See Seamless Pipe shared WSP strategy with AMM in September. If there were no duties on shipments to the United States, he said, "we would be back immediately". We would be back immediately. That's what the Chinese producers say they would do.

On the one hand, thousands of American workers can be called back to work and several new facilities may be constructed or finished to produce more OCTG in the U.S. if this Commission makes an affirmative decision. On the other hand, a negative determination will result in devastating injury to an already vulnerable industry resulting in permanent unemployment for the vast majority of this industry's workers. For these reasons, we ask that you make an affirmative determination. Thank you.

MR. BISHOP: Opening remarks on behalf of Respondents will be by James P. Durling, Winston & Strawn.

MR. DURLING: Good morning. My name is

James Durling with the law firm Winston & Strawn appearing today on behalf of the Chinese Respondents. The domestic industry has just finished its best boom period ever with record shipments, prices and profits. Recognizing its tremendous performance, the domestic industry tries to shift the focus to the increase in imports from China in 2008 and the decline in domestic production and shipments in 2009. This argument ignores several key facts. First, the increase in imports in 2008 reflected the dramatic increase in demand. The domestic industry simply could not meet strong demand in 2008. That is why prices surged to record levels, and that is why customers were scrambling to find supply wherever they could. The purchaser responses in this case provide compelling evidence of the severe shortages in 2008.

Second, just as strong demand explains the increase in imports in 2008, weak demand explains the sharp decline in shipments by all supply sources in 2009. The sharp reversal and steep decline in demand in 2009 was as unprecedented as the 2008 boom. It is simply disingenuous for Petitioners to blame imports from China for broader demand conditions that affected all supply sources equally. All rose in 2008 on strong demand, and all fell sharply in 2009 when demand collapsed. Lower shipments during a cyclical downturn is not material injury. Third, having earned unprecedented profits through 2008, Petitioners now want to ignore these profits when considering 2009 and 2010.

Consider the trend in operating profits per ton over the period. This industry averaged more than $400 per ton over the period and about five times the historical average. In 2009, the domestic industry still managed to earn its historical average operating profit, albeit on reduced volumes. This is not an industry suffering any material injury, nor is this industry threatened with material injury. At the outset, keep in mind that prices and profits are still at historically high levels for a down year in this industry. Also keep in mind that the inventory overhang from earlier this year has been substantially worked down.

The absence of any threat can be seen most clearly in three key facts. First, the recovery after the downturn in 2009 has already begun. *Preston's Report* just released a rather bullish forecast for 2010 with domestic shipments recovering to historically normal levels even as imports continue to serve the role as the supplemental supply source to the market. The second key fact is that the imports from China declined sharply in 2009. Just one month after domestic shipments started to decline in November 2008, imports from China also began to decline sharply.

February 2009 shipments were about half of the peak. March 2009 shipments were about one-third of the peak. By June 2009, imports from China had essentially disappeared. Petitioners argue this decline reflects the trade case, but this argument cannot explain why the decline in Chinese shipments started in December 2008, long before the case. Moreover, this argument does not explain why June shipments ordered in March 2009 before the case was even filed were already at zero. These trends are completely consistent with imports following the market demand and utterly inconsistent with the decline due to the trade case.

Petitioners wish to ignore the sharp decline and disappearance of imports in the second quarter because this decline is completely at odds with their speculation about an imminent surge in imports from China. Petitioners have offered nothing but legally impermissible speculation about future increases that may or may not ever occur. Given the current levels of imports from China, given the current levels of market demand and given the current inventories of OCTG from China already here, there is simply no credible basis to conclude that there will be an import surge from China, let alone an imminent surge.

Third, the domestic producers have accumulated surplus profits to give them a huge cushion for 2009 and beyond. After funding all cost to normal operating profits, the domestic industry earned surplus operating profits of about $3.4 billion. What does this surplus really mean? This surplus would allow the domestic industry to fund all of its fixed costs, all of its labor costs and still earn an historic rate of operating income for more than two years without one extra ton of OCTG. The industry can fund two years of fixed costs and full employment. No worker had to lose his or her job. There was plenty of money accumulated from the boom years. Given that shipments have not gone to zero, the cash surplus can stretch even farther. It is simply inconceivable to argue that such an industry with such surplus profits is being injured or threatened with injury. Thank you.

CHAIRMAN ARANOFF: Mr. Secretary, while the first panel sets up, I'm going to take a two minute break.

MR. BISHOP: Would the first panel, those in support of the imposition of antidumping and countervailing duties, please come forward and be seated.

(Whereupon, a short recess was taken.)

CHAIRMAN ARANOFF: Ready to proceed now?

MR. BISHOP: Yes, Madam Chairman. All witnesses are seated and have been sworn.

MR. LIGHTHIZER: Madam Chairman, should we begin?

CHAIRMAN ARANOFF: Yes.

MR. LIGHTHIZER: Good morning. As you will hear from our witnesses, this is one of the most important cases to come before the Commission in many years. In April the industry testified about the extraordinary circumstances it faced both in terms of the speed and severity of the injury that was occurring and the danger in the absence of relief of absolute catastrophe. While the other side sat here cynically and talked about the purported financial strength of this industry, we told you that we were in the midst of a crisis, our workers were suffering terribly and nothing short of an immediate response was in order.

Fortunately, you listened and the data now before you shows just how dire the situation was. To summarize this case, Chinese producers shipped historically unprecedented, indeed unimaginable, volumes of dumped and subsidized imports into this market in 2008 and into 2009. Even in the context of a strong market, it led to an enormous build up in inventory, and with the economic downturn, to complete collapse. In the space of little more than a quarter, virtually the entire industry was shut down or on life support. In terms of threat, you will never see a more compelling case. With a crippled domestic industry, inventories still bloated and a brutally bad market, even in the limited data Chinese producers have provided, you will see they have nowhere else to go to make up for lost sales and are sitting on a sea of excess capacity.

They are building literally millions and millions of tons more. If this is not enough, they have admitted publicly and repeatedly that they desperately need this market and will be back in a heartbeat. Finally, the level of uncooperation you have seen from the Chinese is without precedent. Nearly 200 producers have failed to provide information even while many of them seek to gain the system by participating at the Department of Commerce. We will show you evidence that this type of noncooperation actually represents government policy in China. This type of behavior is not only a major concern of this litigation, but a true institutional threat to this Commission, and it demands clear and forceful response.

Now let's look at the volume of Chinese imports. Here you see the surge of imports by quarter. In the last three months of 2008, Chinese imports totalled almost 965,000 tons, astonishingly on a pace for almost four million tons per year. By the end of 2008, Chinese imports were growing much faster than demand. Indeed, Chinese imports were equal to more than 72 percent of U.S. operator consumption in the fourth quarter of 2008, a time of very strong consumption. By May, the United States had enough OCTG in inventory to serve this market for 16 months, an unheard of figure. The other side claims that this build up would not have occurred if the demand had remained at September 2008 levels, but this analysis rests on the absurd assumption that shipments into this market would have fallen dramatically even if demand had remained strong.

In the real world, as you see here,

inventories grew rapidly in the latter part of 2008 because shipments consistently exceeded consumption. These facts show that even if demand had remained strong, Chinese imports would have overwhelmed this market. Furthermore, the increase in Chinese imports from 2007 to 2008 is almost precisely equal to the increase in inventories over the same period. Meanwhile, in the first nine months of 2009 China had a bigger share of this market than the entire domestic industry. Clearly, the volume of imports was significant.

Those imports also had significant price affects. In the pricing comparisons put together by the staff, 91.8 percent of Chinese imports undersold the U.S. competition. Moreover, as we predicted in the preliminary phase, and contrary to the Chinese arguments, the tremendous oversupply resulting from Chinese imports has caused prices to plummet. The impact of Chinese imports has been devastating. Because of the inventory overhang created by those imports, domestic shipments of OCTG fell by over 89 percent from October to May. As a result, U.S. production fell by 73 percent from interim 2008 to interim 2009.

Indeed, by the time these cases were filed virtually the entire domestic industry was shut down. The domestic industry's operating income also fell by over $1.1 billion from interim 2008 to interim 2009. Even these figures understate the true magnitude of the crisis because many shipments in the first quarter were actually ordered at the end of 2008, and in the second and third quarters, domestic producers lost $141 million. This is certainly material injury. Chinese producers try to blame this injury on falling demand, but as you can see here, while demand did fall sharply, the 2009 rig count is close to the historic average.

This rig count cannot explain the almost complete shutdown of the domestic industry production we have seen this year. Chinese producers also say that they left the market when demand declined, but as you can see, Chinese imports exceeded domestic shipments in every month from October to May, a trend that ended only after your preliminary determination. Next we turn to threat. Our brief contains quote after quote from Chinese sources emphasizing that Chinese producers need to remain active in this market. Just to read one, "If China loses the AD case, there will be a serious problem with oversupply because there is no obvious replacement market for the

U.S."

Here is another. "This case will have a major impact on exports by the steel and iron industries of China to the United States." Remember that Chinese mills are government-funded entities that exist to employ workers regardless of market conditions. For example, when the rest of the world slashed steel production in the first half of 2009 in response to global economic downturn, Chinese mills took this opportunity to gain market share. The Chinese industry is so enormous that even a small portion of its capacity can devastate this market. CRU estimates that in 2008 China had 38.6 million tons of capacity that could make OCTG. Less than 10 percent of that capacity could supply all U.S. consumption this year.

The few Chinese mills which have answered your questionnaires have reported an astonishing volume of unused capacity. On this chart, the unused capacity reported by Chinese producers is in solid red. Given that those producers account for 53 percent of Chinese exports to the United States, we assume they also account for 53 percent of China's unused capacity. The estimated unused capacity of the nonresponding producers is in red and white. As you can see, even this conservative estimate, which we believe grossly underestimates the true amount of unused Chinese capacity, exceeds total U.S. operator consumption in 2009.

Chinese mills are also highly dependent on this market. Last year, 62.5 percent of their OCTG exports came to the United States. Furthermore, despite this case, the United States was the largest single market for Chinese exports this year. Indeed, while exports to the United States fell from interim 2008 to interim 2009, its exports to the rest of the world were flat. Moreover, because of China's irresponsible behavior worldwide, they face more and more export barriers in other markets. Almost every major economy has recently imposed some type of import restriction on Chinese tubular goods. Meanwhile, China continues to build even more OCTG capacity.

In our brief we have identified almost 12 million tons of new Chinese capacity that could be used to make this product that will be coming on line either this year or next year. Now let's talk about adverse inferences. This is an important issue here because this is as serious a case of noncooperation as you will ever see. So far you have received questionnaire data from only 12 mills at the final phase. By contrast, 39 Chinese producers or exporters participated in the DOC's investigation. In other words, 27 Chinese entities who hired lawyers to litigate for separate rates at the DOC have made the strategic decision that their chances of prevailing here are better if they give you no information at all.

There is more. Our petition identifies 212 Chinese producers capable of making OCTG. Again, you have data from only 12. CRU does not list two of the 12, but it estimates the capacity of the others at 8.5 million tons and the capacity of the whole industry at 38.6 million tons. That means CRU identifies over 30 million tons of Chinese capacity that could make OCTG, 77 percent of the total about which you essentially no nothing. Meanwhile, much of the information that you do have regarding China is wrong. Your staff specifically asked Chinese mills to identify new capacity expansions.

The responding mills reported a total of roughly 860,000 tons of new capacity, but our brief provides information indicating that these same companies are actually adding at least five million tons of new capacity. In other words, even the few Chinese mills who submit questionnaire responses misled you and significantly understated the new capacity that they will bring on line. China's lack of cooperation is no accident. Here is an excerpt from a document we found on the web page of the Chinese Ministry of Commerce stating that in CBD investigations China has adopted the principle of defensive participation and limited cooperation, and that Chinese parties "may not necessarily provide all documents requested by a foreign government".

It seems clear that Chinese mills have followed this strategy here. The only question is will they get away with it? Finally, when you hear the other side say that they have left this market for good, remember what a Vice President for Wook See Seamless told the press just a few months ago. In the absence of trade relief, he said, we would be back immediately. Let me repeat that. We would be back immediately. You will never see better, clearer proof of threat. They are flat out telling you that they are coming back if you go negative. I want to conclude with some pictures showing what is at stake here. These pictures were taken in April soon after the cases were filed.

They show some of the massive inventories that have buried this market. They also show three of the finest OCTG mills in the world and one that supplies those mills. When these pictures were taken, all of these facilities were either completely shut down or barely operating. When President Gerard talks of the thousands of his members being out of work, these are the plants where they used to make a living. This is what unfair trade looks like. It distorts markets, it destroys jobs and it hurts workers and their families. You have a chance to stop further unfair trade from China and to give these mills a chance to compete in a fair market. I urge you to take that chance.

MR. SURMA: Good morning, ladies and gentlemen. I'm John Surma, the Chairman and Chief Executive Officer of United States Steel Corporation. I appreciate the opportunity to be here today in the context of a proceeding that is of enormous importance to our company and our workers. To be sure, we have had many important cases before this distinguished Commission over the years, but I cannot recall a situation where the affects of unfair foreign trade had a greater or a more immediate impact on a domestic industry or posed a more substantial long-term threat. To state it as simply as I can, Chinese unfair trade has absolutely devastated our industry.

It constitutes a massive threat to our future viability, indeed, to our very survival, and it is impossible to overstate the importance of this Commission's decision. In my humble opinion, this is as close as this Commission will ever come to deciding what amounts to a capital case. I testified before you in 2007 with respect to OCTG sunset reviews. At that time, I spoke about the enormous impact China was having on the market. I made the point that not one producer in the room, including one former U.S. producer representative who is curiously today on the other side of this case, was immune from deep concern about the ramifications of China's capacity growth and subsidized exports to world markets.

I'm still on the same side of this case, and, if anything, the affects of China's actions have actually been worse, much worse, than we feared in 2007. The volume of dumped and subsidized OCTG that Chinese producers sent to this market in 2008 was not just astonishing, it was literally beyond what anyone could have imagined. It overwhelmed perhaps the strongest markets in history. The Chinese shipped more than 2.5 times the yearly volumes they brought in during either 2006 or 2007, years when China's export growth was already causing high anxiety across our industry. Chinese producers shipped 960,000 tons to the U.S. in the fourth quarter alone, an annualized pace approaching four million tons.

Now, you have seen in the charts the explosion in inventory that occurred was not just predictable, it was guaranteed, and was only aggravated by the economic downturn that occurred at the same time. With almost a year's worth of inventory piling up by the beginning of 2009, the additional 740,000 tons of exports Chinese producers sent to our markets this year was beyond damaging. Not a ton of it was needed or in any way justified by the market. I understand there has been the suggestion that had demand remained strong our market could have shrugged off this level of dumped and subsidized trade. Nothing could be further from the truth.

There are no demand conditions where these types of volumes would not have caused substantial injury, at least none where our U.S. industry remains a significant player in the market. By the end of the first quarter of 2009 we had idled our facilities in Lone Star, Texas, our facilities in Bellville, Texas, one of our two seamless mills at Lorain, and our flat-rolled operations in Granite City, Illinois, which supply much of the hot-roll steel used in our welded tubular operations. Our seamless facility in Fairfield, Alabama was scaled down to operate at minimal levels, essentially one week per month

While you've seen some modest pick up in orders and market activity, inventories are still very high, hundreds, hundreds, of our employees are laid off, we continue to lose millions of dollars and the situation remains bleak. Each segment of our business has suffered greatly. Chinese producers have moved up the value chain and are fully capable of providing for the vast majority of uses in the market. While imports from China were perhaps most concentrated in commodity grade products, they've also shipped in large volumes of more sophisticated heat treated and alloy products.

Their ability to do so should come as no surprise given the enormous amounts of new capital they have built, much of it with western and Japanese technology. As a producer that makes the full complements of OCTG products and that must rely on both commodity and high end sales, I can assure you that we have been badly hurt on both seamless and welded operations throughout the majority of our product range, just as I warned you we would be in

2007. The affect on our workers has been terrible. These Texas closures alone forced us to lay off 1,200 workers. We had very significant job losses in Lorain, Granite City, Fairfield and throughout our operations.

I realize our workers and their families do not get a vote in these proceedings, but I can promise you, ladies and gentlemen, that if they did, it would be unanimous. I can assure you that nothing is more difficult, and for me, nothing is personally more painful, than making decisions that will put hundreds and hundreds of hard working, loyal, productive employees out of a job with the destruction that it wreaks on their families and their communities. When those decisions result from the ups and downs of true market competition, that's one thing, and we, and our employees, understand that.

When they result from a foreign government breaking the rules, subsidizing its industry and ravaging our market, that's truly inexcusable and we do not understand that. I've committed to our workers that we will do everything in our power to reverse this situation and to put an end to Chinese unfair trade. I know that President Gerard feels the same way, and I deeply appreciate him being here today to represent our workers' interests. If there is anything more you need us to do, any further testimony we can provide, any document we can submit, please just ask.

We're facing a true crisis of unfair trade in this industry and it is absolutely imperative that it be stopped. As bad as the situation was this year, the threat going forward is even greater. I realize that most of the Chinese industry did not even show up or bother to provide you with information. The truth is that they have made no secret about their plans. Literally not a day goes by when we don't see some announcement about new Chinese pipe capacity. They've admitted publicly that they desperately need this market, they've acknowledged they have nowhere else to go, their own industry spokespeople have said that they have enormous excess capacity, that it is destabilizing markets in China and abroad, and that the economic crisis is only making things worse, and yet, they keep announcing more capacity. That's one thing, by the way, that never seems to change.

Even the most conservative estimates from China itself suggest that the Chinese industry has at least three to four million tons of excess OCTG capacity right now, even without the many millions of tons of new capacity being built. The likelihood is that actual excess capacity is far greater. To say this would be a threat in the best of market conditions would be stating the obvious. With the economy and OCTG inventories we have right now, it is for all intents and purposes a tidal wave poised to break on top of us, and your decision is the only thing holding it back.

We've invested a great deal in the OCTG industry and are committed to serving the market with the highest quality products, the full range of rates and sizes, and the technological and metallurgical advances requires for dynamic end user needs. We believe it's essential to have a healthy, stable domestic industry capable of investing in the future and with an experienced, trained and productive workforce. Those goals are simply not compatible with the type of market distorting behavior and ruinous import surges we have seen from China in this sector.

We can, and will, work through the circumstances we now face. We'll continue to compete with fairly traded imports from a wide range of sources, and we believe we can do so effectively over the long-term. What we cannot do is compete with the government of China in its efforts to unfairly promote the Chinese pipe industry. I urge you to give this industry and our thousands of employees and their families a chance to recover and succeed. Thank you.

MR. GERARD: Madam Chairman, my name is Leo Gerard. I'm the International President of the Steelworkers Union. I, like John Surma, have been before you many, many times, and I can honestly say that this is one of those times where I am desperately afraid of the future of the industry that our union was built on. There aren't many cases that we could ever be involved in that would be more significant than this case.

As you heard, between the end of 2008 and September 2009, close to 2,500 of our members have lost their jobs in the OCTG industry, but a significant number that you should consider in addition to those people is that literally hundreds if not thousands of our members in that industry have had their hours cut and had their wages reduced because they're not able to work a full week.

Hundreds of our members are working 32 hours a week or 24 hours a week or as you heard from Mr. Surma, some of them working one week a month. Those numbers aren't in the 2,500 that lost their jobs, but if you think about that, if I'm working 32 hours a week, that's a 20 percent reduction. If I'm working 24 hours a week, it's a 40 percent reduction, and literally hundreds of our members have been put in that predicament.

Productively plummeted in our industry not because our workers weren't working smarter or harder, but because many of the employers felt that they should keep their employees in the workforce doing preventative maintenance or doing cleanup or doing some work that they could do at some other time because they were afraid to lose these good and productive workers. The fact is that the numbers are important as they demonstrate the injury resulting from more than 3 million tons of dumped and subsidized OCTG products from China that landed on our shores in '08 and '09.

Let me tell you for the workers in this industry, they aren't simply numbers. Workers in Lone Star, Bellville and Conroe, Texas, workers in Fairfield, Alabama, Lorain, Youngstown, and Warren, Ohio, Wheatland, Koppel, Ambridge, Pennsylvania, Wilder, Kentucky, Camanche, Iowa, Blytheville, Hickman, Arkansas, and Pueblo, Colorado. These aren't numbers. These are now shattered lives, not just the workers who got laid off, but the workers who had to hang in and have their hours reduced by 20 percent and 40 percent while they tried to raise their family in the worst economy that we've seen in a long time.

These families can't pay for the necessities like healthcare. They can't pay sometimes for their mortgages. After nine months of unemployment, they've missed mortgage payments. They've had their homes foreclosed. These are hardworking American men and women who have had their lived completely torn apart by these Chinese subsidies and dumped products. I want to tell you that many of these workers have now been laid off for months. Many of these workers that have been laid off for months are continuing to have their families put in terrible distressed circumstances as I talked about the reduced shifts.

In addition, these workers in the OCTG industry, the USW has experienced additional layoffs that aren't part directly of this case, but you need to know about it. The OCTG industry is an industry that makes pipe out of hot bands, and hot bands are made out of iron ore and coal, so as we've had those layoffs and closures in the OCTG, we've had layoffs in primary mills, and we have layoffs in our iron ore mills, so it has a ripple effect.

When John Surma and others talk to you about this being a crisis case, if we don't get the fair remedy that we're entitled to in this case, it will have a ripple effect throughout the industry from the iron ore mines to our primary mills at a time when we're struggling to stay alive again through no fault of our own. The fact of the matter is that the Chinese that they came here because the market needed their product.

That is patently absurd as the evidence before you reveals. They have targeted the OCTG market just as they had targeted the steel industry market, the consumer tire market and the paper products, and just as an aside you should know that because of your decision and the President's support of your decision, in the tire industry, people are being recalled and hired in Union City, Tennessee and Ohio and North Carolina. People are going back to work because we said no to some terrible, unfair trade practice.

Let me tell you, this is worse. This is worse than what was going on in the tire industry, so if I have a bit of edge in my voice, it's because I'm really sick and tired of this having to come before you on these cases on a continuous basis when we all know that China cheats and doesn't play by the rules, so let me just say for a moment, as you know I do quite often, I feel very passionate that these aren't just statistics.

We could have flooded this room with laid of workers. We could have brought them in by bus so you could see their face, but you've done that before, and you've seen them, so we've asked a representative sample from our mills who are on reduced hours or layoffs so that they could be here so you can see that your decision isn't just a statistic on a piece of paper supported or presented to you by your staff. Your decision will have real effect on real lives and real families and real communities, and I'd like the folks in the back to stand and be acknowledged.

You look at those faces. Those are faces of people that have got two and three generations in those mills. Those are the faces of people that go to work every day and play by the rules, and all they want is a fair shake. All they want is a government that's going to stand up for them and enforce the law, so let me just say in closing, as I said at the start, I've appeared before you many times, and I think you'll see that our case is sound.

We're counting on your judgement so that we can put these families back to work and so that others who are on the edge who are working 24 and 32 hours a week can maybe get back to a full week. I can tell you this, our industry is once again on the precipice through no fault of our own. Our industry with the union support and cooperation has invested billions of dollars in the last years to make this the most efficient industry in the world.

We can produce steel more efficiently than anyone else in the world. All we need to do is be able to compete with other companies, not be forced to compete with other countries. So thank you very much, and I encourage you to make an affirmative decision on our behalf and on behalf of workers and their families and their communities. Thank you.

MR. CURA: Good morning. I am Germán Curá, the President and CEO of Maverick Tube Corporation and the Managing Director of Tenaris North America. On behalf of Maverick and its unemployed and under-employed workers, I thank the commission and staff for its hard work on this case, and I urge the commission to find that imports from China have injured our industry and also threaten us with material injury.

As Maverick's parent, Tenaris has a unique view of the market given its position as a global OCTG producer with production facilities all over the globe. Tenaris competes in every major energy market including China. It's been our experience that for the last several years, there has been no link between Chinese OCTG production or capacity expansion and market demands in China, the United States or globally.

For instance, according to our data, over the period the Chinese have increased their OCTG capacity by 33 percent, and according to the Chinese Steel Pipe Association, this capacity now accounts for over two thirds of the global OCTG capacity worldwide while the apparent consumption in China is less than 20 percent of the total global consumption. While the Chinese are moving up the value chain, this capacity is primarily focused on servicing the low-to-mid-range drilling environments.

The United States and China are the two largest markets in the world where these types of drilling environments predominate, yet the Chinese market is only about a third of the size of the U.S. market, and consequently the Chinese have had no choice but to focus its substantial capacity on servicing the U.S. Market and have used price to push enormous volumes into the U.S. market regardless of demand. Over this period, it has been a constant struggle against the ever increasing volumes of Chinese OCTG.

The record shows that the Chinese have consistently increased their shipments regardless of demand. For example, in 2007 demand declined, yet OCTG imports from China increased and gained substantial market share. To maintain its market share, the domestic industry was forced to reduced its prices. From 2006 to 2007, all of the domestic industry's performance indicators declined.

Because Maverick is a welded producer whose products primarily serve as the low- to mid-range drilling application, which is also the focus of a significant portion of the Chinese imports, we felt the effects of these imports most severely. Once again, in 2008, the Chinese shipments were no relation to actual demand. This time, the Chinese was increasing demand as the pretext to push massive volumes of unneeded OCTG into the market.

The Respondent will tell you that the Chinese OCTG was necessary to satisfy market shortages. However, no rig was shut down in 2008 for lack of available pipe. There was well over 2.1 million tons or five months of OCTG in inventory on the ground at any given time during the period. In the end, there was simply not enough rigs to consume the massive 203 percent increase in Chinese volumes at the end of the period.

The reality is that as prices increase in early 2008 due to a rapidly rising raw material cost, some purchases took advantage of the opportunity and stock up on unfairly traded Chinese OCTG. The second quarter of 2008, the surge of Chinese volume began, and by the forth quarter, the market was totally overwhelmed, yet the Chinese kept coming well into the second quarter of 2009. The Respondents however claim that as late as November 2008 market participants were not aware of the collapse.

At that time however we publicly stated that the ongoing surge in Chinese import volumes were affecting the market. We were already laying off our workers and idling some facilities, and unlike the Chinese, we worked with our customers to delay or reduce projected order volumes to address this change in market conditions. Contrary to Respondent's assertions, purchasers continue to buy Chinese pipe well after the market had already collapsed.

In addition, the Respondent's will tell you today that the domestic industry cannot make enough OCTG and special diameter ranges, wall thicknesses or length, that we're simply meeting the market needs of these specialized products. The truth is that the domestic industry is capable of producing every pipe application the Chinese claim they can produce. The vast majority of the Chinese increase is in the common low- to mid-range commodity sizes that went straight into distributors' inventories to service the less demanding application.

Maverick is well-suited to service these drilling applications and as a result was more severely affected by the surge of the Chinese OCTG volume. Any claim by the Chinese that they would only offer to sell modest quantities of OCTG and act as a responsible supplier to the U.S. or global markets in 2010 and beyond is simply not credible. The Department of Commerce find now CBD margins are between 10 to 15 percent means that the Chinese government is providing each Chinese producer between $150 to $200 per ton to export.

This policy, among others, has resulted in significant development of excess capacity in China and an almost pathological need to continue to export regardless of demand. There's simply not enough demand in China's home market or any other markets to absorb this OCTG capacity. Consequently, the only thing that prevented the Chinese from continuing to export massive volumes of OCTG in 2009 was the filing of this case and the threat of critical circumstance.

A return even a modest of volumes of unfairly traded OCTG from China in this down-turn market will devastate Maverick's operations and I believe the U.S. industry. Thank you.

MR. HERALD: Good morning, Chairman Aranoff and members of the Commissioner. My name is James Herald, and I'm the Managing Director of V&M OCTG North America. I'm accompanied today by Roger Lindgren, the President of V&M Star, and Michael Jardon, President of V&M USA Corporation. V&M Star is an integrated producer of seamless OCTG. We have a steel mill, a seamless pip mill and finishing facilities in Youngstown, Ohio, and heat treating and finishing facilities in Houston, Texas.

In addition, we acquired Integrated Tubular Corporation of American, or TCA into V&M Star. TCA operates heat treating and finishing facilities in Muskogee, Oklahoma. I have over 25 years of experience in the energy industry and have seem many business cycles. The more typical inventory levels in the OCTG market are approximately five to six months in inventory.

However, in 2009, we've seen 14 to 16 months of inventory at the peak, which is virtually unheard of. It happened only once before in the 1980s when the rig count fell from over 4,500 to less than 700. In the recent cycle, the rig count fell by 1,200 rigs from 2,100 to 900, and we have returned approximately 1,100 active rigs. I want to emphasize that this is not just the drop in rig count. It's the surge of unfairly traded imports that cause this inventory explosion.

Inventories have been depleting since June because of the filing of this case, but the benefits of inventory depletion will stop immediately if unfairly traded Chinese OCTG is allowed back in the market place. Regardless of the level of drilling in the U.S., customers will buy Chinese product because it is the lowest-priced product in the market. V&M Star has survived this onslaught of massive amounts of unfairly traded OCTG imports from China by taking very painful actions.

First, we cut back operations from 160 hours per week to 24 hours per week. To accomplish this, we terminated the services of 120 contract employees, severed 30 salaried employees and laid off 180 workers. This represented the first employee layoffs of V&M Star's history. Second, we drastically cut all expenses and imposed mandatory unpaid furloughs of all salaried personnel as well as corporate executives.

To keep our valued workers employed, we must operate at high capacity utilization levels that are efficient, and to be efficient at a high capacity is critical that we supply a full range of products. During the past decade, V&M has spent over $1.25 billion to acquire and invest in our U.S. OCTG facilities. We continue to invest in our U.S. businesses and evaluate new investment opportunities because we believe based on past history that we will have a fair and level playing field to compete.

If this Commission makes a negative determination, then it should be clear to you that Chinese over-capacity and unfair pricing will again overrun the U.S. market, and we will struggle mightily to preserve the facilities that we presently operate in the United States and will be forced to seriously question any future investments in the existing facilities.

If this Commission makes an affirmative action, then our company will have an opportunity to fairly evaluate continued investment in our current facilities and serious consider new investment opportunities with the reasonable expectation that we will have the ability to earn an acceptable rate of return. We also know that western steel companies cannot compete with the state dominated Chinese steel industry.

Numerous countries have reacted to similar surges of unfairly traded imports of OCTG from China. For example, the European Union rejected virtually identical arguments being made to you by the Chinese, found injury and imposed significant anti-dumping duties. I've spent my entire career in the energy industry, and I'm confident that the U.S. energy markets will rebound.

I'm excited by the opportunities that the new shale gas discovery provided the United States that possibly will allow us to become energy independent for the first time in over a half century. Give our company, our current and laid off employees and contractors a level playing field, and I can assure this commission that our ingenuity and hard work will show you that our company and our employees will be able to survive and thrive in any business environment. Thank you.

CHAIRMAN ARANOFF: Before we continue with this panel, I need to ask the Secretary to hold the time as Senator Lincoln has arrived, and I want to bring her in so that we can hear her testimony.

MR. BISHOP: The Honorable Blanche L. Lincoln, United States Senator, Arkansas.

CHAIRMAN ARANOFF: Good morning, Senator Lincoln, and welcome back to the Commission.

MS. LINCOLN: Good morning, Madam Chairman. I am grateful to be with you all today, and I thank you all for the opportunity to come before you today and really to get to say hello. I feel like I'm down here an awful lot, but I haven't been down here recently, so I'm glad to be back. Chairman Aranoff, and to the members of the Commission, thank you all so much for the opportunity to testify today. I am here in support of the U.S. OCTG industry and its workers in their petition for trade relief from dumped OCTG imports from China.

Let me first discuss some of the facts of this case, which I know you all are quite familiar with, but please indulge me. The Department of Commerce recently completed its subsidy investigation calculating final subsidy margins for OCTG imports from China between 10 and 15 percent. This means that in 2008, the government of China was giving Chinese OCTG producers a cost advantage over the U.S. industry equivalent to $168 per ton.

In this economic environment and the competition that needs to exist globally, we cannot survive. On the anti-dumping side, the Commerce Department recently determined that all Chinese producers but one dumped OCTG into the U.S. market at margins ranging from 36 percent to 99 percent. Indeed, the Department specifically identified almost 40 Chinese producers that had engaged in unfair trade.

Not surprisingly, Madam Chairman, imports of OCTG from China exploded as a result of these illegal trade practices. From 2006 to 2008, imports increased 203 percent. In fact, unfairly traded imports surged in the second half of 2008 just as the U.S. market was collapsing due to our own economic crisis. If we are to pull ourselves out of this economic crisis, we have got to demand that our trading partners are fair and our working with us as we all put the economy of our nation and the world back on track.

Judging from these findings, it is evidence that China is dumping OCTG onto our market, and the results have been devastating for the steel industry in Arkansas and of course our nation. Two of the Petitioners in this investigation, Maverick Tube Corporation and TMK IPSCO have facilities in

Mississippi County, Arkansas, in our northeastern corner of our state right below the Missouri boot heal.

Because of dumped and subsidized imports from China, many of the workers in these two facilities have lost their jobs, and even though who have managed to hang on, have seen their hours and their wages falling dramatically. The economy of the entire area and indeed the whole State of Arkansas has suffered as a result. Obviously, I'm concerned about the economy of our nation and putting it back on track, but without a doubt Arkansas comes first in my book as we want to be part of putting our economy back on track.

Nucor Corporation, which has two major mills in Mississippi County, supplies the two Arkansas OCTG's facilities with much of their steel to make into OCTG. Nucor and its workers have suffered because of dumped and subsidized imports of OCTG from China and have slashed the demand for Nucor's steel. It is clear the Chinese OCTG industry is a creation of the Chinese government, which has pursued a deliberate policy of increasing the production and the export of downstream, value-added steel products like OCTG.

As you found, Arkansas is one of many states impacted by China's unfair trading practices. I would like to submit to you, or have submitted to the Secretary actually before I came into speak, a bi-partisan letter from myself and 12 of my Senate colleagues urging the Commission to ensure that our trading laws are enforced. On a final note, Madam Chairman, unless the ITC finds injury or threat of injury and a trade remedy is put into place, OCTG producers in China will continue to flood the U.S. market with unfairly traded OCTG.

Given the current weakness in the U.S. economy, the only possible outcome from this would be still more lost jobs and even greater hardship for the people of Arkansas and indeed the whole United States as you heard from or will hear from other Senators and members of Congress. I believe this case is a poster child for predatory foreign trade practices. Thousands of American jobs could be restored if a remedy is imposed and fair trade is restored.

The link between trade relief and saving jobs is direct for Arkansas. Steelworkers in the northeastern part of our state are productive and innovative, and they can out-compete anyone if the competition is fair. These hard-working Arkansas families are not asking for any special treatment.

They are simply asking that existing U.S. laws are enforced. Their jobs and the well being of their familiar literally depend on trade enforcement.

Therefore, on behalf of the people of Arkansas I urge you to take the first step in providing this industry and its workers relief. These economic times are difficult for everyone, and we know that, but we also know that as we move to put our economy back on track, other nations across the globe are working to put their economies back on track, too.

Certainly, one of the most important things we can do as move into all of us putting our economies back on track and building the global economy that we need, will remind one another of how important true and fair competition is. This is an issue of being able to be competitive in a fair environment and enforcing the trade laws that we have negotiated and brought forward in that good spirit of competition and making our global economy stronger.

I thank you all for the opportunity to come and place before you the position of the people of Arkansas, the hard workers there in northeast Arkansas and really across all of our states in hopes of seeing that you will come to a decision of injury that will then lead us to the next step that will hopefully bring about the kind of fairness in trade that we all believe is necessary not just for the steel industry, but setting an example of how important competition is in the global economy, so thank you all very much for having me.

CHAIRMAN ARANOFF: Thank you very much, Senator.

MS. LINCOLN: Thank you.

CHAIRMAN ARANOFF: Any questions? We appreciate your coming this morning.

MS. LINCOLN: Thank you, Madam Chairman, and to all the commissioners I appreciate your hard work and deliberation.

CHAIRMAN ARANOFF: The next witness can proceed whenever you're ready.

MR. BARNES: Thank you. Good morning, Chairman Aranoff and members of the Commission, my name is Scott Barnes, and I'm the Vice President and Chief Commercial officer for TMK IPSCO, and I'd like to thank the Senator as well from the State of Arkansas for appearing here this morning. Unfortunately, Vicki Avril, our President and CEO, is unable to attend today's hearing due to an emergency, and ask that her testimony be entered for the record.

TMK IPSCO is a manufacturer of casing,

tubing, drill pipe, coupling stock and premium connections for the oil and gas industry. Our facilities producing welded OCTG are located in Blytheville, Arkansas, Comanche, Iowa, and Wilder, Kentucky. We have a steel mill producing billets in Koppel, Pennsylvania. We have a pipe mill 20 miles away in Ambridge, Pennsylvania, producing seamless OCTG.

We have finishing facilities at a number of our mills, and we have separate processing facilities in Catoosa, Oklahoma, and a new state of the art heat treating facility in Baytown, Texas. This heat treating facility in Baytown was part of our seamless tub mill project, which began over three years ago, and despite the turmoil in the market place and two ownership changes, we completed the facility and brought it online in April of this year.

Other than that investment, we have frozen all major capital projects throughout our company. That is a problem, because I can tell you based on my 30 years of experience in the steel industry that when you stop investing, you lose your competitive edge and start dying. Our company was formed when TMK purchased the IPSCO tubular assets in the United States from SSAB and Evraz in 2008.

We became part of a company that is one of the three largest OCTG producers in the world. We are using this relationship not only to improve our business practices, but also to become more active in export markets. Unquestionably, TMK IPSCO and its workforce suffered tremendous injury from the massive import surge of unfairly traded OCTG from China. Since late 2008, we have had intermittent plant closures at each and every one of our facilities, significant worker layoffs and reduced shifts, and we have suffered financial losses.

The massive buildup of Chinese inventory greatly compounded the normal market adjustments to the cyclical downturn in drilling activity and the reduction in OCTG consumption. Despite the fact that we have seen a modest rebound in energy prices, both oil and natural gas, which has exceeded our expectations from earlier this year and an up tick in the rig count, we have not seen a comparable rebound in demand for OCTG products as we had hoped.

There is approximately 250,000 to 270,000 tons of OCTG being used each month, a pretty good level of consumption, but we are still seeing Chinese product being quoted by traders, including Tubular Synergy Group, at prices as low as $1,030 per ton for

J grades, already up set, thread and coupled, and $850 per ton for K grades, thread and coupled. In addition to trader offerings, distributors are selling Chinese OCTG to each other at prices that are often even lower.

These prices are below the prices where we can be profitable. Our company, and most importantly our workers, must have relief from unfair trades from China to get back on their feet and back in our plants producing OCTG to be used to drill for the oil and gas in the United States. Thank you.

MR. SIMON: Good morning, Chairman Aranoff and members of the Commission. My name is Rob Simon. I'm the Vice President and General Manager of Evraz Rocky Mountain Steel, and I'm joined today by Bob Okrzesik, our Director of Seamless OCTG Sales. Our company has a steel mini-mill making our own billets, and we operate a rotary-piercing seamless OCTG mill in Pueblo, Colorado. We have a heat treating facility which can heat treat 60 percent of our mill's output for alloy casing and the size range from seven-inch to nine and five-eighths-inch OD.

Throughout your period of investigation, we made no carbon grades of OCTG. Thus, our mill never exceeded 60 percent capacity utilization. The reason for not making carbon grades was entirely due to imports from China. In fact, in mid-2008, we hired and trained an entire new crew to utilize this additional 40 percent of the mill's capacity, but we had to lay off this entire group of new workers because of the surge of Chinese imports in the third quarter of last year.

For the entire month of April and part of the month of May of 2009, our mill was entirely shut down, and all of our OCTG workers were on layoff. Since that time, we have operated sporadically at low levels of utilization. Our ability to rehire workers to return to full utilization of our allow production and heat treating facilities, and to expand into the carbon grades of the market are entirely dependent on the outcome of this litigation.

Our parent company operates multiple facilities producing multiple different product lines throughout the world. Investment dollars simply cannot be allocated to a product line that can at any time be devastated by massive, unfairly traded imports from China. For these reasons and on behalf of our valued employees, I ask you to make an affirmative determination of this investigation. Thank you.

MR. KERINS: Good morning, Chairman Aranoff and members of the Commission. My name is Bill Kerins, and I'm the President of Wheatland Tube. I'm accompanied by Randy Boswell, our Vice President responsible for all energy tubular sales. Wheatland made significant investments in our welding mills at the Warren, Ohio, facility and installed finishing equipment at our Sharon, Pennsylvania, facility in order to enter the OCTG business.

We did this in 2006 and 2007 in order to diversify our product mix away from products dependent solely on the non-residential construction market. We focused on selling carbon grades. In the middle of 2008, the market for carbon grades of OCTG was simply inundated with massive quantities of imports from China. Prices for both welded and seamless OCTG from China in our size and grade range were sold at prices significantly below Wheatland's prices.

By the end of the third quarter of 2008, we saw our order book drop significantly, and we began laying off workers in October and November of 2008. We have seen no recovery in the OCTG business in the past 12 months. There is an ocean of inventory of carbon grade OCTG from China in the U.S. market. The growth of drilling in the Marcellus shale within an hour or two drive from our plants is certainly exciting.

New distributors are setting up shop, and national distributors are putting in new depots. It is galling to our company and our laid off USW workers that OCTG from China, which has been shipped from thousands of miles away, is being used in our back yard of our own product. We can and will invest more in the OCTG product line so that we can deliver more products and higher grades to the market.

However, we realistically view a possible negative determination by this Commission as ending our participation in the OCTG business. We ask you on behalf of our workers to make an affirmative injury determination. Thank you.

MR. MAHONEY: Good morning, Chairman Aranoff and members of the Commission. I am Robert Mahoney, President of Northwest Pipe's Tubular Division. In June 2008, we announced plans to move and retrofit a mothballed mill from Portland, Oregon, to one of our existing plants in either Houston or Bossier City, Louisiana. We decided on Bossier City, Louisiana, and planned to have the mill up and running by the end of 2009.

The total investment will be the largest internal investment in our company's history, but earlier this year, due to the large import surge of OCTG from China and the decline in demand, we postponed full startup until 2010. Of course, that is dependent upon your decision in this case. We have already retrofitted the building in Bossier City and have moved the mill. During the fourth quarter of 2009 and the first quarter of 2010, we will finish retrofitting the mill and begin adding the testing and finishing equipment required for OCTG.

The mill will conservatively be capable of producing 120,000 tons of OCTG annually, and we will employ approximately 120 workers when all processes are complete. We have already formed relationships with third party heat treating and finishing companies, so we did not have to install our own heat treating facility. At the outset, we recognize that massive OCTG over-capacity in China was a huge problem, but our investment in this mill was predicated on our belief that the U.S. government would enforce the existing trade laws.

You certainly did that in welded line pipe from China, and that prevented the same kind of inventory buildup in welded line pipe that occurred in OCTG. Our company understands that many markets are global in nature. However, we believe in the philosophy of both free and fair trade. Allowing the Chinese to overrun the U.S. OCTG market again with unfairly traded imports will jeopardize our new OCTG investment and have a major impact on our company's earnings.

On behalf of our company, our future employees in Bossier City and to the companies considering adding manufacturing capacity in the United States I ask that you make an affirmative injury or threat of injury decision.

MR. SHOAFF: Good morning. I'm John Shoaff, President of Sooner Pipe, one of the world's largest distributors of tubular products. I have almost 30 years of experience of buying OCTG, and please let me tell you how this case looks look from my perspective. First, there is no question that Chinese imports have vastly oversupplied the U.S. market to the detriment of domestic producers.

While demand declined from extremely high levels in 2008, it never fell to a level that would under normal circumstances cause us to stop buying. We're on pace for operator consumption of 3.2 million tons in 2009, and I can assure you that in a normal year with that much consumption, Sooner would have purchased significant volumes of OCTG from domestic mills.

This year, we purchased much less because it makes no sense to do so with so much OCTG on the ground, and that is a direct result of unfairly traded Chinese imports. Second, the suggestion that the severe flood of Chinese imports in 2008 can be explained by a market tightness is absolutely incorrect. While the market was tight last summer, inventories were growing every month, and I'm not aware of any driller who didn't have enough OCTG to keep operating.

In reality, Chinese OCTG was in large measure pushed into this market by mills looking to move as much product as possible. Throughout last summer, our phones were ringing off the hook with offer after offer of relatively low-priced Chinese OCTG from traders hoping to make a quick profit from unfairly traded imports. Much of that pipe ended up sitting in inventory.

To this very day, our salesmen keep reporting to me on the huge caches of Chinese OCTG, 700,000 feet here, a million feet there, still filling up inventories and leaving the market largely stagnant. Third, no plausible level of demand could possibly have absorbed the surge in Chinese imports we saw last year, particularly towards the end of the year.

As you have already heard, in last quarter of 2008, we were on an annual pace to import almost 4 million tons of Chinese OCTG. No market, including this one, can handle that much pipe. Even last September when we had over 2,000 rigs in operation, inventories were growing rapidly, and finally, no one in our business truly believes that Chinese imports left this market voluntarily.

Huge volumes were coming into this market as lat as May and long after the market had collapsed. Indeed, extremely low-priced offers were coming in from China as late as April. As it is, we hear that Chinese mills are frantically trying to sell OCTG at extremely low prices all around the world. They will certainly return here if given the chance. Thank you for the opportunity to testify.

MR. DUBOIS: Good morning. I'm Scott DuBois, President of Premier Pipe, one of the nation's OCTG distributors. I'd like to focus your attention on two key points this morning. First of all, market conditions are stabilizing. We're still far below 2008 levels. According to the most recent data from Preston, we still have approximately 11 months worth of OCTG in inventory.

Spot prices are down about 50 percent from last year and are likely to keep falling until inventories return to normal levels. We are still over 900 rigs below the peak from last year, and we don't expect things to improve much next year. When you consider that Chinese imports caused a disastrous inventory buildup last year when demand was extremely high, I would not want to think about what they would do now or in 2010.

We, along with others, project the U.S. market consumption of OCTG in 2010 to be approximately 3.3 million short tons. The domestics product 3,040,000 short tons in 2008 telling us that domestic mills are capable of supplying more than 90 percent of the U.S. market and that any Chinese OCTG allowed into this market will be disruptive. This market cannot handle any more Chinese imports much less the volumes we've seen in recent years.

Secondly, I do not believe that the U.S. Mills can somehow avoid harm from Chinese mills by concentrating on high-end items. Chinese built a lot of new mill capacity in recent years with more to come and it now turns out enormous volumes of seamless OCTG in higher grades such as P110. These higher-value products have been extremely important to American mills for years, but without trade relief, the domestics will lose more and more of that business to China.

Furthermore, U.S. producers have always sold large volumes of commodity-grade OCTG, products that represent approximately 90 percent of premier sales in 2008 and a huge portion of the American market. I don't see how they can keep the mills operating if they lose all of that business to China. Thank you for your attention.

MR. MILLER: Good morning. I'm Steve Miller, Co-Chief Executive Officer of Cinco Pipe and Supply. We're an OCTG distributor that sells primarily to large- and mid-sized independent operators. We handle both seamless and welded products. I'm here because as a distributor who generally buys from domestic mills, I'm very concerned about what the Chinese imports are doing to this market.

For some time now, domestic OCTG producers have been losing sales to much lower-priced Chinese imports. In fact, because Chinese prices were so low, there were many instances, even last year, when we were concerned about our ability to sell domestic

OCTG. I know you'll hear about tightness in the market last year, but in the summer of 2008 when demand was generally strong, there were several occasions where we had the opportunity but declined to purchase additional OCTG from domestic sources because we believed that we could not sell more domestic pipe in the market flooded with Chinese imports.

In fact, during 2008, we were undercut time after time by distributors and speculators who were willing to sell low-priced Chinese products. Even in a period of strong demand like we had last year, there will always be a significant number of end users whose purchase decisions are based primarily on price. Given the choice, those end users will buy Chinese, period. I don't believe any private company that is trying to make a profit can possibly compete with the Chinese on price.

Because of these facts, I know that if you don't grant relief, Chinese imports will not only return to this market, they'll dominate this market. I believe that domestic mills will find it difficult to make sales beyond niche products which would clearly not justify keeping their doors open. Trade relief is the only hope for domestic mills to avoid this disaster. I'd be happy to answer any questions that you may have.

MR. HAUSMAN: I'm Jerry Hausman, a McDonald Professor of Economics at MIT. There's no doubt that there's a significant inventory overhang in this industry, which is still at 12 months approximately, which is much higher than a typical five to six months. Respondents claim that is due to a fall in demand, but I disagree because I believe that supply had also had a very large effect.

Between 2006 and 2008, Chinese imports increased by 203 percent. Nonsubject imports increased by only 27 percent. Now, the increased rigs do not explain the increase in Chinese imports. For example, in September 2000, the rig count was 1,739 while in September 2008, which was the highest it reached, it was 2,014. Now, if the increase in rigs was 15.8 percent, well, Chinese imports grew by 203 percent.

The surge of Chinese imports precipitated this gross over-supply leading to the inventory over-hang in 16.3 months in May, and as I said, it's still about 12 months today. Now, Respondents claimed earlier today that the hardships of the domestic producers are attributable solely to reductions in demand, but they fail to understand that supply also has an important role in economics.

In fact, their Exhibit 4, which tries to explain this, makes a fundamental mistake. It assumes that if U.S. rig count had stayed at its high point of September 2008, inventories would now be less than 1.1 month. However, it makes a ridiculous assumption, which makes absolutely no economic sense, that despite rig count being approximately twice as high as it actually is in September 2009, neither the domestic industry nor non-subject imports would have increased production whatsoever. This makes no economic sense. I'm now out of time, but I'll be glad to answer further points during the question period. Thank you.

CHAIRMAN ARANOFF: Thank you very much, and welcome to all the witnesses who have testified this morning and now going into this afternoon. We appreciate all of you taking the time away from your businesses and your jobs to come here and share information with us. It's always extremely helpful. We're going to begin the questioning today with Commissioner Lane.

COMMISSIONER LANE: Good morning. I too welcome all of you here today, and I especially appreciate Mr. Gerard bringing his workers here so that we can actually see the affect of this case upon real people, so thank you for doing that, and I have two questions starting with you, Mr. Gerard and Mr. Surma. Let's address the big 800 gorilla in the room, which is how should be address the operating levels of your profits over the past several years?

MR. SURMA: I'll try to respond, Commissioner, as best I can just in a general context. If one looks back over time, our sector is at --

COMMISSIONER LANE: Sir, I meant the industry in general, not necessarily U.S. Steel.

MR. SURMA: Yes. Although, I think our results probably would be to some degree exemplary. If we look back over time, the sector has had a number of a swings, ups and downs, and they would generally be driven and let by what's happening in the energy sectors, oil and gas of course, and that would activate or depress the amount of drills which are running and the amount of feet of pipe which are going down the hole.

All that carries on over a long period of time, and when markets are tighter, we can perhaps get a little bit better return. When markets aren't so good, we have no return or many years as a industry no return. We've had enough to invest and survive over a long period of time, but in the face of what happened in 2007, 2008 and 2009, there was no demand and no amount of profit and no amount of results which would allow us to withstand the onslaught without any commercial responsibility that we encountered from China.

I think over time if one looks at the actual return on capital that our sectors had it's not outrageous compared to most other industrial sectors. Our sector is not over-invested, which is usually a sign of out-sized returns, and in fact, most of the time in the last decade or so we have supplied less than the total requirements of the market. There were some fairly traded imports along the way. I'm not sure if my comments were responsive to your question.

MR. GERARD: Sorry. I was going to make a --

COMMISSIONER LANE: Yes. Go ahead, Mr. Gerard.

MR. GERARD: Okay. I just want to also add that in cases where there's no demand, no ability to sell product, for our members it means no work, and we certainly don't have any sort of -- I'm not sure what the right word is. We don't have any view that the companies are going to be charities. They're not operating in a communist state, and they're not running these operations in any way that is going to be a charitable event, but if there's no orders, there's nothing for our people to do, and those orders just dried up.

I also want to say on the industry's behalf, and in particular, the industries that were feeding the tubular industry, they were in the process, and U.S. Steel's process, going to make major investments in other parts of the industry that feeds the tubular industry, and those investments had to be put on hold as well, so that for us, the fact of the matter is that over the last decade, if that's the term we want to use, or whatever term we want to use, the industry has barely made the cost of capital.

With our union pushing them pretty hard to make investments and modernizations and doing those things, they were doing a lot of that, and I'm not being a critic when I say this, that came to a halt. That came to a halt because the market just disappeared, and in the case of the oil country tubular goods, there was no demand for domestic consumption.

The Chinese just flooded the market. I guess there's some that think we should stay home and get paid, but I've never seen that happen in America yet. It may happen in China, but it doesn't happen in America.

COMMISSIONER LANE: Mr. Gerard, how do you respond to what the Respondent's counsel said in his opening remarks and in their brief, which is that with the level of profits that the industry was making that the companies could have afforded to keep your workers working for two years without it really making a dent in their profits?

MR. GERARD: I respond angrily and thing he's delusional, but that's only an emotional response. The fact of the matter is that isn't true. The company has to make other investments. The company has to do other things. There are other demands on the capital, and I'll be very, very direct, one of the things we've bargained into our collective agreements, and some people may think it's not right, we think it is right, we've bargained demand that they invest in their plants, and they have to have those obligations met first.

In fact, in the circumstances, many of the steel companies before they can pay Surma a bonus, they've got to invest in the plant. We're proud that we bargained that. He may not be, but we are, but that's because in fairness to John and to our members, we believe that the long-term security of our industry matters, and we've done that together, but when they flood our market and destroy our market so that we have no ability to even sell what we can produce, I can't be mad at them, so I think that if I act a bit bitter and bit angry about that kind of silliness, it's because I am.

COMMISSIONER LANE: Okay. Mr. Surma, go ahead.

MR. SURMA: If I could just add? Commissioner, thank you. I find it unbelievably outrageous by the way the comment that the other side made in the opening remarks that essentially say that we should allow our opponents to engage in unfair trade, keep their employees working, allow our employees to be out of work and use capital that we have generated for investment and returns to shareholders to merely tide them over while the unfair traders decide how low it is they should take our return before they allow us to get back in our market.

We're not about to cede our responsibility for determining the outcome of our business to some people that are way, way far away that we don't know. That's essentially saying that we should allow them to determine what our returns are and what the Chinese the government will determine is good for us. We're not prepared to do that.

COMMISSIONER LANE: Okay. Thank you. Mr. Schagrin, did you have something you wanted to add?

MR. SCHAGRIN: No, I did not.

COMMISSIONER LANE: Okay. Thank you.

MR. SCHAGRIN: I couldn't have said it any more eloquently than Mr. Gerard or Mr. Surma.

COMMISSIONER LANE: Okay. Mr. Lighthizer, I now have a question for you. In looking at the net operating income in 2009, there was a dramatic shift. What sort of weight should we be giving to the 2009 numbers as opposed to prior-year numbers?

MR. LIGHTHIZER: Yes. Thank you, Commissioner. I was kind of hoping I'd get a chance to talk about the communist issue that they just talked about, but maybe someone else will ask me that, and I can get into how our objective is not to give up capitalism so that they can have communism.

COMMISSIONER LANE: I'll tell you want. You can talk about anything you want.

MR. LIGHTHIZER: First of all the Commission decided that we were threatened with material injury and didn't have material injury when you made your initial determination. We of course didn't agree with that. We argued current injury at that time. Our view is now that whatever you thought then you should clearly decide that we are materially injured now, and we would suggest that you should focus on 2009, and when you look at 2009, you make a kind of bifurcated analysis.

The first quarter we did reasonably well, and we did reasonably well largely because it was a carry-over from the previous year, but it came down fast, very fast. If you look at the next two quarters, then you can see this lag effect of all these unfair imports going in inventory, and you can see that now we're actually losing money and will continue to lose money, project to lose money in the near term.

You won't recall because you weren't actually here, but when we had the staff conference, the other side said no, that's not going to happen, prices are going to go back up, and we said no, that's not the process. You have a lag here. You bring in two, or if you count both years, three millions tons of steel into a market where that's just multiples of what you need, you're going to end up with a long-term inventory problem.

Right now, our distributors will tell you they're selling against that inventory. That inventory is dragging down their prices, dragging down their profits, and we are losing money now because of that inventory, so to answer your question we believe that you should focus on now the fact that we're losing money of the last two quarters, that our workers are still out of work, that they're losing not only their jobs, but also the ones that are losing hours.

We think if you go down almost every single criteria of current injury, you would say now that we're currently injured.

COMMISSIONER LANE: Okay. Thank you. Madam Chair, I'll wait until the next round.

CHAIRMAN ARANOFF: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Madam Chairman. I express my appreciation to the witnesses for their testimony and being here today. Let's see. Mr. Guillermo, you had your hand up. I don't know if you wanted to answer the previous question. I'll give you a chance.

MR. VOGEL: Yes. I want to make a comment on the previous question. I appreciate it very much. My name is Guillermo Vogel. I'm the Chairman of the Board of Tenaris, and related to how does 2009 look versus the past, I wanted just to make the comment that we have to see really that this excess capacity in China is a very recent event. It's not something that existed five years ago or six years ago or four years ago.

Excess capacity just came on stream. We're seeing that it continues to grow. It is there because the government is very strongly incentivizing this excess capacity, and what we have been experiencing not only in the states but in the world is that once the capacity comes on stream, there's a big push from the state of China to incentivize these exports, so when we see there's an additional four or five million tons of capacity coming into the market, what we shall expect to the future is that we're going to have a huge over-capacity, that this huge over-capacity doesn't have anything to do with the market in China.

It's much bigger than the niche of the market in China, that it doesn't have to do a lot with the rest of the international world because the rest of the international world takes a much lower percentage of carbon grades than the U.S. market or the Chinese market does, so that really the only places that excess capacity has to go is to the United States and that if we want to see our 2009 profits moving forward, what we have to consider is that with this inventory coming here, I think that our 2000 numbers were going to look very good.

We say in the industry that the difference between fear and panic is that fear is when your selling price is getting close to your overall cost, and panic is when your selling price is getting close to your valuable cost, and here I think we're getting to that situation. So I think that the 2009 numbers in terms of what happened with the capacity and how that capacity has been growing in China is really that we cannot see the past in order to realize what our danger is going into the future.

COMMISSIONER WILLIAMSON: Thank you for that response. I wanted to turn to the question of the seamless versus welded, and the staff report noticed that during the period for what data collected, every measure of operating profitability for seamless OCTG was higher than every measure of profitability for welded OCTG. What is the differences in performance between welded and seamless producers?

MR. SURMA: This is John Surma from U.S. Steel. I'll start. Our company makes both seamless and welded. Typically, it would be more capital investment necessary for a plant to avoid capacity in like size. For seamless, it's because it's a little more capital intensive process and that has traditionally then resulted in some higher returns on that capital as well for seamless, as compared to welded.

In terms of performance, there have been great advances made on both sides of the technology. The welded performance is extremely capable and a lot of applications. There are many applications where both seamless and welded would be sufficient. It's really the end-user's preference in many cases as to whether they use welded or seamless. Other cases, we're involved and is particularly strenuous or harsh and the consumer would almost always prefer seamless.

We're quite happy to be in both categories because we think both are quite relevant and useful to the marketplace and we expect, given fair competition, to be able to perform well in both spaces. We, also, make flat-rolled steel, which is the sub-strait for welded, so we find it to be a synergistic activity. Performance is similar. In the most extreme environments, typically seamless would be preferred; but because of advances in the welded technology, there's a great deal where both applications could be served.

And my colleagues may want to have a more technical response filed later, but I think I would be a generalist response.

COMMISSIONER WILLIAMSON: In those areas where technology --

MR. BARNES: Excuse me, Scott Barnes, TMK IPSCO and like U.S. Steel, we are also a producer of both seamless and welded product. And I would agree with Mr. Surma's comments, that the products are fungible and interchangeable and the vast majority of the applications. I would like to point out that I think the specification, API only has three seamless only specifications and they are a very, very small percentage of the market, so that there truly is interchangeability between the two.

The biggest issue that we saw as a welded producer is the fact that the Chinese came in, in the lower grades, J-55, K-55, in the market, which is a big part of the market. And if I could just make a comment of my own, which you can look at the details in our filing, but the welded business for TMK IPSCO saw a downturn in our business earlier than we did from the seamless side and I would tell you that that's because of the onslaught of the Chinese import surges that started in the June period of 2008 and just, you know, escalated from there. And I guess that would be the sum of my comments at this time.

MR. THOMPSON: Mr. Williamson, George Thompson, General Manager of Commercial for U.S. Steel. I would second what Mr. Surma and Mr. Barnes have said. But, in addition to that, in looking at our numbers, which I know you have access to, one of the things that caused the apparent affects on -- within our numbers on ERW versus seamless is the consolidation of our water book on to Fairfield and, consequently, Fairfield was able to -- which is our seamless facility, and, consequently, the numbers on seamless were probably void by additional tons that would normally have been on this Texas facility and that's just consolidation based upon our ability to turn steel around a lot faster in Fairfield than we are in east Texas.

COMMISSIONER WILLIAMSON: Okay. To what extent does a purchaser has a choice between an application where he can use either welded or seamless might prefer -- decide to buy Chinese seamless if the price was right compared to welded?

MR. SCHAGRIN: Commissioner Williamson, I would say that all the time. A user really looks for its use of a specific grade OD and wall combination.

And the most popular grades are J&K grades and then in the hourly groups, P grades and all of those are made with both welded and seamless, can support those. Once the user has determined this is what I need, it doesn't matter to the user whether they get welded or seamless. And we saw, and I believe it was in Mr. Kerins' testimony, Wheatland is only welded producer. They can weld it carbon grades. Chinese seamless was substituting for welded carbon all the time. Now, as been testified in the past, probably never more eloquently than Byron Dunn, you know, I mean, the Long Star welded product and the U.S. Steel seamless product used to compete against each other every single day and they still do. All of these producers compete against each other, welded and seamless, except for maybe somewhere between five to 10 percent of demand, which is for seamless only grades of specs. Over 90 percent of the market, welded and seamless compete every day. The question is, grade OD wall thickness that the consumer needs to drill any particular well.

COMMISSIONER WILLIAMSON: Thank you for all of those answers. Respondents claim that Chinese producers are better able to produce OCTG in smaller diameter and shorter length that is used in the shale or shale gas wells. And I was just wondering how significant is this demand for the smaller product and is demand growing and what are the domestic industry's capabilities in this area?

Sorry, I can't see the name.

MR. CURA: I'm sorry. This is German Cura from Maverick Tube. Let's just say we heard that during our analysis for the case and what we're here to state is that presently we're servicing our customers in the shales with welded tube production out of our domestic mills with absolutely no limitations. It is one of those cases as been discussed before where once the well application permits, the user will decide whether on seamless or welded, depend upon specific preference, specific in terms of decisions but not driven by the type of pipe. They would be fully interchangeable.

Now, the shales, there's a lot of talk about the shales. And let's say we agree with the notion that the shales do represent a tremendous potential on servicing the energy industry going forward. This is a fairly new phenomenon, as well. We knew about gas. We're not sure gas in the shales. But, the technology was not yet there and, consequently, those reserves were not, say, made available. Now, they are and they will be going forward.

But over the next couple of years, the shales have represented a very small portion of the market overall. When you look at today existing 100 -- sorry, 1,137 operating in the country, only a few faction of those are, in fact, dealing in the shales.

COMMISSIONER WILLIAMSON: Okay. My time has expired and thank you for those answers.

CHAIRMAN ARANOFF: Commissioner Pinkert?

COMMISSIONER PINKERT: Thank you, Madam Chairman. And I join my colleagues in thanking all of you being here today, to help us to understand what is happening and what has happened in this industry. I want to begin with a follow-up for Mr. Gerard. Is it your testimony that the 2009 reductions in employment were not contentious between the union and the companies?

MR. GERARD: Of course they're contentious. But the fact of the matter is that in premier all of our represented facilities, the demand just sort of fell off the cliff. And, in fact, I can remember having phone discussions with Mr. Surma, that we had mills that didn't have a week of orders, with nothing to sell. And in some cases, the companies kept our folks working on reduced hours for some period of time. But when you start losing hundreds of millions of dollars and us breathing down their neck about wanting to have the investments and the continued investments in modernization, we just couldn't keep everybody at work. But, it's not acrimonious. It's contentious. And if I could use other words, I am a bit ticked. But, that's not their fault.

COMMISSIONER PINKERT: Thank you. Mr. Surma?

MR. SURMA: If I could just add further to Mr. Gerard's comments, Commissioner? The unemployment issues, we've spoken about layoffs. In the context of this case, of course, they're just for our tubular operations and they have been vicious and painful for everyone involved. In our broader North American steel-making operations, the effects were even more extreme, more severe, and more vicious, at the higher or low water mark, depending on your point of view. Our company had over 10,000 people on layoff and it was the most painful and vicious thing that in my 33 years in business I've ever gone through. And President Gerard and I, neither one of us liked it very much and I don't like it at all right now and my objective is to get our people back to work as soon as we can. If it's a broader economic issue, we've got to fight our way through it. If it's this kind of externally inflicted damage by our opponents from 10,000 miles away, then we can do something about it right now. So, we don't like -- neither of us like it and we both want to get our people back to work as soon as we can.

MR. GERARD: And, Commissioner, I would just point to that picture right there. That is one of our historic facilities, Granite City Steel, and Mr. Surma and I have had over a long period of time, a lot of discussions about Granite City Steel. And they put hundreds of millions of dollars of investment into Granite City Steel during and after our last set of negotiations. That mill was shut, totally shut, every one of our members out of a job, losing their healthcare, because that mill provided the steel to the oil country tubular goods. There was no demand for oil country tubular goods, so that mill had to shut. That mill isn't part of these statistics of the 2,500 roughly that are laid off because it's a primary mill.

I can take you from that mill, I can take you up to the Illinois range and show you our miners, who have been laid off, because you don't need iron and ore if you're not going to be making steel in

Granite City, if you're not making steel in Granite City because you don't have pipe orders that you should have. So when we said in our testimony at the start, that you need to understand that this is a tipping point for the industry. If we don't get relief, the whole of the industry's value change is at risk. This is damn near as important as when we came here almost eight years ago now, seven years ago on the 201 case. That's how precipitous this could be if we don't get relief. So, this is contentious and acrimonious.

COMMISSIONER PINKERT: Thank you. Now, turning to the economist, Dr. Kaplan, Dr. Hausman, do you consider OCTG to be a cyclical industry and if so, what are the implications of that for our analysis of causation in this case?

MR. HAUSMAN: Yes. I do consider it to be a cyclical industry. You can go all the way back to the early 1980s when oil prices peaked in real terms -- natural gas prices also were quite high at that time -- then they came down, went back up, and now the oil price is about $70. So, it's hard to know what the equilibrium is. Natural gas prices are quite low though and the futures market doesn't see them going back up anytime too soon. So, I think you do have to take a look at the cyclical nature of the industry.

At the same time, I think that you need look at importers. If you look at the data, you can break it into two groups: the non-subject importers and the Chinese. And as I said in my testimony, when demand did go up, rig count went up by 16 percent from the beginning of -- from September 2006 to its peak in 2008. Non-subject imports did go up by 27 percent, somewhat more than the increase in rig count. However, Chinese imports went up by 203 percent.

So, I think looked at from a supply and demand perspective, which is how economists usually like to look at the world, there is no way that the U.S. market could have absorbed a 203 percent increase of Chinese imports into the United States. So, even taking the cyclical nature into account, that is really what led to the inventory overhang in large part and that overhang continues to depress the industry. One might claim that in terms of rig count, if you look now, the U.S. is not in such bad shape. Rig count is 1,000; it's going up. By recent historic standards, it might be a bit low, but it's certainly not that low.

But, if you then say, well, why is it that the industry capacity utilization domestically is only about 17 percent and all of these people have been laid off and lost their jobs? It's because of the inventory overhang. And in terms of causation, the largest part of that inventory overhang was caused by the huge increase in Chinese imports in 2008 and the first quarter of 2009.

MR. KAPLAN: In the context of a cyclical industry like this, the oversupply coming as the cycle is starting to head down is particularly pernicious because at that point, the industry has to consolidate in terms of the other imports leaving the market and the domestic industry picking up the slack. Most of the Commission models and the Commission experience shows that in times of decline, the domestic industry will keep the market and the imports should leave. And that's typically the case in economic theory and in the real world unless there is some type of unusual occurrence. And here, the subsidization and the dumping is that occurrence, which has led the market down and is causing an exacerbating recovery because the inventory overhang is extended now at the bottom part of the cycle.

What's a really big concern, and Dr. Hausman and I have talked about this, is the excess capacity overhang in China, which is now out of proportion to the size of world consumption. And that, as some of the witnesses have spoke about already, is a severe threat and it is recent and it is something that has occurred over the POI. So, in the context of a cyclical industry, to summary, in the downward part where this overhang has been caused by imports, it's going to exacerbate the downward cycle. And with respect to the excess capacity abroad, that can extend the downward cycle for the industry, as well.

COMMISSIONER PINKERT: Thank you. Now, I have a couple of hypothetical questions for you that you may or may not be able to answer during this hearing. But, my first one is, if subject imports had maintained their 2006 market share into 2008, what would the financial circumstances of the domestic industry have been in 2008?

MR. KAPLAN: I'd like to model that for you and answer that in a post-hearing brief.

COMMISSIONER PINKERT: Thank you.

MR. HAUSMAN: I think it's best to put that in a post-hearing brief. But, I think I can answer it qualitatively. If your question is if both non-subject imports -- I didn't understand part of the hypothetical, so I would like you to clarify it, please. What are you assuming about Chinese imports in 2008?

COMMISSIONER PINKERT: If the subject imports had the same market share in 2008 that they had in 2006, what would the financial circumstances of the industry have been in 2008? And my second question, I think you anticipated my second question, is how are you factoring in non-subject imports into your analysis?

MR. HAUSMAN: Well, that was really my question. Thank you. So, if I assume that non-subject imports did what they did in the real world, in the hypothetical world, then what would have happened if the subject imports had maintained their share as it was at the beginning of 2006, the domestic industry's financial situation would have been much better in 2008 and it would also be much better now in 2009. But to give you quantitative numbers, I think we should actually run them through a spreadsheet.

COMMISSIONER PINKERT: Thank you. And when you do that, please, also, indicate whether there are any limits on how well the domestic industry could have done in 2008 given the high demand situation for at least part of that period of time.

MR. HAUSMAN: I'd like to make one point about that, if I might, about 2008. As I understand it, and I've looked into this, no actual drilling was ever stopped in 2008 because of any type of shortage. There has been talk of shortages here. And if one looks at the inventory level, I don't believe that inventory ever got below five months in 2008 either. So, as I testified at the preliminary hearing, a lot of what was going on was speculative demand by distributors and dealers here. So, I mean, it's simple economics, what happens, the price starts to go up; people say, I'm going to stock up now because the price is going to go up even more; and then you start to have more and more demand. So, one wants to be very careful here in thinking about 2008 between demand that was actually being -- consumption that was actually being used to drill for oil or gas and speculative demand, which basically got going. And I can almost use the B word for bubble, which we've seen in a number of other sectors, and I believe is a large explanation for what was going on in 2008 in the OCTG demand.

COMMISSIONER PINKERT: Thank you. We'll come back to this in the next round. Thank you.

CHAIRMAN ARANOFF: That's actually a pretty good segue into the question that I wanted to ask, which is that as I read the briefs and as I hear the arguments this morning, a lot of the injury arguments are based on declines in sales volume, in prices, employment, and other factors since 2008. But by all measures, we know that 2008 was really a record-breaking year. And, in fact, the period of investigation that we're looking at now, as a whole, was an unusually favorable period, as well, at least in its duration.

In that light, what is the best way to assess the magnitude and significance of the declines that we see in 2009? We've heard a lot of testimony about how much things are down compared to the peak of the market. But, I'm not sure that that's the perspective from which we should be looking.

MR. SURMA: I'll just offer a couple of comments, Madam Chair. From our company's perspective in the second quarter of 2009, I think we lost in our tubular sector $88 million. In the third quarter, we lost 25 or so million dollars. We note that that includes over $20 million in each quarter of idle facility caring costs. The majority of our facilities and our employees have been off since mid to late in the first quarter. We had some financial returns in the first quarter. It really reflected orders that were placed earlier during a period of stronger pricing. And as we finished those orders off, instead of getting daily orders of three or four or five thousand tons, we got daily orders of 20, 30, 40 tons, and eventually zero tons. And by the time we got into the end of the first quarter, we had virtually no order book left. So, our financial results of operations or employment or orders or pricing or manufacturing, every possible parameter I can look at in our tubular business has been really very much devastated since early in the first quarter.

MR. SCHAGRIN: Chairman Aranoff, I think I would answer your question also in the context of the question about the cyclicality of the industry, I think asked by Commissioner Williamson, because you don't need to compare only 2009 to 2008 to say, oh, things are so far down from 2008 to 2009, that we know 2008 was a very good year. The fact is the level of consumption in the U.S. in 2009 in the down part of the cycle is very similar to where it was in 1999 to 2001, the last down cycle. I think every single domestic industry executive here was in the industry then. Some of these people go back to the early 1980s. And I think they would all tell you that when you compare the 2009 operating rates, 18 percent capacity utilization. When you look at order books during the whole period 1999 to 2001, I think all of these industry members can tell you they never had order books as low during the last down cycle in 1999 to 2001, as they had in 2009. Every single indicator of injury this Commissioner will look at, save profitability, was worse in 2009 than during any other down cycle. The only reason profitability is better is this is a very different, much more efficient industry. That's thanks to Mr. Gerard's workers and what all these industry executives have done in terms of improving efficiency, productivity, et cetera, and investing in their mills and increasing efficiency.

But the big difference between the last down cycle and 2009 is we didn't have three million tons of imports from China come in during the last period, because, of course, there had been an up cycle in 1995 to 1998 before the last down cycle. So, if you look at this industry over time and look at it on a cyclical basis, nothing ever happened in this industry before in down cycles like it has happened in 2009. That's why just quantitatively, this down cycle has been so much worse. And I know that because he is such an old timer, Mr. Herald, you know, pointed out the fact that the last time things were this bad in this industry, and I remember it very well because mills were shutting down all the time -- we didn't have government support to keep the mills open in the early 1980s -- the change in demand and the change in the rig count was about 80 percent. We went from 4,200 to 700. This time, we just went from 2,100 to 1,200 and we're right now because the Chinese on the cusp of shutting mills down completely and permanently just like we were in the early 1980s, only the drop in demand is nothing like it was in the early 1980s.

So, you compare apples to apples over different cycles, not just 2008 to 2009, and you will see that this industry is getting clobbered during a period of not really bad demand; not as good as 2008, but not really bad and it's all because of imports from China. And I think the economists would come to exactly the same conclusion. But, certainly everybody in this industry can tell you, there was nothing like this during the last down cycle in 1999 to 2001 for this industry.

CHAIRMAN ARANOFF: Okay. I know we had some hands up in some of the other rows and I want to have all of you have a chance to answer. And as you do, if you could also think about pricing, which wasn't mentioned so much in the last two comments, because prices now compared to the high in 2008 are down a lot, but they were up a lot from any level anybody had seen before. So, that's one of the measures that I have in mind. But, I think is it Mr. Cura in the second row and then we'll go to the folks in the third row.

MR. CURA: Thank you, very much. I would just like to offer another perspective. A financial perspective was provided in cyclicality in the nature of the industry, as well, the so-called speculation. But there's one thing that we can not forget about and that is China has during 2009 four million tons of unused capacity and, as we speak, building about five more million tons. Now, theses are products, which are perfectly suited to, in fact, meet the operation of the mines of this market, now every market around the world. And there is, frankly, nothing we can do about it, in terms of as confronting and use new capacity build up subsidies and prices.

CHAIRMAN ARANOFF: Okay. There's a hand back over there. Can you identify yourself for the court reporter?

MR. SHOAFF: Yes, ma'am. I'm John Shoaff for Sooner Pipe. And just to add a little bit more to what was just recently said, you know, this is a very cyclical industry. I agree with what everybody said.

And we -- that's what we've done for years, we've managed through these cycles. If this was just about a rig count drop from over 2,000 to, I think, around 850, which is the lowest it got, we still would have managed through this industry with not a whole lot of problem. Would we have liked it? Absolutely no. But that's the nature of the industry and we can handle that kind of cyclical nature.

But when you throw the just unbelievable amount of overhang inventory strictly -- mostly from China, of course, it adds a whole new dimension to that. And I can tell you being in an everyday basis, on inquiry by inquiry basis from the distributor's standpoint, every single inquiry, the first question that comes up in our office is are we competing against Chinese, are we competing against Chinese, which mill is it, what price do we have to get down to. And so I'm just saying, as I said in my opening statement, even at these rig levels that we're currently at now, we would have been placing a lot more orders on the domestic industry if it wasn't for this enormous amount of inventory that was shipped in here by China.

CHAIRMAN ARANOFF: Okay. Now, I know there are other hands up, but I feel like I should move on because I obviously didn't do a really good job asking that question, because I'm not really getting the answers I was looking for. So, I'm going to ask a different question instead. One of the things that we've heard a lot about in this case has been the issue of whether there were shortages in the market in 2008 and the extent to which shortages may have drawn import volume into the market. And I know that the parties disagree on the issue of whether the domestic industry was operating flat out in 2008 or wasn't.

So, among the domestic mills that are represented and I've seen the capacity utilization numbers and it seems to me that the issue is one of to produce more, maybe you would have had to bring on another shift, that there wasn't that much that you could do incrementally. So, I want to see if that's, in fact, the case and the extent to which companies considered adding another shift given the conditions in 2008. I know that Evraz did and then had to lay that shift off. But, for the other producers, is that what we're looking at? So when you're saying, but look, my capacity was not full and the other side is saying, but you couldn't deliver to me next week, is the issue that you would have to go to another shift? Let's start with the hand in the back and then we'll come forward.

MR. MATTHEWS: Good afternoon. Doug Matthews, Vice President of U.S. Steel, Tubular Products. I'd like to just comment that as we went through 2008 with the increasing demand from the customer base, we did start hiring crews at a pretty rapid rate at each of our facilities, in particular our Fairfield facility, where we were trying to increase our capability to produce more heat treat product in our Texas facility, where we were investing substantial capital dollars, improving the reliability. At the same time, we were adding crews to be able to operate at higher levels of capacity utilization and, also, at our Tulane facility, as well.

MR. BARNES: Scott Barnes, TMK IPSCO. In June of 2008, TMK acquired the U.S. assets of what was IPSCO at the time. At that period of time, our Wilder, Kentucky facility was operating at only about 50 percent of capacity utilization. So, we immediately began a processing of recruiting and training employees to ramp up and we were ramping up. We added from two shifts to three shifts and then we had another round of ramping up that took place, I believe late August or early September. But as I said earlier, we started seeing the effects of the Chinese imports, particularly the low pricing and so on that was coming in starting in June in a surge and then obviously had to temper some of our activities after that.

CHAIRMAN ARANOFF: Well, my light unfortunately has turned red. But, I would invite all of you for post-hearing, if I don't get back to this in my next round, I just want to take a good look at this issue of what is the calculus that goes into whether or not to add another shift of workers under the conditions that existed in 2008 relative to what seems to have been all over the press that there was a shortage and what considerations under those circumstances would go into whether or not you would add a shift of workers, bring up your capacity utilization, and serve some of that demand. So, if I don't get back to it, please feel free to respond post-hearing. And I'm going to turn to Vice Chairman Pearson.

VICE CHAIRMAN PEARSON: Thank you, Madam Chairman. I must say it's quite an experience to look out at so many faces that are familiar. I must have been doing steel cases for too long. But, welcome.

I have a question for the distributors that purchase OCTG. But, I want to explain that it grows out of an experience that I had some years ago when I was working for a major commodity processing company that was in a cyclical business. And after several years of the cycle not being so good, it got very nice. Things were tight and margins were pleasant and the company was making good money. And the salesmen started to come in and tell the general manager, you know, we could charge more. We could get more out of the marketplace than we're currently charging. They were relatively newer to the business. The general manager had been around a long time and through some ups and downs and took a long-term view and he said, no, we're only going to charge up to a certain handsome margin . We will not go beyond that and seek an excessive margin, even though clearly we could get it in this marketplace. He said, the reasons for that are several. One is, it's good for customer loyalty to treat people well. Another is that the customers are sophisticated, they know what our costs are and they have a sense of what we might be -- you know, how much we might be charging relative to cost. And we want to be a little careful about getting too aggressive here because what we don't want, since this is a cyclical business, we don't want some competitor to build a new plant, which then would have production coming on stream just when the cycle is going down. And somebody always could put some stuff on a boat and bring it into the country and then we've got imports that could be a problem. So, let's exercise some self control. And that was how they went forward and they came out of it quite well and made a good pile of money.

Now, to the purchasers, I'm wondering how you saw the pricing by the domestic industry in 2008. We know from the public staff report that there was a 32 percent margin, which is pretty good. Did that seem to you as a reasonable margin or were the domestic producers getting just a little bit ambitious?

MR. MILLER: Steve Miller at Cinco Pipe. I believe, Commissioner, that most of the justification for price increases that was presented to the distribution group as a whole were predicated on additional costs that were soaring for the manufacture of those products. You saw raw material costs exploding around the globe and all of their raw material costs and additional costs were very well explained to the distribution that that was the primary driver for price increases during that period.

VICE CHAIRMAN PEARSON: Other observations? Dr. Hausman?

MR. HAUSMAN: I would just like to concur with that. The spot iron ore price in September 2008 hit its all time high of $200. It dropped to about $50 this past year. Now, it turns out that the U.S. industry produces most of its own iron ore. It doesn't import it from Australia like many other places do. But, that still demonstrates the opportunity costs of iron ore that goes into making steel. And so that had gone from about $70 to $200 in one year. The cost of iron ore, the coking coal, the price of that had tripled in 2008, from $100 a ton to $300 a ton. And those are the two largest inputs into steel making, iron ore and coking coal, and when the price of both of those tripled, that, of course, is going to have to feed through and lead to a much higher price for all steel products.

VICE CHAIRMAN PEARSON: Yes --

MR. SCHAGRIN: Vice Chairman?

VICE CHAIRMAN PEARSON: -- the record is quite clear, that it led to it somewhat more than just a pass through. Mr. Schagrin?

MR. SCHAGRIN: Vice Chairman, and I'll just mention that for some producers like Copol and V&M,

their input was scrap as their main steel input, not iron ore and coal, and that went up from -- it tripled just like the other inputs, more like 250 to 750.

However, I would comment on your hypothetical. If in your prior company's business, presumably food processing, Cargill's businesses, if the Chinese could add capacity in that business, I would say regardless of where Cargill price products, regardless of what profitability they sought to chose, one thing I could guarantee you is if that was an area where the Chinese could add capacity, they would add capacity. In this industry, one thing that I'll just absolutely guarantee, so it kind of destroys the underpinning because all of the underpinning of your hypothetical arguments are that China acts like a rational capitalists player. They are not. It is a command capitalist player. It's communism and capitalism. So no matter whether if every single producer in the U.S. industry loses money, loses money, the Chinese will add capacity.

I will place on the record, I presume you've already read it, the article that I think where Senator Brown referred to from the New York Times on Sunday. I mean, here's a well known economist form George Mason University, who is saying, I don't know for better or for worse, the same thing I'm always saying, which is in China, it's a disease of over capacity. But the point he's making is it's not just China's disease. It's the world's disease because that over capacity is going to cause massive repercussions throughout the world economy and we've got to do something about it. I don't think we're going to change them from communist to capitalist. As my friend Mr. Lighthizer said, we're hoping they don't change us from capitalist to communist. But, it's a problem and we've got to address it and our government is not addressing it. We're trying to address a small portion, but really not addressing it.

VICE CHAIRMAN PEARSON: Okay.

MR. LIGHTHIZER: Commissioner, I am not going to -- I will be very short. In your analysis, when you think it through, also factor in the fact that we have in this case unfair trade. So when you're analyzing your cargo situation, I would suggest that you consider that, also.

VICE CHAIRMAN PEARSON: And we do. We take -- you know, we consider the margins found by Commerce, obviously.

MR. HERALD: I have a comment, just from a mill perspective. I think it's very difficult to apply the principle of fairness. And with our customers, we have long-term relationships. There's a market -- as the market demand increased, we also have seen significant increases in our raw materials, as Roger said. So, we have a lot of discussions with our customers on a regular basis about those cost increases and how we recovery that. And much in the same way, much in the same way, as the market has gone the other direction, in the spirit of fairness, we've gone in proactively with our customers and looked to bring prices more in relation to -- our costs have gone down.

VICE CHAIRMAN PEARSON: So, in your experience, you didn't sense that customers at some price level were getting a little bit uncomfortable and starting to look for other --

MR. HERALD: I think customers are always uncomfortable when prices are going up. I mean, but I never got -- I mean, again, it's the principle of fairness. Historically, we've been fair in up and down markets and I think that's the approach that we've taken.

VICE CHAIRMAN PEARSON: What really underlies the -- the question is, my view, that markets have a way of equilibrating and things can get

-- they swing one way and another and then, you know, the chickens have come home to roost, guys. Mr. Cura?

MR. CURA: Thank you; thank you, very much. I would just like to add a comment to the observation that was made. From a business perspective, we naturally deal with cost increase at that point in time. We naturally understand the value of customer loyalty and understand the value of market positioning; but, also, understand the value and the so-called exposure of a competitive environment and, therefore, some of the risks you were signaling while going back to your prior -- your experience in business.

Now, the meeting today is not about competitive environment. The meeting today is not about as being concerned with imports that could have regulated that behavior.

VICE CHAIRMAN PEARSON: Under the statute, we need to consider competitive conditions. But --

MR. CURA: Agree, agree. But the point being from a business view was what we're looking at is the China behavior, not so much the rush on the business level or winning or losing vis-a-vis a domestic competitor of falling price.

VICE CHAIRMAN PEARSON: I understand. China is a special case in the world. It's really very problematic across a range of businesses. But keep in mind that China has had excess capacity all through the period of investigation, at least data would indicate that, and it was only in the time of the really high pricing and the high margins in the United States in 2008 when we saw the surge in imports. And so the question in my mind is if we have a market environment where we don't have such high pricing, will we see the imports go away? In the back there. Sorry I can't see your name.

MR. MATTHEWS: Doug Matthews. I would just like to make a comment. I think a lot of what we saw with the Chinese coming into the market at a very rapid pace was driven by demand and not pricing. When demand shifted and there was an enthusiasm to go out and purchase as much pipe as they possibly could get, there was an opportunity for the Chinese to take market share and seize market share in the United States regardless of price.

VICE CHAIRMAN PEARSON: Okay, thank you. My time has expired.

CHAIRMAN ARANOFF: Commissioner Okun?

COMMISSIONER OKUN: Thank you and I join my colleagues in welcoming all of you here, many of you back, and also to the workers, who are able to join us and observe the proceedings. I appreciate all of you taking your time to be with us.

Let's see, I'll ask this to the producers, although, Mr. Hausman and Mr. Kaplan, I will have you comment on the end, and that is we talked a fair amount about 2009 and how to look at what was going on during that period. And, yet, sometimes when I'm listening to the testimony that we've heard about the Chinese imports and the focus on what those numbers were, forget that -- you know, I mean, we looked at several of these cases that have come in and had a remarkable economic climate out there, where all kinds of industries fell off the cliff and unemployment is at 10.2 percent overall, not just steel industry. So, I guess I would ask you to help me understand how to sort out what the imports were doing versus what overall economic conditions were doing. And I think, Mr. Surma, you had started, because I think your -- what I heard you say was that the drop in demand aggravated what was really import driven. So, if you could respond to my question and point me to the indicia that you think really show where the imports were causing material injury.

MR. SURMA: Sure, certainly, Commissioner.

I guess among other things, I just point out what my good colleague and customer, Mr. Shoaff, mentioned before. The drilling rig rate was above 2,000 during a lot of 2008. It was quite high and did cause a good deal of operator consumption improvement over the preceding year. But as it happened, that rate fell, yes, by 50 percent, but that is now down to a rate at about 1,000 or so, which is really not out of sorts, not out of comparison with what most of the drilling rig rate prevailed during most of the last decade or so. And as Mr. Shoaff indicated, we probably could make a living and do reasonably well, if we didn't have a huge inventory overhang caused by the imports.

The indicia I would look at is, is that the amount of excess inventory is almost equal to the amount of the Chinese import flow. And had there been more moderate amounts of imports, there wouldn't have been a big import bulge and we wouldn't be selling as to inventory, which is our most vicious competition. And in all probability, our industry would be suffering, along with others, but we would be doing much better than we are today, not have nearly the devastation in our industrial infrastructure that we've already suffered. So, the indicia I would look at, and we'll make sure we will put this together in a way that's easy to see, is that the reduction in demand, while it's been significant, is still at a level, which is something we could probably work with if it wasn't for the substantial overhang of inventories caused solely by the Chinese imports, as my colleague's slide showed in his opening statements.

COMMISSIONER OKUN: Yes, Mr. Cura?

MR. VOGEL: Mr. Vogel.

COMMISSIONER OKUN: Sorry.

MR. VOGEL: That's okay. It's okay. It happens all the time with us, so no problem. But I'm just complementing what Mr. Surma was saying, in terms of -- first, I would like to say that what we are experiencing in the U.S. market is a much higher drop than what we're experiencing in the rest of the world. We are seeing a much higher reduction of demand in the U.S. market, what we have experienced in 2009 than what we have experienced in the rest of the market. Having said that, I would like also to make a representation that the reduction in the drilling in the number of rigs that has been -- that we have seen in the states is higher than in the rest of the world. But, there's no relationship in terms of the fall of demand versus the fall in rigs that we've seen in both markets.

The other thing, which I think is important in terms of trying to clarify, is that we saw that during the last part of 2008, inventory started to increase very drastically. Inventory started to increase and we had almost in absolute term that inventories went double by the end of 2009 versus 2008, versus what we had in the beginning. Why did that happen? Why the system starts to build up inventory even though you start to see at the end a reduction in demand? Because the incentive was there to buy very low-priced pipe, to buy more. So, we had a very strong distorting effect in the market, which was pipes that were priced much lower than the general trend. In terms of the prices, I would like to clarify that this price increase happened in all of the world. It didn't happen just in the U.S. market. There was a phenomenon that happened worldwide because worldwide, there was an increase in drilling activity.

Now, when we're looking at the market and we're looking at the market in 2008, when you see 2,000 rigs operating, you know that it's very difficult to have a higher demand than that in the short term, because there's not more rigs in the world. It's very difficult to think that there's going to be a big increase in the demand above what you're seeing. So, it was clear that we were building inventory because supply and demand was much higher than real demand in relationship to having this incentive of low price. And this is also something that then affected very much 2009, because we came out in 2009 and suddenly real demand was much higher than the prior demand because we started to eat up those inventories. And what that made is increased drastically the cyclicality of the industry. We had a very, very import distorting effect coming with very low priced pipe coming into the system that basically increased our cyclicality. And, obviously, when you have a 16 or 15 or 14 months of inventory, you're in a very different pricing environment than when you are in a five or six price inventory situation. So, you have a much more stable market when the inventory is fit to serve your customers, in terms of what you need. When you have a huge inventory and you order for the next five or six months, nobody is going to buy from you because everybody is going to be in inventory, the pricing is very different.

So, the Chinese effect drastically affected the volumes that the industry was buying from us in 2009 and it's already had an important effect on the pricing that we are seen in 2009. Thank you.

COMMISSIONER OKUN: Thank you. Would any other producers like to comment in regards to demand, what was going on with demand versus what was going on with the imports and how you saw it in your -- effecting your bottom line or affecting prices? Mr. Herald?

MR. HERALD: No different than the comments that you've just heard. We've seen significant increase in imports in the second half of the year. We've seen our water books drop dramatically. We've seen the pricing drop dramatically. So, not too dissimilar to what we've heard from the other testimony.

COMMISSIONER OKUN: Did prices firm up at all? Have they firmed up at all?

MR. HERALD: Not to this point. We still don't know what --

COMMISSIONER OKUN: Is that everyone's experience, prices have not firmed up. Mr. Hecht, you look like you want to jump in.

MR. HECHT: Thank you. Even beyond the points made in terms of what was shipped in 2008 and how that was well in excess of any conceivable demand, even in the highest demand condition, I would urge you to take a look at what they did in 2009. In the month of May alone, they shipped 100,000 tons into this market. Now from what Mr. Durling told you in his opening, that was ordered three or four months before. So, that means in January or February of 2009, they were shipping levels at an annual pace of 1.2 million tons, which is more than they shipped in 2006 or 2007 and in the context of a market where the industry was in large part in the process of shutting down. So, even beyond the 2008 excess shipments, please take a look at 2009, as well.

COMMISSIONER OKUN: Okay. And Mr. Price and then I'll go back to the economists.

MR. PRICE: And just to also bring us back to the record for a minute here, the record shows constantly increasing volume of Chinese imports in every single year, gaining market share in every single year, gaining market share by underselling significant margin. The amount of volume explodes in 2008, as the underselling margins actually grow. The Chinese in a weak -- comparatively weak market of 2007, where everyone else had decline in production, decline in imports, gained share, increased exports. Why is this happening? You have a massive capacity push, subsidized, and this contributes to it. You see a decision essentially by the Chinese to put their product on sale at fire sale prices, move as much volume as they can in 2008. Yes, it has an effect. It overwhelmed the market, shipped well beyond any amount rigs could ever drill in late 2008. And the explosion can be seen really in the third and fourth quarters, as it lags into -- as it comes into the market just like a tidal wave, overwhelms it. So, the Chinese has a consistent pattern here of increasing exports by underselling and taking advantage of a booming market by saying, hey, let's dump, let's maximize our subsidies, let's move that maximum volume, and who cares what the effects are. They only have one pattern, which is increase and disruption. It's not just unique to the U.S. It's globally on the product line.

COMMISSIONER OKUN: Mr. Hausman or Mr. Kaplan, you wanted to talk about supply impacts?

MR. KAPLAN: Yeah. I think this goes at some questions that Chairman Aranoff answered and some questions that Commissioner Pearson answered, as well, about distinguishing between the drop in demand and the imports. And one of the things we did was assume demand stayed as high as it was in 2008 and then even took the assumption that domestic production fell, as it did in 2009. Even under high demand, which is an unrealistic assumption, even in those circumstances, the imports over supplied the market and caused inventories to rise. So, the surge was so great, even if demand had remained as high as it was in 2008, even if the domestic industry had dropped production, they oversupplied the market to the extent that it would have pushed inventories very high into 2009. So, I think that kind of gives you an idea of how large the surge was and allows you to disaggregate a little bit between the decline in demand and the effect of the imports.

COMMISSIONER OKUN: Okay. My red light has come on, so I have time to do some follow-up. Thank you.

CHAIRMAN ARANOFF: Commissioner Lane?

COMMISSIONER LANE: The Respondents argue that distributor inventories, which include past imports, should be analyzed as part of present material injury, not as part of future threat of injury. How should the Commission evaluate the volume of imported OCTG that resides in inventories in the United States and should we view the inventories held by U.S. importers in a different light than inventories held by U.S. distributors?

MR. DUBOIS: Scott DuBois with Premier Pipe.

To your first question, I believe that you do need to view inventory held by importers and/or brokers differently than in our distribution model. We're servicing a client base that has some reliability on our sales in the mills that we do business with to support their drilling needs, which we work with them on a routine basis to forecast and understand and bring them into the supply chain models to supply those needs. So, I think that you do have to look at them differently.

We've done some modeling on what we believe Chinese inventories are in this country. We believe that it represents current inventories as of September 2009, about 63 percent of the total inventory on the ground. So, it's a very overwhelming number in relationship to the total inventories and certainly to the demand in the market that we have today. We'll be glad to share these numbers with the Commission at a later time.

But, we do believe that the inventories are overwhelming. We compete with them on a daily basis in our business. We feel that we'll continue to compete with these inventories into, if not all the way through 2010, and they will continue to have a dampening effect on pricing, keeping it down and continuing to pull it down. We're not seeing stabilization yet.

COMMISSIONER LANE: Okay, thank you. Mr. Schagrin?

MR. SCHAGRIN: Yes. Commissioner Lane, the only way I'll agree with Respondents at all is I do agree that you can look at inventories as the injury. Our disagreement is they say, gee, look at all these inventories, but there is no injury. So, they avoid the effect that the U.S. industry has been competing with Chinese inventory held by all, everyone in the supply chain: Chinese producers holding inventory in the United States; importers holding inventory -- it's way under reported; and distributors. And they've been competing against those. It's caused them to have significant losses in both the second and third quarters and almost certainly the losses in the fourth quarter. Even their own witness predicted just last month at a conference that those inventories will continue to overhang the market through most of 2010, so that injury from inventories is going to continue to occur. It's kept capacity utilization low. It's resulted in less employment. So, it's caused current injury and you can look at inventories as a cause of injury.

Where I very much disagree with them yet again is they then basically say, this Commission ought to avoid the statute as the threat because inventories are specific statutory threat. And there, again, you know, the statute doesn't define those inventories. It says 'inventories of subject product.' It doesn't say inventories of subject product held by importers, by foreign producers, or by distributors. I think whenever, it's pretty clear, as long as the courts follow the Chevron doctrine, that whenever the statute leaves you -- you know, they say you must take into account of inventories. They don't say which inventories. It's up to you to be reasonable. I think it would be a reasonable decision by this Commission, and one that certainly should be upheld by the courts, with the exception of one judge, I won't get into that, that you can take into account all of those inventories -- did you know who I meant, Madam Chairman -- but, anyway, that you could take into account all of those inventories because they are a threat to this industry. This industry can't get off the mat until those inventories have come down to a normal level of four to six months, which is going to take another six to nine months. So, that's real and imminent threat caused just by the inventories.

What everybody here agrees to is if you don't make an affirmative determination, then we're going to get more imports from China and the inventories won't dissipate, so the threat of injury becomes even worse. So, I hope I answered your question.

COMMISSIONER LANE: Yes, thank you. Mr. Lighthizer, did you have something you wanted to add to that?

MR. LIGHTHIZER: My guess is that you have some other question, so I won't dwell on that anymore. We clearly disagree. We think that this idea that inventories can't hurt you twice, is somehow double counting is ridiculous. It's not consistent with the statute at all. They have heard us, they're the cause of our current injury. And, in fact, you have to consider them because they will make it worse for us going forward. So, I agree with Roger. I can't find the basis in the statute at all for what they argue and I'm happy to talk about the statute, if you would like.

COMMISSIONER LANE: I noticed you had the U.S. Code out.

MR. LIGHTHIZER: I do. I've learned to bring it to these Commission hearings.

COMMISSIONER LANE: Okay, thank you. Mr.

Hecht had something he wanted to respond.

MR. HECHT: Just real quickly. Even beyond what Roger said, I would argue the statute does not leave it open the statement of administrative action. It specifically says you will consider inventories wherever they are held. So, it directs that it's not just foreign. In fact, the statute previously said in the United States. But their argument that you can't consider inventories in the U.S. is completely wrong. And as Bob said, there is absolutely no double counting on inventories having an effect now and you need to also analyze what effect there will be in the future.

COMMISSIONER LANE: Okay. This next question is a two-part question. I would like you to respond to the Respondents arguments that Chinese investments in oil and gas exploration, both at home and in foreign markets outside the U.S., will consume more OCTG in markets other than the U.S. market. And my other question is with all of the capacity that we have heard about today that China has and that it wants to use this for its home market, how big a home market does China have for OCTG?

MR. LIGHTHIZER: Commissioner, could I just suggest that the Tenaris people talk about is they have a global industry. They study and know what is going on in China and my guess, probably with the exception of our economists, have a better idea than anyone here.

MR. CURA: Thank you, Bob. Few numbers to your specific questions. Yes, we operate globally and also we have a plant in China. So, we've been following the Chinese capacity buildup very closely and again would like to emphasize something that was said, it's a fairly recent phenomenon. It's not something that's been happening for many, many years.

Now, I estimate -- obviously, it is very difficult to get to the specific rig count analysis in China for reasons that we know. It's something that we have not been able to do. No one in the industry has. But, our best estimate indicates that the Chinese consumption is short of two million tons of pipe -- of OCTG, sorry, out of which, as we have indicated, it just doesn't really compare to the amount of capacity that they have build.

The second I think interesting aspect is the fact that this consumption is foremost pretty much a pretty close pattern to the type of pipe that we use in the states. In other words, if the Chinese were to acquire a property in West Africa, as they have, given the operating environment of West Africa, deep water, sour wells, high pressure, so on and so forth, more likely than not their own domestic production may not be perfectly suited to, in fact, meet that operating well environment.

As for the existing Chinese overseas oil and gas activities, sure, we know that they have some in the Caspian Sea, some in Indonesia, a little bit in Latin America. But, I would say in generic terms, from a consumption perspective, only margin numbers as compared to, number one, the capacity they have, deliverance of productions that they have, and even their own home market.

COMMISSIONER LANE: Okay, thank you for that answer.

MR. PRICE: Alan Price, Wiley Rein.

COMMISSIONER LANE: Yes, Mr. Price, go ahead.

MR. PRICE: Let me just add to this, you don't actually even need to take our analysis of this. You could look at the analysis of the head of the Chinese steel pipe association and he had a whole speech on this very recently. We've included this in our documents here. Chinese consumption, the ability to consume their product domestically is very, very limited, a fraction of the size of the U.S. market, probably half to a third. Their export markets have been stable and flat to the rest of the world throughout this period. They have massive capacity increases. They, themselves, their own -- head of their own association says we have massive excessive capacity. We have a big problem and instead of doing anything about capacity, all they do is continue to add to it. The problem is getting significantly worse and all of this is due to massive amounts of government support and government financing.

COMMISSIONER LANE: Okay, thank you.

MR. LIGHTHIZER: The numbers are approximately two million they need. They have up to 38 million and they're putting on 12 million more. I mean, we're just talking orders of magnitude beyond. It's designed to be an export industry.

COMMISSIONER LANE: Okay, thank you. Thank you, Madam Chair.

CHAIRMAN ARANOFF: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you, Madam Chairman. Several of you when we raised this question about alleged shortages in 2008, you pointed to this speculative buying by, say, distributors, people like that. And I was wondering if for post-hearing, if you do have these sort of independent evidence or documentation that would reenforce that, it might be helpful, because I don't think we've seen it before. I understand the argument, the logic of it, but if there is anything that you can present for the record, it just might be helpful to address this question.

MR. LIGHTHIZER: Commissioner, we will certainly do that. I, also, might suggest that the distributors back here have probably some first-hand testimony that they could give to that, if you want to do that at this point in your time. Otherwise, we'll submit it later, whichever you prefer.

COMMISSIONER WILLIAMSON: I think they've made the point. It's just that it would be nice to -- if there is documentation, it would be useful. Thank you.

This is for Maverick. Maverick's brief on page 35 to 36 describes the rise of subject imports in 2007 and how the domestic industry's indicators fell that same year. And I was wondering if are you asserting here that the subject imports caused injury in 2007?

MR. PRICE: I think that as you look at 2007, you do see an injurious impact that's occurring as the imports continue gaining share and continue to increase. Was it at a point where we were prepared to file a case? Well, obviously, we didn't file a case at that point in time. I would submit to you that you see continuous Chinese share expansion regardless of market demands and a negative impact in 2007. One of the key arguments that the Chinese have had is that we were increasing, we were just a benign force in this market and we're always going to be a benign force in the market. You can see they really weren't a benign force in the market in 2007 and you can see that their products have always had an impact. It had an impact in 2007 and the underselling in large in 2008, which caused this massive, just tidal wave of imports in the second-half of 2008, and it had a tremendous harmful negative effect.

There have been a series of tidal wave cases over the years where the Commission has had. This case is actually strikingly similar in some ways to structural steel beams from Japan and Korea, where there was the Asian financial crisis and you just saw this massive amount of volume come in and you saw massive underselling, large stocking up by the distribution base, and a lagged injurious effect. That's exactly what you're seeing here. It's not like the Chinese are a benign force. They never have been benign force and they're not going to be a benign force going forward.

And I would actually just submit one more fact for the Commission to look at. I'd urge you to look at your preliminary staff report, Table VII-4. You can look at what the Chinese projected their exports to be in 2009 and 2010, and remember this is only a subset of the Chinese producers that actually filled out the foreign producer questionnaire. Their intent all along is continue to be substantial players in the market. The claim by the Chinese that they were somehow going to disappear from the market and really not be back in 2009 and 2010, absent these cases, is not supported by what they, themselves, filed at the preliminary determination. Magically, that information seems to have disappeared for the final and they're revised all the numbers to get rid of the threat.

COMMISSIONER WILLIAMSON: Thank you.

MR. VAUGHN: Commissioner Williamson, this is Stephen Vaughn for U.S. Steel. I think the other -- just to follow-up on what Alan said, I mean, this 2007 data also goes to the question that Vice Chairman Pearson was trying to get at a while ago, which is to what extent does the Chinese surge reflect, you know, higher prices or higher demand in the 2008 market. And what you have here, what the Commission properly recognized in its preliminary determination, you have some -- you know, for 2006 to 2007, consumption went down somewhat. China gained market share. From interim 2008 to interim 2009, you know, consumption went down. China gained market share. This is a situation in which Chinese gaining market share both in up markets and in down markets, and so that's another reason why the 2007 data are significant.

COMMISSIONER WILLIAMSON: Thank you for those clarifications. This question is for U.S. Steel. You assert that the 40 to 50 percent drop in OCTG prices from September 2008 is evidenced of price depression by subject imports. To what extent is the price decline and results of falling end user demand, given that rig counts fell about 50 percent from the peak of September 2008?

MR. SURMA: I may refer this to one of my commercial colleagues since it's a complicated question, Commissioner. But I think in general, as I indicated, even though demand was off quite a lot, the overall rig rate remains level comparable to what's prevailed during most of the last several decades. And but for the extraordinary import flows throughout

2008, early into 2009, my view would be that the supply-demand balance would be much more customary. We were able to sustain much more attractive pricing without the overhang on inventory. I'll let my colleagues comment, if they wish, more directly. But, it's clear and certain to me that it was inventory overhang, directly leading from the import surge, that caused the dramatic drop in prices we've had. And as was noted earlier in a recent report, that price reduction continues, has not yet abated.

COMMISSIONER WILLIAMSON: Okay, thank you.

MR. THOMPSON: Mr. Williamson, George Thompson, U.S. Steel. To further follow-up on Mr. Surma's comments, essentially, as this market started to fall apart, there was no real market for product in the second quarter of this year. It's only in the third quarter that we start to see signs of a market. The little bit of a market was there. It was a highly competitive market because of the huge volumes of Chinese material that was sitting idle and unaccounted for that virtually were for sale at whatever price they could get a sale for. As a consequence of that, I think Mr. Surma said it earlier, there is no competitors as vicious as inventory on the ground because that material will move, if it's unaccountable for which a large amount of this Chinese is in that condition. It will move at whatever price it has to move into the marketplace. So, consequently, there was a lack of demand with the fall off. However, with the massive amounts of Chinese inventory on the ground, there was no market for our product whatsoever and the market that was out there was determined by this extremely low-priced Chinese product.

COMMISSIONER WILLIAMSON: Okay. Thank you for that. What is the role of non-subject imports in the U.S. market and how has this role evolved with the growing transnational corporate affiliations between U.S. and non-U.S. producers and also taking into account also the revocation of the OCTG orders in 2007 against a number of suppliers?

MR. CURA: Yes, I'll be happy to take initially the answer to that. We are using imports from Tenaris say out of the U.S. system to complement our sales here in the States, to establish alliances and service contracts with our customers and the ways we're supplying the domestic products and some products that comes from overseas that we don't produce here in the States. And we are doing what we said back in 2007 we were going to do, that is complement our domestic production with some reduced level of seamless imports, aiming at servicing fully some of our alliance customers, not all but only a handful of customers with whom we have established a direct and multi-product service scheme.

COMMISSIONER WILLIAMSON: Okay.

MR. VAUGHN: Commissioner Williamson, you staff report has some helpful data points on this as well which I'd just like to bring to the Commission's attention. From 2006 to 2008, apparent consumption was up 42 percent. The nonsubject imports, imports from countries other than China, those were up 27.4 percent and the subject imports, imports from China, they were up 203 percent. So what you saw in terms of this explosion of imports from China you just didn't see at the same scale with respect to these other countries. Also I would point out that in 2008 the average unit value for China was about $400 a ton less than the average unit value for the imports from the other countries. So you've got a significantly bigger volume surge and significantly lower prices.

COMMISSIONER WILLIAMSON: Okay, thank you. Mr. Herald?

MR. HERALD: I would just say, much like the answer from Tenaris and Maverick, we do import product to basically complement our domestic production for sizes that we don't produce in the U.S. In terms of the ratio it's a much smaller volume than what we produce in the U.S., and if you look from 2007 to 2008 our imports were up around 15 to 16 percent. So it's in relation to the overall business even less than the business growth, and we only do that to complement program customers for a total offering.

COMMISSIONER WILLIAMSON: Okay. Mr. Price?

MR. PRICE: Yes, and one more note, as your record shows, the majority of the nonsubject imports oversold the domestic industry in the majority of instances. It's really a very different characteristic in their competitiveness in the U.S. market. As they said, they were complementary in nature, and so over the POI they increased 27 percent, Chinese imports, which consistently undersold, increased 203 percent.

COMMISSIONER WILLIAMSON: Okay, thank you for those answers. And my time is up.

CHAIRMAN ARANOFF: Commissioner Pinkert.

COMMISSIONER PINKERT: Thank you, Madam Chairman. I just have a few followup questions. First of all, regarding that June 2009 data point that the Chinese Respondents place a lot of emphasis on, do you attribute that low level in June 2009 to petition effect, do you attribute it to collapsing demand, or do you attribute it to both? Mr. Lighthizer.

MR. LIGHTHIZER: Let me say, Commissioner, that the notion that the Chinese are not in this market for any reason other than these cases is ridiculous. The fact is that they knew about these cases in January or November or December or September, there has been talk in the press about these cases coming. We actually have, and I would direct you to it, in Exhibit 5 of our brief we have a press report that was a press report contemporaneous with us bringing these cases.

And in it they quote an informed source as saying China has been on alert regarding the dual investigation of the United States in our oil pipes for a long time and has notified the Chinese fuel association to issue notices to the relevant enterprises, and the relevant enterprises, now listen to this, "have made preparations for a responsive lawsuit." And when did this happen? They say a long time ago. So I don't think there's any question, and it might be an interesting conversation for this afternoon, when they actually did know about these lawsuits.

I believe that they have been planning,

knowing we were going to bring lawsuits, they've known about it for a month, and I think that affected their pulling out of this market more than demand. Although I would concede that demand was in fact a factor. The final thing I would say is, you look at the quote that we have in our brief and this is just one of them, they all talk about, we would be there but for these cases, we would be there but for these cases, and I think that's a very powerful argument.

COMMISSIONER WILLIAMSON: Mr. Price --

MR. SCHAGRIN: Commissioner Pinkert?

COMMISSIONER WILLIAMSON: Oh, sorry. Mr. Price and then Mr. Schagrin.

MR. PRICE: Thank you. Again I'm going to also direct the Commission to look at the record, we think that there's significant evidence of this petition effect here. Certainly there was a critical circumstances allegation in this case, and it's because there's a countervailing duty case here that suspension would have run back essentially to the time of the ITC's determination essentially around June 1st or so. So they had significant risk factors by continuing to export.

Now did they plan on continuing to export? According to the Chinese they had no plans on continuing to export, that's what their brief said, essentially they were out of the market. You know from table 7-4 of your final staff report that the companies that did answer the questionnaire response shipped in 240,000 tons the first nine months. That's a small portion of what came in so there's a significant coverage gap here. We know that those presumably same companies in the preliminary staff report projected that they were going to send in 528,000 tons in a down market, a market that essentially was in collapse.

So they were going to at least double what they had shipped into the market, so they were planning on shipping in more. What stopped them? I'll tell you what stopped them, this case stopped them. And so it's pretty transparent it was a petition effect. Sure the volumes would have been down because the market is down, but they planned on exporting every ton they could and continuing to undersell and continuing to increase their market share as they did in every single year regardless of demand conditions.

COMMISSIONER PINKERT: Mr. Schagrin.

MR. SCHAGRIN: Commissioner Pinkert, the short answer to your question is Pavlov. And now I'll give you the longer explanation. But it is in fact true that importers of goods from China, particularly of pipe and tube products, and Chinese pipe and tube producers, like Pavlov's dogs, can learn response behavior. And I would remind this Commission of the final injury hearing in circular welded pipe investigation from China.

In that case importers from China into the United States literally posted hundreds of millions of dollars of critical circumstances bonds and you had a bevy of importers coming to this Commission and saying, oh my god, no matter what you do please don't find critical circumstances, we can't afford it. And that was the first of six China pipe and tube cases.

By the time we got to OCTG, you will see that the Chinese are scared to death, the first thing the importers group does when a new case is filed is they send a memo out saying, well Congress will extend their DOC preliminary CBD determination by 60 days, so the critical circumstances date in this case is going to be June 4th, if you bring in goods after June 4th and there's export subsidies to file, you're going to be subject to critical circumstances.

It doesn't matter whether this Commission makes an affirmative or negative critical circumstances, of course to me it does matter, but in terms of the cost to importers, they've got to post a bond. It's expensive just to post a bond. So the answer is Pavlov, which really means it's because of the filing of the petition and critical circumstances. That is the only reason that imports from China stopped at the beginning of June.

The final thing is, at the end of April when we had the conference here Professor Prussa and his gang said that, look imports have been going down every month, you don't have to worry, we follow the market. What happened in May? Then imports should have kept going down April to May. Why did imports all of a sudden spike back up in May even though there were no orders for the domestic industry in the month of May? The industry was shut down.

Why? Because May was before June 4th, that's the only reason. So the answer to your question is, it's the filing of the petition, it's critical circumstances, and the Chinese rushed every ton they could get in, they could only get 100 some odd thousand in in May. If they could have gotten 300,000 in they would have done it, anything to get product here before they're subject to duties.

COMMISSIONER PINKERT: In the back.

MR. SHOAFF: Yes, Commissioner Pinkert, this is John Shoaff with Sooner Pipe. Just to add real quickly to that comment, as distributors, and I think I can speak for my colleagues here, I know we experienced a real sense of urgency from sellers of Chinese pipe in the fourth quarter and even beginning of Q-1, and my only, you know, comment about that would obviously be that they were concerned about the possible cases being filed and then also of course a little bit of a drop in demand starting at that time. So that was very apparent on a daily basis in our business.

MR. DUBOIS: Scott DuBois with Premier. And I would acknowledge that we were in fact given specific dates when we needed to get pipe into the country.

COMMISSIONER PINKERT: Thank you. Now turning to the issue that you all raised about nonresponsiveness to Commission questionnaires, just have a couple questions on that. First of all, what percentage of imports into the United States are affected by this nonresponsiveness to the questionnaires?

MR. LIGHTHIZER: Yeah, to some extent, Commissioner, it depends on how you calculate it. Our calculation, if you look at exports from China you have some information from 12 producers who represent 53 percent of exports from China. Now you can get that number up if you look at their exports versus our imports you can get the number up, so if you want to know exports to exports it's about 53 percent. You have essentially then 47 percent for which you know absolutely nothing. And then there of course are literally millions and millions of tons also about which you know nothing and another 200 producers that you know nothing about.

I mean, you know, the thing that I would add to this when you analyze it, and I realize it's a very tough thing for the Commission because it affects appeals and all this kinds of thing, but if you look at their pattern in recent cases, they give you less and less and less. And I think at some point if I were a Commissioner I would say, we have to make a point that we have to get cooperation. And the only way to do that is to require these people -- is to look at the record and make an adverse inference.

Because we are at an all time low now. You actually had a couple of people who were here at the prelim and didn't even come for the final in terms of getting information. You have 27 people who hired lawyers and went to the Department of Commerce and didn't even fill out a questionnaire for you. I really think, if it's not this case then maybe it's the next one, but you really have to come to grips with this issue of adverse inference and just total government orchestrated noncooperation.

MR. SCHAGRIN: Just one other point, Commissioner Pinkert, in terms of nonresponsiveness, one thing that we pointed out in our brief on page 18 is that actually the share of U.S. imports that is accounted for by this group of Respondents is actually at its lowest point in the first three quarters of 2009. Now you've heard a lot of talk about there's constantly more and more new Chinese producers of OCTG coming on with new mills in China. So in fact it is the least aggressive maybe of the Chinese exporters that have filed responses, and the most aggressive, the people who accounted for the largest volume in the first five months of 2009 are the ones who didn't file questionnaire responses.

So you both have a nonresponsiveness issue and the fact that it's the newest OCTG mills who are bringing on new capacity and who are starting to export to the United States for the first time in late '08 and through the first five months of '09 who didn't file responses with you. So there's a qualitative as well as a quantitative issue with this nonresponsiveness.

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

CHAIRMAN ARANOFF: Well I know in the preliminary investigation the Commission said we were hoping to learn more about the inventories which have been the subject of so much discussion, and I think we've made some progress in terms of quantifying what's out there especially with respect to what purchasers are holding. But I wanted to ask the distributors who are here on the panel, what can you tell me about the types of OCTG that are currently held in inventories by yourselves as distributors? Are you still holding inventories that span the range of all the sizes and grades that you normally carry or are there some sizes and grades that are ample in inventories and others that are not?

MR. SHOAFF: John Shoaff at Sooner Pipe. I would say, Commissioner Aranoff, that the majority of the Chinese inventory in the industry right now goes right to the heart of what is being utilized in the domestic industry today. I think the big majority of that would be say the two-inch three or maybe seven-inch size range. And as I think I stated in my opening testimony they are just huge amounts. We hear stories constantly every day of half a million feet of this, a million feet of that, and that's even after an entire year of trying to work that down, almost an entire year of trying to work that down. So I think the majority of the size ranges that are on the ground are in particularly that range of sizes.

CHAIRMAN ARANOFF: Okay, now were you speaking for yourself or were you making a broader statement about distributors as a whole?

MR. SHOAFF: I'm making a broader statement as distributors as a whole, and I know that just because of feedback from our sales people on a daily basis as they're inquiring, they know what types of material is out there in the marketplace. We do carry some Chinese inventory, it's a very small amount compared to our total, but I think my colleagues here will tell you the same thing that it's pretty much all along the same size ranges.

CHAIRMAN ARANOFF: But in your own inventories, so that would not be limited to inventories of Chinese product but just all the inventories that you are sitting on, are you at the point where you're going to have to restock some sizes or have you got enough of everything still to last for whatever it is, I think on average they said there's maybe 12 months of inventory around in the market?

MR. SHOAFF: Well, in our particular case from a Chinese perspective we don't, we don't have that much Chinese inventory and that's obviously what we're talking about here. There has been recently a very, very mild requirements for some size ranges that maybe aren't as plentiful out there due to maybe some string design changes. But again as I said, the majority of the Chinese inventory out there is material that is the right size to be used in the shale plays, which are really the big focus of our domestic industry right now.

CHAIRMAN ARANOFF: Okay. Do the other gentlemen who are distributors want to respond to that question?

MR. MILLER: Steve Miller, Cinco Pipe. I would concur with what John said. There are some items that have developed or some specific demands that have developed that we have had to reorder from our domestic sources, I think all the distributors who had to order or took the opportunity to order additional product from domestic sources, if that were not the case they'd be at zero operating rates at this point. So there are so many different sizes, weights, grades, and different types of applications for OCTG it's hard for any single distributor and certainly hard for a specific distributor to cover all that waterfront, and typically distributors will emphasize maybe geographic or size ranges or heat treat designs.

I think it's safe to say that the domestic mills have received a very, very mild increase in their order books, and it's because the marketplace is a little less horrible now than it was five months ago, but that's the only reason. The market is still very, very soft, very, very competitive, and to really argue Mr. Lighthizer's comment earlier today that the excess inventory from Chinese is driving profits down, it makes the assumption that distributors are making profits and I'm not sure that's a safe assumption across the board.

CHAIRMAN ARANOFF: Okay. Mr. DuBois, did you want to add anything?

MR. DUBOIS: Yes, ma'am, I would. The one thing I would say, I agree with what the other two gentlemen have said, but when you say where the distributors are holding the inventory, in reality a lot of this Chinese inventory is held in speculative inventory. Speculators who have no defined customer base, which we do, the three of us and multiple other what we would call distributors have defined customer bases, customers that we are supporting their drilling programs.

The speculators who went in and bought this inventory brought it into this marketplace really with no defined customer base, just with the hope and desire to turn around and flip it and make a fair amount of money on it. So a lot of that inventory is competing with the inventories that we have today, and we have made some purchases to fill some gaps but in some cases it's due to some pricing issues more so than we just need the pipe. But again my point is, much of this inventory is not in what we would call true distribution.

CHAIRMAN ARANOFF: Okay.

MR. THOMPSON: Commissioner Aranoff, if I might. George Thompson of U.S. Steel. The opportunity in this marketplace and the holes in the inventory are part of a process we've seen of a move away from the drilling that was being done when the Chinese brought their material in, and they've moved into new areas which require different product. And I have no doubt that if the order was not in effect in June the Chinese would have brought in the material to supply that material as well, it's just they did not foresee these sizes and/or grades being needed. They're completely capable of making them, the order book that we have is to fill the gap that they were unable to fill or unable to participate, and in fact if this order was not in place I have every confidence that they would have excessive material on these sizes as well.

CHAIRMAN ARANOFF: Okay. I mean obviously what I'm trying to get at here is that, you know, inventories are not really monolithic. There may be 12 months overall, I don't know if that's the right number but I've heard it said today. But, you know, what I'm trying to figure out is if we don't know, and I don't think we do, you know, how much of various sizes and types is being held in the various kinds of inventories that we're being asked to consider, it's really hard to assess for how long those inventories are going to hold down demand. Mr. Vaughn?

MR. VAUGHN: Yes, Chairman Aranoff. One data point that you do have that I think is helpful is your order book data because that kind of gives you a sense of what opportunities are out there for the domestic industry. Now as of September 30th of last year they had 612,000 tons of orders on the book. As of September 30th this year, the most recent data you have, they had 137,000 tons of inventory. So it is still way, way down, and I think that's consistent with the testimony that you're getting here which is, you know, from Mr. Shoaff that for the most part the stuff that is in inventory is very consistent with the stuff that is being used in the market.

CHAIRMAN ARANOFF: Okay. Is there sort of an order in which it makes sense to assume that inventories are going to get used up? To me it seems to make sense that distributor inventories or what we would call purchaser inventories are the ones that would be sold off first because they wouldn't buy any more from importers or domestic producers, who may also be holding inventories, until they had significantly drawn down their own. Should we be seeing, looking first to purchaser inventories as the place where we should see the drawdown occurring first in terms of assessing how much more is left out there?

MR. BALKENENDE: Roland Balkenende with Maverick. Theoretically the way we see it, of course, the big commodity inventories are still there, so they will have much longer overhang in the industry. What we can predict is that the items that were not brought in by China have a likeliness of running out first, and I think Mr. Thompson just mentioned that some of the orders they have on the books were the items that were not brought in by China, so in general, the commodity items that are on the ground will last long in inventory.

MR. SCHAGRIN: Chairman Aranoff? In your purchaser responses, you actually have two kinds of purchasers. Most of them are distributors because they're most of them, but then you have purchasers who are drilling companies. Obviously if you're a driller and the amount of drilling, the number of rigs you're operating has gone down, you're going to use your own inventories first. And the drilling companies do carry their own inventories. They usually get them from distributors, sometimes from mills, and then you get distributors who are going to drawn their inventory.

But I actually think that it's the "importers/traders" whose inventories are going to be the worst and they're going to try to sell them first because they've got to be aggressive. They already bought them from the Chinese. They don't already have customers, and that's what we see. It was in Mr. Barnes' testimony. Tubular Synergy Group has right now as just a trader is selling product at prices that are so ridiculously low, they're so far below the market that the industry would go out of business if they tried to match those prices. So I think still today that the importers' inventory is going to be the one that's most aggressively sold because they have to raise cash. They've already paid for the product and they've got to raise cash, and they don't usually have the wherewithal of the distributors in terms of the ability to carry inventory because they have presumably these major distributors have here actually sell bank credit lines and a lot of importers don't.

CHAIRMAN ARANOFF: Okay, let me stop there since my light has turned red and turn to Vice Chairman Pearson.

VICE CHAIRMAN PEARSON: Thank you, Madam Chairman. Mr. DuBois, you had mentioned that speculators have brought in substantial quantities of pipe from China and are holding it in inventory. Would I be correct to assume that most of them must have lost a bunch of money?

MR. DUBOIS: I think that would be a wonderful assumption. And when I say they're holding inventory, they're actively trying to get out of those inventory positions, and as they do that we continue to see deterioration in the price in the market which ultimately draws the entire market down with it. So your assumption would be correct.

VICE CHAIRMAN PEARSON: All right, and are the losses likely to be substantial enough that it might discourage them from building inventory from importing again in the reasonably foreseeable future?

MR. DUBOIS: We saw a number of people who had not been in the business in the past jump into the business for the very reason that they thought they could make some money. We've seen some of them close the doors, we've seen some of them go out of business, I'm sure there are some bankruptcies out there that we're not aware of. I would say many of them would have a difficult time coming back in, but not saying that there wouldn't be somebody to fill that void in the event that you allowed the Chinese back into this market at the levels that it's been coming in in the past.

MR. MILLER: And if I could add to that. Steve Miller. There were so many speculators with Chinese opportunities to move product at a substantial discount to the marketplace that we have, all of us have, a number, a list, and we can provide some of those names to you if you so desire, a list of people that have never been in the pipe business, never been in the distribution business, never been in the import business, never had the relationships with end users where they have access to move that product, there are just a number of those. And yes, I'm sure some of them are having some difficult financial discussions as we speak, but if they did go out of business, and if Chinese were allowed to bring in additional materials at the kinds of discounts that we've seen in the past, other new speculators would happily join into this marketplace.

MR. THOMPSON: Commissioner Pearson, George Thompson, U.S. Steel. I think you asked a very good question. There is no doubt that somebody lost a lot of money on this pipe, and from our perspective we really can't figure out who. Because it's clear, and I echo Mr. Miller's statement, it's clear a lot of these players could no afford to take the kind of hits that they are apparently taking. And I think if we had probably gotten better response from some of these manufacturers maybe we could see who is financing a lot of these transactions because it's very, very unclear. There is clearly a hit on profitability, it's very unclear who's taking that hit.

MR. LIGHTHIZER: You know, Commissioner, I think this makes the point that we were making before and that is that we can't compete with a government and that's really what we're competing with here. If this was all private industry, I think your sense of the market would work out exactly right, somebody would go out of business, capital would be, you know, properly distributed, and we'd have a competitive market. But we don't have that because we have this interference from the Chinese government.

VICE CHAIRMAN PEARSON: I would just observe of course one of the governments we're competing with here is the U.S. government, at least the Fed, because when money is basically worth zero it's not so hard to, you know, finance some imports at least for a while. But there was a hand in the back. Mr. Shoaff?

MR. SHOAFF: Yes. John Shoaff of Sooner Pipe. And I think the more important issue to Mr. Thompson's statement is, that just goes to show on the sellers of that pipe to these brokers the complete undisciplined, irresponsible way that they went to market. They would virtually sell to anybody. We kind of make a joke in Houston, anybody that has a cell phone and a fax machine can buy Chinese pipe. You know, we constantly, constantly heard from people coming into our offices or calling us saying, I have the exclusive on this mill or that mill, and then two weeks later we'd hear three other guys have the exclusive on the same mill. And since then, and continued today even a whole year after, we continue to hear of mills from our sales people I've never even heard of before, which are probably some of those 200 mills that didn't respond to the questionnaire.

VICE CHAIRMAN PEARSON: Dr. Hausman?

MR. HAUSMAN: Yes, just actually putting into formal terms what we've just said, there are absolutely no barriers to entry to be an importer in this business. You don't have to sink any capital, so you could have exit. But when the imports started to come in again, as just said, all you need's a cell phone, so that's $200? That's not much of a barrier to entry. So it doesn't really matter how many people have exited, and I'm sure you're right that people have lost a lot of money, but you know, if the right price is offered below market to importers, since there are no barriers to entry there will just be a new group of people who will come in. It's only barriers to entry that keep people out and there just are none here.

VICE CHAIRMAN PEARSON: Mr. Miller, you had offered earlier to provide a list of new importers posthearing, I would like to see that if you could.

So you know, when you have a chance please put that together. A different topic, it's correct that most of the OCTG seamless facilities also produce some seamless line pipe, right? Okay, good. The reason for asking is that, you know, it wasn't that long ago that we dealt with a case on seamless line pipe, and in that particular investigation we were advised that it was really hard to come up with lost sales and lost revenues because most of the sales were to distributors.

Now here we have a case again where, OCTG most of the sales are to distributors, and yet in this investigation you have indeed come forward with allegations of lost sales and lost revenues, a portion of which actually have been confirmed. So what's the difference in this investigation from the seamless line pipe? Those of you who were involved in both I'm sure could explain.

MR. SCHAGRIN: Vice Chairman Pearson, I'm involved in both, as is Skadden, and I would say there really is no difference. I mean the one thing I'll agree with Respondents on is you have a paltry amount, seamless line pipe I think we had none, here it's minuscule, they pointed that out. I have to admit, in these interview products cases where all the sales are through distributors, it's the most fungible commodity product because it's all sold to API specs.

The users who are in the energy industry are the most multi-national, free trade, buy the spec product at the lowest price you could ever get to. These people are never going to help us try to nail down. So I usually tell clients, energy product, given who the energy users are, I mean unless it's a 500,000-ton pipeline project, and there you may not even get a user saying -- you can remember back to largely under line pipe sunset, we couldn't even there get some pipeline companies say that they buy on price.

So you just aren't going to get cooperation from these folks. So to be honest, not that I need to share any attorney-client privilege, I tell them in an energy products case, why even bother? Because to the extent they even put in the really hard work, and some of the allegations in this case were from my client, they put a lot of work in, they got no cooperation from the people, the Commission didn't, from the other folks.

VICE CHAIRMAN PEARSON: So in that case are you suggesting that we not place a whole lot of weight on the lost sales lost revenues analysis here?

MR. SCHAGRIN: That's exactly what I'm suggesting. I think in these cases, both seamless line pipe and OCTG, there should be no weight. This is a fungible commodity product. The question is how many tons from China came in, to what extent did it displace U.S. product. You don't need individual lost sales, and I think the distributors can verify that.

VICE CHAIRMAN PEARSON: Mr. Vaughn?

MR. VAUGHN: Yes, Vice Chairman Pearson, just to follow up on what Roger just said, I mean I agree with what Roger said but I was just going to point out that here you do have an opportunity to hear from the distributors and they can talk about how the domestic industry has been losing sales to the Chinese imports. And I'd like to invite them, with your willingness, if they want to comment on the lost sales lost revenues issues because this is an opportunity for the Commission to get that evidence.

VICE CHAIRMAN PEARSON: Do the distributors have anything to say on the question of lost sales lost revenues?

MR. SHOAFF: John Shoaff with Sooner Pipe. Yeah, I mean we're losing sales every day to Chinese inventory that's on the ground. And with respect to the revenues, of course that just goes along with it because when you're losing sales to Chinese material that's on the ground it's at a very, very reduced price. And quite honestly we're continuing to see it. I think somebody else made the statement here just a few minutes ago, we're going to continue to see that well into 2010 with the levels that are out there. And like I said earlier too, virtually -- and I don't want to say every -- but the vast majority of inquiries that we get on a daily basis is the first question that comes up is, are we competing against Chinese? And if we decide to compete against them we have to take huge losses with our current inventory on the ground and adjust our quotes as such.

VICE CHAIRMAN PEARSON: Okay, thank you for that. My light is blinking so I have for posthearing one issue that I'd like to present, and that is, how should we understand the relationship between the quarterly pricing that we see in the staff report, particularly for 2008, and the monthly imports from China over the POI? If some analysis could be given to that it would be helpful to me, because it looks to me very much as if this is much more a demand pull marketplace rather than a supply push marketplace because we have a positive correlation between prices and operating margins and arrival of imports. If I'm wrong on that, explain it to me, but because I'm out of time please do it in the posthearing. Thank you, Madam Chairman, my time is expired.

CHAIRMAN ARANOFF: Before turning to Commissioner Okun, Governor Strickland has arrived, and so we're going to call him and hear his testimony.

MR. BISHOP: The Honorable Ted Strickland, Governor of Ohio.

CHAIRMAN ARANOFF: Welcome, Governor, please proceed.

MR. STRICKLAND: Thank you, Chairman, Members of the Commission, for giving me the opportunity to come and say a few words to you this afternoon. As the Governor of the great state of Ohio, I consider it a privilege to be here to speak on behalf of my constituents. This country as we all know was built with Ohio made steel. There's Ohio steel in the Empire State Building and a long list of other national landmarks. This country was defended by Ohio made steel. There has been Ohio steel in everything from cannonballs to aircraft carriers.

There's a good bit of Ohio steel in the fabric of America, and I think it's fair to say that there's a good bit of steel in the backbone of Ohioans. But no matter how tough and talented my fellow Ohioans are, we cannot expect them to compete against unfairly subsidized imports. As you know, Ohio is home to several facilities producing Ohio country tubular goods.

In the Ohio community of Lorain, an integrated steel facility and seamless OCTG mills operated by U.S. Steel have experienced significant shutdowns this year, resulting in the layoffs of hundreds of employees. Less than 100 miles away in Youngstown, Ohio, V&M Star was forced to lay off over 150 workers after they completed a $100 million upgrade and expansion of their mill. And let me add that this was the first layoff in the company's history.

The V&M story is echoed by businesses like Wheatland Tube Company in Warren, Ohio, which also made sizeable investments to enter the OCTG market just a few years ago, but they had to lay off virtually all of their workers at the Warren facility. In addition, flat rolled steel mills in both Cleveland and Warren, Ohio have been shut down for most of 2009. Demand for flat rolled steel plummeted because welded OCTG producers in the United States had shuttered most of their facilities.

Imports of OCTG from China have been nothing short of massive. In fact much of that unfairly traded OCTG still lies idle having been dumped on the market. It's now serving to significantly delay any recovery for this industry despite increasing demand for OCTG. Ohio is fortunate to be the beneficiary of a new shale gas discovery, and yet most of the OCTG being used for drilling in Ohio comes not from Ohio but from China, and not from Ohio's own state producers.

As Members of the Commission, you well know that this is a question of basic economics. But what's at stake here can't be seen on any spreadsheet. We're talking about the lives and the livelihoods of hard working Ohioans, men and women who seek only a real chance to compete. Now I've been around steel workers since I was a young boy. I've never heard even one of them say that they wanted a handout or a subsidy. What they want and what they need is fairness.

Steel has been a vital part of Ohio's history. I can tell you that in Ohio we are working every day to make steel a vital part of Ohio's future. Eleven Ohio steel producers and the United Steel Workers of America are members of the Ohio Steel Council, which is a public-private partnership designed to strengthen ties among the steel industry, the state of Ohio, and our citizens. You may know Roger Lindgren, the president and CEO of V&M Star who is the chairman of the Council year.

My office, Ohio's Department of Development, our congressional delegation, and local leaders are working hard to support the possibility of V&M Star building a new green filled seamless pipe plant in Youngstown at a cost of nearly $1 billion. We have support from leaders in the Mahoning and Trumball counties as well as city governments of Gerard and Youngstown, Ohio, which includes Mayor Williams who I understand is appearing before you today.

This would be the first seamless pipe plant built in the United States since the 1980s. Construction of the plant alone could create several thousand jobs for the people of my state. Quite frankly we are prepared to move heaven and earth to make this billion dollar plant become a reality. But private enterprise in Ohio or anywhere else cannot compete against public subsidies from the government of China.

We must have countervailing duties to offset Chinese government subsidies and antidumping duties to offset dumping by Chinese producers. A failure to provide unfair trade relief will result in massive Chinese government supported overcapacity, overwhelming the U.S. market for OCTG. Without relief, without relief from these unfair trade practices we will not regain lost jobs in the industry, indeed we will lose more. Without relief from unfair trade practices we will not see new plants built, indeed we will lose plants that we already have.

I thank you for the opportunity to appear before you today. This is an extremely important issue for the state of Ohio, and I'm here to ask you to carefully consider the facts and to make an affirmative determination of injury. Ohio is a steel state, it always has been, and given a fair chance to compete it always will be. Madam Chairman, thank you, and other Members of the Commission, for allowing me to express these sentiments to you this afternoon. If you have questions of me I would be happy to try to respond.

CHAIRMAN ARANOFF: Thank you. Are there questions?

(No response.)

CHAIRMAN ARANOFF: Thank you very much, Governor, for your testimony today.

MR. STRICKLAND: Thank you.

CHAIRMAN ARANOFF: We will now go back to the questioning which was about to turn over to Commissioner Okun.

COMMISSIONER OKUN: Thank you, Madam Chairman. I wanted to return to some of the section about the inventories, and, Mr. Schagrin, maybe I'll start with you. Quite a bit of discussion was getting to, you know, whether the inventories themselves and what was, you know, looked at as they're not monolithic, that some inventories are I guess more pernicious than others to pricing in the market, and you were going into that. And so I don't know what else for the public session, but as you know, in part 2 of the staff report we have the information on purchaser inventories and the breakout that we were able to get there on inventories in the United States of, you know, Chinese and other countries.

But I don't know if based on what you were responding to with the Chairman whether there should be a further or if there's any further way to break out those inventories to focus on, as you describe them, the aggressive importer traders or the speculators who came into the market and to understand what portion of just the inventory we see are attributable to those types of actors in the market?

MR. SCHAGRIN: Thank you, Commissioner Okun. I'd make a few comments. First, as the information you do have. You're right, you do have excellent information in the staff report from purchasers as to their inventories of Chinese products, U.S. products, nonsubject. I think it's striking and it's totally contrary to everything, including Mr. Durling's opening statement about, you know, we're just following the market, as the market goes up, you know, we went up with it. Why then did the overwhelming increase in inventories for those purchasers come from increased Chinese imports?

I mean over the POI the amount of Chinese imports held by those purchasers just about tripled, the amount of U.S. inventory fell, and the amount of nonsubject increased by 25, 30 percent. Now, I would say, and I think most people would agree, if you look at Preston Pipe Report, Pipeologics, any of these different trade publications, many of whom focus greatly on inventory because everybody in this industry will tell you, inventories levels, months of inventory on hand are critical, they are a critical sign to everyone in the industry.

So they all estimate let's say somewhere between 2.7, 3 million tons of inventory on the ground now. The purchasers who responded said they had about 750,000 tons of inventory. So if they're about a quarter and they were holding about 325,000 tons of inventory, then you could figure that of the total you've got at least 1.2 million to 1.3 million of Chinese product. Now purchaser response coverage is pretty good. Importer coverage in this case is very, very low, particularly as to '09 because a lot of importers didn't comply with your request.

So there, from just a portion of the folks who accounted for imports from China, less than half, just that group says they have 350,000 tons of Chinese inventory. There could be some overlap between importers and purchasers, probably not a lot. But we do believe and I think that folks would say, that's the most, you know, pernicious inventory because those are the folks who are going to try to get rid of it the fastest.

And I think we'll give the information in our posthearing brief about some of the quotes sometimes from traders who may be representing these speculative importers. I was amazed, when I went to an NASPD conference last month in Chicago -- it was actually not last month it was the beginning of

October -- how many folks, that's the National Association of Steel Pipe Distributors, that's a lot of the distributors of this product, how many business people there are there, their only business is now brokering -- once again, misery creates opportunity -- they're just brokering sales between distributors of excess inventory. It's like a whole new business.

I mean it's kind of like working people out of junk mortgages created a whole new -- first we had the people who sold the junk mortgages, you know, and you say oh those people get out of it, well they're coming back in to sell junk mortgages, and then you have this whole new industry of people to help them work their way out. Well it's the same way now in the pipe distribution business, there's these folks who set up businesses to help trade between distributors, and that's why unless there's specific holds on specific products you're just not getting new orders placed with the mills.

That's why capacity utilization, yes, it's not zero like it was in the second quarter, it's like 20, 25 percent, you know, that's pathetic. So we'll explain this further. I personally think as both injury and threat of injury, this is largely an inventory case. Every single explanation in the

Chinese prehearing brief about inventories, I just find it almost doesn't pass the laugh test.

And so I think when you look at that, of course the other big threat is the massive overcapacity in China. But I think you did get as good of information on inventories and the type of inventories that your staff could get, did a really good job on purchasers, it's just a pity that a lot of importers, you know, didn't comply with your request for information or a lot of Chinese producers. So I hope that answers your questions about what information you have and how useful it is.

COMMISSIONER OKUN: Okay, I appreciate that and I'll look forward to your additional explanation posthearing. There was a hand up from one of our Maverick's witnesses.

MR. CURA: Thanks very much. Just a short remark with respect to the impact of inventory that we see on our business lives. A few remarks have been made, I made some, with respect to a very marginal, I call it drilling profile change that is taking place as a result of the shale and everything else, but it's today very marginal. It is happening, yes, very, very marginal.

The majority of the market still is made of mature fields, string designs that have no change in a good number of years, and there's no rational reason to assume that that will change going forward, and therefore we see the existing inventory as an active one, it's not going to go away, but it's yes perfectly usable in our oil and gas fields. It was brought a year and a half ago, and other than some marginal changes in the drilling profile we have absolutely no reason to believe that that inventory will not end up in for instance west Texas as they're ending up as we speak.

Now this is also reflected in the plant loads that we have today, the very, very low utilization levels that we have today and the ones that we see going forward into the coming months. So there's a lot of discussion on numbers and everything else, but at a business level we tend to see the existing inventory as an active one, one that would find the way to oil and gas wells in the U.S., and the fundamental reason is that they're still aiming at fields which have been producing for decades and there's no rational reason to believe that that will change going forward.

COMMISSIONER OKUN: Thank you for those comments. Mr. Hausman, you had your hand up?

MR. HAUSMAN: I'd like to make two points. The first is just comparing 2008 to 2006. If you look at the first nine months of the year, and the reason I do that is rig usage peaked in September of 2008 at 2,014. If you look at the first nine months of 2008, average inventory was 5.6 months. And if you look at the corresponding first six months of 2006 when rig usage was about 25 percent lower, you had an inventory of 5.5 months. So up through the point where the surge in Chinese imports really started, the inventories were approximately the same in 2006 and 2008.

But now I'd like to actually turn to the economic point, which I think is more important. The demand for OCTG is a drive demand, you only use it because you're drilling, you're not going to use it for anything else. And if you look at the proportion of cost, this is approximately correct I believe, the proportion of cost in drilling a well is only about 10 percent in OCTG. So what's going to happen is, if prices fall you don't increase a lot more demand for drilling, what drives drilling of course is the expectation of future oil and gas prices.

So that inventory is not going to disappear through lower prices, it's only going to disappear through increases in drilling. And so long as that inventory is there and drilling is relatively insensitive to the price of OCTG, that inventory overhang will continue to depress the prices until it gets from its approximate twelfth month level now back down to the 5.5 month level we saw in 2006. So in terms of the discussion before, it's had an effect but it will continue to have an effect in the future because drilling is just not price elastic or not very price sensitive to the OCTG price and therefore the inventory on the ground will just continue to depress prices until it's worked off.

COMMISSIONER OKUN: Okay, and I think that it would just be for posthearing I think one of the arguments, and you can respond, from Respondents is that not all -- that the inventories are starting to work down, that you see some changes in the order books. And I guess I'm just trying to get as much help as I can at sorting out, you know, are we really just looking at 12 months of inventory and you have to look at it all the same, or should we be looking at the profile, which I think Maverick was responding to, that the profile is not so different.

MR. HAUSMAN: No I understand that.

COMMISSIONER OKUN: But my red light's come on.

MR. HAUSMAN: I was just going to say, I agree with Respondents that it's worked down, but it's still at 12 months, which is over double the usual level.

COMMISSIONER OKUN: Right, thank you.

CHAIRMAN ARANOFF: I have been advised that both Mr. Gerard and Mr. Surma need to leave in a few minutes, and I have checked with my colleagues, I don't think anyone has any more urgent questions that can't be answered in the posthearing, so we'd be happy to, you know, thank you for all of your time and help this morning and tell you that you're free to leave whenever it's convenient. Let me just check, do the staff have any questions for Mr. Gerard and Mr. Surma before they head out?

MR. CORKRAN: Thank you, Madam Chairman. No, the staff has no additional questions.

CHAIRMAN ARANOFF: Okay.

MR. VOGEL: Madam Chairman, could I make a last comment?

CHAIRMAN ARANOFF: Well, we're still going to ask more questions, don't worry.

MR. GERARD: In a couple of previous occasions when I've been here I made the point that I haven't yet made, and that is that in many of these collective agreements, we've talked in the past about the number of sacrifices we've made to make this industry productive, and amongst the most productive in the world. We've also changed a lot of the approach in that we've bargained mandatory investments back into the business as a first priority, then we've bargained that our members get a chunk of their income based on profits and the amount of hours worked.

And also we've talked before in this process about our voluntary employee benefit associations, our VEBAs, and some of those profits go into that. So as you're contemplating injury and you're remembering those people back there, remember that lots of them got no hours and remember that lots of them got reduced hours.

Remember that when we're not making any money we're missing the rounds of investment that need to be made in these facilities to keep competing and keep being productive. And certainly not to be left out, returning to profitability means money will be going into the VEBAs to pay for the retirees health care and pensions. So that as you contemplate that, just like I asked you a while ago, look at their faces, I want you to remember the impact that this has on these real human beings and the future of our industry.

CHAIRMAN ARANOFF: Okay, we're not actually in a questioning period now, so we need to figure out whose time this is coming out of, and I don't know whether Petitioners had remaining time.

MR. BISHOP: They did not have any time remaining, Madam Chairman.

CHAIRMAN ARANOFF: Okay, so I'd like to ask that any remaining statements be held, you can put them in the posthearing. And I'll turn to Commissioner Lane for questions.

MR. SURMA: Thank you for your courtesy and kindness.

COMMISSIONER LANE: Mr. Surma, go ahead and you can say what you want to say and we'll take it out of my time.

MR. SURMA: You're very gracious, Commissioner. I just wanted to say thank you for your courtesy and kindness and I mean no disrespect by having to depart early. I'd just like to emphasize the importance of this case from our standpoint, our employees and our employees' communities, it can't be overstated. We have suffered a most grievous injury already, and the threat that is arrayed against us is enormous.

And I have no doubt that if we are not successful in convincing you of the importance of our point of view that it will only be a matter of time until this sector, our company, our employees and their communities, will pass from the face of the earth and the forces arrayed against us will have their ultimate victory. So I encourage you to give most careful consideration to the evidence we've presented in front of you. And I thank you again for your very kind courtesy to allow us to be here. Thank you.

COMMISSIONER LANE: Thank you, Mr. Surma. My next question is for somebody from V&M. We heard the Governor of Ohio talk about a new facility that he is hoping will be built at Youngstown. Could somebody tell me what conditions are going to have to exist for that facility to actually be built?

MR. HERALD: James Herald with V&M. I think, you know, we started looking at the market several years ago and studying the market as we always have in the U.S. in looking for opportunities to invest, so the thing that we'll look at is I think two fold. One is, you know, we'll continue to look at the market outlook and does the market make sense for the type of investment that we're looking at from the overall market? And then secondly as I said earlier, you know, we want to play on a sort of a fair level playing field. So if we have a fair level playing field to play on and the market outlook supports an economic investment, then that's what we'll do when those are the conditions that exist for us today.

COMMISSIONER LANE: Okay, thank you. Is OCTG typically sold based on a negotiated price at the time of sale or at the time of delivery, and has this practice changed over time?

MR. BALKENENDE: This is Roland Balkenende with Maverick. I can maybe only speak for environments we participate in, but the pricing where we deal with, we have many of our agreements with end users through distributors, but they have price adjusting mechanisms, and it would be going too far to disclose what each of them were, but our pricing is usually adjusted after a certain period of time, and it is an ongoing base. So it is not that we fix price for a year or so, that is not the common practice in our business environment. That's what we have tried to maintain during the last few years, and that has not changed in our environment.

COMMISSIONER LANE: Okay, thank you. Now, we've had several questions today, or several statements, talking about the demand for OCTG and the perhaps new opportunities for OCTG in the horizontal drilling in the Marcellus shale, do you expect that demand to grow over time, and how would you compare the demand for new drilling in the Marcellus shale as compared to what you were referring to as the mature market for the product in the more traditional drilling?

MR. THOMPSON: George Thompson with U.S. Steel. There's no doubt the Marcellus shale offers a tremendous opportunity with a large acreage and the tremendous amount of gas that appears to be accessible at this point. It's relatively new at this point. I think to state that it's an increase on what we've seen traditionally is a mistake. It is part of the ongoing look for more energy, and the amount of drilling that people do is going to be driven primarily by the price of the commodity. And Marcellus particularly because of its size and its location to the Northeast appears to be a very good opportunity but it is not bonus business on top of the business we've historically seen. It will replace other business and more traditional business, and it's not something that is going to grow our business incrementally.

COMMISSIONER LANE: Yes, sir?

MR. VAUGHN: Commissioner Lane, just a data point to put in at this point. The other side in their brief, they talk about various prognostications regarding drilling, and one of the people they refer to is Chesapeake Energy. We have included in Exhibit 50 of our brief a discussion of potential rig counts and REOs put out by Chesapeake Energy, and it's very consistent with the testimony Mr. Thompson just gave, which is that they show basically the rig count not getting back to 2008 levels over the next few years.

COMMISSIONER LANE: Okay, and another question I had was, do you use the same type of OCTG in regular drilling as you do in the drilling in the Marcellus shale? Yes, go ahead.

MR. CURA: By and large the answer is yes, naturally the specific well designs and so on. But every pipe that the Marcellus shale requires, and we are today servicing some of the initial activity in the Marcellus, is for instance produced by our domestic plants and is being the same pipe used in other applications in the Rockies, west Texas, so on and so forth. So other than some specific requirements, in generic terms I would say the domestic industry is fully capable of servicing the Marcellus shale's requirements going forward.

COMMISSIONER LANE: Okay, thank you. I think with that, that is all of the questions that I have. And I thank you all for your answers and your attention today, thank you.

CHAIRMAN ARANOFF: Commissioner Williamson.

COMMISSIONER WILLIAMSON: Okay, I just have one for posthearing. And Commissioner Lane's already kind of started talking about the use of OCTG used in shale, and I was just wondering if you could give in the recent past what percentage of demand for OCTG has been used in the shale applications. I get the impression that maybe it's very tiny, but then Petitioners are indicating more, so if you could posthearing just clarify that further.

MR. LIGHTHIZER: We're happy to do that, Commissioner.

COMMISSIONER WILLIAMSON: Thank you. And I have no further questions. I want to thank the witnesses for their testimony.

CHAIRMAN ARANOFF: Commissioner Pinkert.

COMMISSIONER PINKERT: Just one followup. We had testimony, or actually you put a slide up earlier, that talked about a strategy initiated by the

Chinese government not to respond in countervailing duty investigations. I'm wondering, do you have any idea why it says "countervailing duty investigations," is that kind of implicit reference to the Department of Commerce portion of the investigation or would this policy apply in antidumping as well as countervailing duty?

MR. HECHT: Jim Hecht. I'll take a first shot at it, and this is pure speculation to be honest. Obviously the government plays more of a role in terms of responding in the context of countervailing duty investigations and Commerce and providing information, it's possible that was one element, but certainly the intent behind that proclamation and the instruction it tends to give to their producers in a case like this would apply I think to dumping as well and to the entire process that the ITC where you were considering both subsidy aspects and dumping aspects as well, but that may be why they did that.

MR. LIGHTHIZER: And another speculation may be that we just haven't found the other one yet, Commissioner. We'll keep looking, if we find it we'll give it in the posthearing brief. But the fact is we found this and there may be something else that we just didn't find. I mean we find these things in

Chinese because we have Chinese speakers, and when we saw it, you know, obviously alarms went off and we said, this explains the pattern, and we just wanted to bring it to your attention for that reason.

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

CHAIRMAN ARANOFF: I have a question, and because it could probably begin a long, philosophical discussion I'll just put it out there for posthearing if anyone wants to comment on it. And that is that the record in this investigation provides an excellent example of the difficulty that even experts have in trying to predict demand in an industry like this which is notoriously cyclical, and I think probably everyone here including the Respondents and the Petitioners would all agree that it's absolutely certain that demand will pick up sooner or later.

But for purposes of the threat analysis, should the Commission reach that issue of we're only looking at an imminent period which is probably considerably shorter than the sooner or later in which the pickup in demand is certain to happen, and so I guess my question is, if no one can really predict when that's going to happen, what assumptions should we be making about demand for purposes of a threat analysis? Should we simply assume that the current status quo will continue? And I know people are dying to talk about it, but please do it in your posthearing because my colleagues are going to be really angry at me if I keep them away from their lunch that long. So let me turn now to Vice Chairman Pearson, do you have any additional questions?

(No response.)

CHAIRMAN ARANOFF: Commissioner Okun?

(No response.)

CHAIRMAN ARANOFF: No. All I can see is a chair, I can't tell if she's actually in it. Let me turn and see if the staff have any questions for this panel.

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Madam Chairman. The only question is similar to yours it's for the posthearing briefs, and that is for the other U.S. producers to address the issue of pricing at time of sale versus time of delivery. Thank you very much. The staff has no additional questions.

CHAIRMAN ARANOFF: Okay. Well I want to thank the panel very much this morning and this afternoon. Oh, that's right, thank you, Vice Chairman Pearson. I'm in such a rush to have lunch or maybe

I'm a little hypoglycemic at this point. Do the Respondents have any questions for this panel?

MR. PORTER: No questions by Respondents.

CHAIRMAN ARANOFF: Thank you very much. And thank you to Vice Chairman Pearson for reminding me. I'll go back to thanking the panel for all of your testimony this morning, we very much appreciate that and all the answers that you're going to provide posthearing. We are going to take a one-hour lunch break and resume at 3:45. I should remind you that this room is not secure, you should not leave any confidential business information in the room or anything of value that you'd like to see again after the lunch break. Until that time, this hearing will be in recess until 3:45.

(Whereupon, at 2:30 p.m., the hearing in the above-entitled matter was recessed, to reconvene at 3:45 p.m. this same day, Tuesday, December 1, 2009.)

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

(3:45 p.m.)

CHAIRMAN ARANOFF: Good afternoon, this hearing is now resumed. Before we call upon the second panel to give your direct presentation, and in the hopes of not interrupting you during that presentation, we do have one Congressional witness to hear.

MR. BISHOP: The Honorable Timothy J. Ryan, United States Representative, 17th District, Ohio.

MR. RYAN: Thank you very much; thank you, Madam Chair and Members of the Commission. It's good to be back with you.

Again, thank you for the opportunity to testify at this final injury hearing regarding the imports of oil country tubular goods from China. I'm pleased to join with others from our Congressional Delegation in Ohio: Governor Strictland, as well, Major Jay Williams of Youngstown, Ohio -- to provide these comments.

Ohio's 17th Congressional District is home to two of the Petitioners in this case: V&M Star of Youngstown Ohio and Wheatland Tube of Warren, Ohio.

I've had the pleasure of working with both of these companies over the past several years and with their workers on a number of local issues, which have directly impacted our area. They serve an important role in the local economy, and over the years have made significant financial investments in their plants to enhance their competitiveness.

During my tenure in the House, I've made frequent trips to this Commission to express my strong support for the enforcement of U.S. unfair trade laws, especially when U.S. companies and workers have been injured. Today I'm before you to explain why it is important that the domestic industry receive relief from these unfairly traded imports.

The OCTG imports from China have disseminated the U.S. industry. The recent preliminary findings from the Commerce Department have proven that the Chinese have dumped, on average, margins of 36 percent and subsidized these imports in margins from 11 to 31 percent.

In addition, U.S. imports from China totalled 2.2 million tons in 2008, which accounted for 32.7 percent of the quantity in the U.S. The Chinese took an even larger share of the market this year, and accounted for 37 percent of the U.S. market during the first three quarters.

When you review the data, it becomes

apparent why these massive amounts of unfairly traded imports have resulted in worker layoffs and severe cut-backs at OCTG producers.

Unfortunately, these imports have required V&M Star in Youngstown to reduce production, resulting in layoffs and economic hardship to our area's workers and their families.

In addition, Wheatland Tube in Warren and in Western Pennsylvania have made significant investments to its plant and installed new finishing equipment to enter the OCTG business. Unfortunately, due to the massive quantities of imports from China they, too, are forced to reduce production and lay off workers.

Particularly troubling to me is seeing China repeatedly committing offenses in the trade arena. Since my early days in Congress, I've advocated for the types of trade policy reforms that would bring China into global trade compliance.

I have placed a high priority on seeking an end to currency manipulation, a practice which impairs the ability of our domestic manufacturers to compete on a level playing field.

I also know that the strict enforcement of trade laws is the only recourse for U.S. producers like V&M Star and other domestic producers. That is why I believe it is very important that the domestic OCTG industry and its workers are granted relief here.

OCTG products are essential to our nation's ability to serve the energy market. V&M Star, like others in the industry, are innovative, efficient, and dynamic companies that have the ability to serve our country now and well into the future.

I believe that it is equally important that all of our trading partners adhere to global trade rules, especially China, one of the least compliant, least cooperative parties in the world.

When I return to my district later this month, I want to assure my constituents that we have taken appropriate steps to remedy this pervasive problem. I ask that you make an affirmative final determination, so we are able to ensure a future for this industry, and by extension, the hard working people in my district and beyond; thank you.

CHAIRMAN ARANOFF: Thank you; are there questions for the Congressman?

(No response.)

CHAIRMAN ARANOFF: Thank you very much. Mr. Secretary, will you please call the next panel?

MR. BISHOP: This afternoon's panel, those in opposition to the imposition of anti-dumping and countervailing duty orders have been seated. All witnesses have been sworn.

CHAIRMAN ARANOFF: Good afternoon and thank you for your patience. You may proceed whenever you're ready.

MR. PORTER: Thank you, Madam Chairman; we'd like to jump right in, and I'm going to ask Mike Jordan to kick things off.

MR. JORDAN: Good afternoon, my name is Mike Jordan. I'm the CEO of Mike Jordan Company. My business is buying and selling OCTG, and I've been doing this for 25 years.

What I want to do today is to set the record straight about the U.S. OCTG market and the role of imports from China. Some things were said on this prior panel that are just not true.

Let's first start with something that I have a lot of experience with, and that is how Chinese OCTG is bought and sold in the U.S. market, and specifically what happened with Chinese OCTG in 2008.

I'm confident that your team has reviewed the data for 2009 and understand that 2008 was a rather extraordinary year. But honestly, the raw data doesn't even begin to explain the demand for OCTG. In my 25 years in this industry, nobody has ever seen a year like 2008.

My guess is that from your prior work in this industry, you understand that oil and gas prices are what drives demand for OCTG. Very simply, when oil and gas prices increase, more companies undertake more exploration and, therefore, they utilize more rigs, which require more OCTG.

In 2009, oil and gas prices climbed and the rig count increased rapidly. From an already strong rig count in 2006 and 2007 and 2008, the rig count climbed even higher. Such a high rig count meant that everyone who supplies this industry with pipe was scrambling to get enough for their customers.

Exploration companies have bought leases and made commitments to drilling companies. Contracts have been executed for these rigs to drill wells. As more rigs are put to work, the more need for OCTG.

These drilling rigs are contracted out on day rigs. Whether you use these rigs or not, you're paying for them on a daily basis; and therefore, it's very expensive if the rig has to wait for pipe deliveries. A lot of these land rigs were going for $20,000 to $35,000 per day.

The year 2008 was unprecedented. During that time, just about every phone call was a customer wanting to buy pipe; and if you didn't have the specific size of pipe that they wanted, they would immediately ask about a substitute size or grade.

Prior to 2008, this very seldom ever happened. If you didn't have or couldn't get the specific size requested, the customer would simply call somebody else. In 2008, our customers put more demand on us to supply them with more OCTG.

Another clear example of a buying frenzy in the demand for OCTG products is the fact that several of the domestic OCTG distributors that were here this morning had to purchase Chinese pipe in 2008, because our domestic mills could or would not supply the quantity needed for their own distributors.

There's no question that for most of 2008, these domestic mills had their own distributors on allocation and the quantities supplied by these mills was not nearly sufficient to meet the volumes that these distributors required to meet their demand. These distributors purchased Chinese pipe to fill this void.

I next want to address how the Chinese OCTG was sold in the U.S. market. The Petitioners attempt to convey the impression that the Chinese mills simply produce a lot of OCTG and then ship the product to the

United States in search of a buyer. That impression is wrong. It's totally false. That's not what happened.

The truth is that a very large portion of the Chinese OCTG that was shipped to the United States was bought and paid for before the ship arrived at the U.S. ports. I know this because I'm the person that signs and executes these contracts.

I'm going to describe to you how a typical transaction works. The first thing that happens is that I contact the Chinese mill with the list of pipe that I was needing. We talk about price and we talk about availability.

Once we agreed on this price and availability, a contract was drawn up. Once the contract was signed, I had to wire either 20 or 30 percent of the total price as a down payment.

After this pipe was produced, which sometimes was 45 days up to six months, the pipe was loaded on a ship. At that point in time, I'd receive bills of lading, telling me exactly what was on that ship. At that point in time, within five days, the balance was due, and I'd wire the money. The entire amount was paid for before it reached the states.

As importantly during 2008, all of the

Chinese OCTG that I purchased was for ongoing projects with end user customers. I did not bring in Chinese pipe that did not have an intended home.

Please also understand that during 2008, it took a good five months from placing the order with the Chinese mill until the product arrived in the United States. Product ordered in February didn't arrive until July. Product ordered in August didn't arrive until January.

And in some cases, orders did not arrive until six or seven months later; again, because the demand was high and the mills were backlogged. It's important that you understand this timing lag when you examine the import data.

Now I fully understand that the very end of 2008 and early 2009, by the time the Chinese OCTG had arrived in the U.S., some of my customers had canceled their orders. However, I can assure you that all of these Chinese pipe had an intended home when I ordered it.

Even more incredible than the increase in the demand in 2008 was the dramatic disappearance of demand in the fourth quarter of 2008. In the fourth quarter of 2008, our industry saw a tremendous drop in natural gas and oil prices. In my 25 years, I've never seen such a dramatic and sudden drop in drilling activity.

Our industry has seen some booms and busts; but 2008 was different. The collapse in drilling activity best seen in the drop of the number of rigs that was shut down was unprecedented. We went from a very high demand to almost no demand in the blink of an eye. The demand for OCTG fell flat on its face.

Now this is important, because you had quite a bit of Chinese pipe that had already been bought and paid for and was on the water when demand dropped off. By the time these Chinese pipe had arrived in early 2009, the programs for which this pipe had been purchased had been discontinued. I had no choice but to put this pipe into inventory. Everyone else had to do the same thing.

Please understand that the Chinese had nothing to do with this sudden collapse of demand. Commodity pricing, oil and gas prices dropped, and the OCTG demand just disappeared when the rigs stopped operating.

Let me give you a very clear example. In 2008, I had a customer that had 10 drilling rigs running. He was eating up a lot of pipe. He was pushing me to stay four months ahead of him.

Given the long lead time for supply, this meant that I had to order his needs months and months in advance. Pipe that I ordered in June, as I mentioned, didn't get here until January. Pipe that I ordered in July didn't get here until February or March.

In the meantime, when oil and natural gas pricing were falling off a cliff, my customer went from using 10 rigs all the way down to using two rigs. Needless to say, by the time this boat had arrived from China, he no longer needed all this pipe. However, he certainly believed that he needed it when he ordered it. So now, I have that pipe in inventory; but all of it had a home at the time when it was ordered.

I also want to make a comment about Chinese OCTG inventory. This morning, you heard the Petitioners try to suggest that every ton of Chinese pipe currently in inventory represents a future lost sale to them. However, in the real world, everyone understands that this is just not so.

The reason is that if OCTG is not properly maintained when in inventory, it can deteriorate, especially in the salt water environment of the Gulf Coast. This deterioration often makes the OCTG not usable for its intended purpose.

What does this mean? This means that there is likely to be higher rejection rate when the OCTG tries to be sold. Pipe has to meet certain stringent specifications for its intended down hole use. Most buyers, therefore, insist on having the pipe inspected before accepting delivery.

Pipe that does not meet buyer's inspection criteria will be rejected. It's a common understanding that maybe as much as 20 to 30 percent of this Chinese pipe currently in inventory will be rejected by the buyer. The Commission needs to understand this real world dynamic when looking at inventory levels.

Finally, when you think about future competitive dynamics, please remember that domestic producers start with a significant home field advantage, given the risks associated with bringing supply in from offshore. Timing is critical when you're drilling a well. You have to have pipe in inventory in the volumes, grades, and sizes necessary to complete the work on schedule, or it will cost you.

You can spend anywhere from a million dollars to ten million dollars drilling a well; and as I mentioned earlier, as much as $35,000 a day for the drilling rig alone. Imports add another variable to this equation that some will not tolerate.

For some operators, import risk and other biases against foreign material mean that domestic OCTG producers enjoy a healthy, captive consumption base that will not stray from domestic material.

Thank you, and I'm now going to pass the microphone to Mr. Byron Dunn; and we look forward to your questions.

MR. DUNN: Good afternoon; for the record, my name is Byron Dunn. I'm the retired President and CEO of the former Lone Star Steel Company.

Prior to its acquisition by U.S. Steel, Lone Star was the largest independent domestic producer of welded OCTG. Presently, I'm one of the founding partners of a company called Tubular Synergy Group, which is a sales and marketing and supply chain services provider for line pipe and OCTG from both domestic and foreign producers.

In addition, I'm Chairman of Dong Ying Synergy Highland Petroleum Tubulars Company, Limited, an OCTG heat treat facility located in Dong Ying, China.

Finally, I also serve on the Board of Quicksilver Resources, an independent exploration and production company, with principle operations in the United States and Canada. For your information, Quicksilver happens to be one of the largest and most active drillers in the Barnett shale; is among the top 50 OCTG consumers in the United States; and is a substantial customer of United States Steel Corporation.

As the Commission may surmise, I'm no stranger to these proceedings. In my capacity as CEO of Lone Star Steel Company, I'm used to appearing in the morning session. However, I've also appeared before this Commission requesting exclusion for certain countries, while I was still at Lone Star. We requested Romania and, I think, Columbia at the time, for exclusion from OCTG.

As a general matter, my 35 years of experience is in the OCTG as a domestic producer; and also I'm now a supplier of OCTG to the distributors, the group that appeared before you this morning.

We are a tubular services provider, an international seller of OCTG and line pipe, and we are an equity partner in the Chinese heat treat facility, Dong Ying, that I mentioned earlier.

This all provides me a unique perspective for today's hearings. At the request of my joint venture partners, Dong Ying, I'm here today to share with you my perspective about the current situations in the OCTG market and the circumstances that led us here.

At the outset, let me say that I have a lot of friends and some 1,700 faithful colleagues that were employed at Lone Star Steel Company when I left, in addition to those that were in the hearing room today, that are dependent on a healthy OCTG domestic industry.

I am, too, a beneficiary of a strong domestic OCTG industry, given the OCTG business model that we have at Tubular Synergy Group. In this regard, I can tell you that this industry has gone through some significant landscape changes over the past three years, most for the better.

We witnessed a significant wave of industry consolidation and globalization during the period. In particular, we saw Tenaris, the largest OCTG producer in the world, acquire Maverick. We saw U.S. Steel, of course, acquire Lone Star, making U.S. Steel the largest OCTG producer in the United States.

TMK, the largest Russian producer of OCTG, consolidated the tubular assets of IPSCO and NS Group, making TMK actually a contender for one of the largest producers of OCTG in the world. V&M Star remains an important part of V&M, located in Paris. These are all fine companies that are very well managed. These consolidations have brought necessary stability to the domestic industry.

Having fought imports for most of my career, I'm here today at the request, as I said, of my joint venture partners, to share my insights about the market.

To start, I have a couple of comments about small diameter heat treat casing and its capacity from domestic producers. In 2005, during my tenure at Lone Star, we began to recognize an important trend in the domestic natural gas drilling sector, as the shale, or what some called the unconventional gas plays, were becoming more popular in the domestic industry, including Lone Star's demand in response, seemed to be fairly lack luster.

Simultaneously, the domestic offshore drilling activity was peaking, and many of our customers were starting to spend their domestic drilling budgets on international projects, placing many domestic mills under pressure.

The focus on international opportunities left OCTG producers like Lone Star in a difficult situation, since we lacked seamless production capacity to follow that demand. Mostly, international demand is for seamless OCTG.

Of course, adversity is the mother of invention. So Lone Star looked to develop sustainable strategic opportunities, and we became convinced that we needed more domestic capacity, particularly for small diameter heat treat products, because we saw shale to be a significant player in the coming years.

By the time U.S. Steel acquired Lone Star in 2007, we had added substantial heat treat capacity at our facility at Lone Star. I'm sure the additional capacity proved to be a valuable asset for our successor during the last peak cycle.

Indeed, small diameter heat treat products were probably the largest segment of the OCTG market during the last cycle peak; a trend that will continue as the exploitation of the scales continues.

It was for that reason that in 2008, Tubular Synergy Group, my present company, quickly renewed a long-standing relationship that Lone Star Steel had had with Shing Lee Highland, in order to secure the supply of high quality, small diameter heat treat casing; after which it resulted in a joint venture formation of this Dong Ying Synergy Highland Petroleum

Tubulars, that I mentioned earlier.

Let me elaborate, if I can, why we became an equity partner as a U.S. company investing fresh capital in the Chinese joint venture.

First, we saw the OCTG demand growing, and with rapidly increasing crude and natural gas prices, we thought that was going to be sustainable. Those rising well head prices allowed for hedging opportunities for our end user customers, so they could lock in their cash flow for the coming or the out years, which is a common practice.

We saw new frac and completion technologies that allowed more successful production results for our operators. We saw new drilling rig fleet provide a step change in the productivity for horizontal drilling and gas extraction.

We saw horizontal shale trends demand massive amounts of footage, nearly two times the amount of footage of small diameter of a conventional well, drilled to the same formation.

We knew that footage, particularly small diameter heat treat footage, eats OCTG domestic capacity. And some supply disruptions could perhaps occur. As it turned out, we were correct. Rapidly advancing horizontal drilling techniques, combined with multi-stage frac technologies, required vast quantities of high strength, heat treat casing; and more and more, they require premium threads.

Lacking the necessary capacity to meet those demand trends, domestic mills got behind quickly, and resorted to allocation in early 2008, which strengthened our resolve in the joint venture that we had formed.

Allocation left many companies without sufficient tubulars to support their long-term rig commitments. Supply chain managers started double booking, due to late deliveries from domestic and international producers; while others, without any firm supply, ended up racing each other to lock up OCTG from any source they could find anywhere in the world.

So our relationship with Shang Lee helped us to become a more reliable supply partner. They had a very prompt response, and produced high quality tubulars to feed the explosive demand.

And then in September 2008, as you heard this morning, the music stopped. The same supply chain managers that were frantic to book OCTG against the long term drilling commitments were just as frantic to suspend or cancel those commitments. For many, that wasn't possible; and much of that pipe continued to show up in distributors' stocks, well after the bottom fell out.

Remember, September 2008, we had a major economic crisis. That was Lehman Brothers. That was Hurricane Ike. There were all kinds. I happened to be in China during that time, and I remember all the news coverage when Nancy Pelosi announced that the stimulus package had not passed. I was kind of frantic.

Anyway, all those open orders that were processed, once they were processed, production stopped, and they stopped not just in China, and not just in the U.S.; but they stopped around the world. Thankfully, today, the market is actually showing signs of improvement. Based on the rig count, it appears that the bottom of this market occurred in the third week of July, and we've moved up modestly since then.

What was a large inventory overhang is coming down. There are a few holes beginning to show up, requiring new mill production. We expect to see growth in demand in the future, primarily driven by the shale plays.

In the near term, OCTG demand is not just driven by natural gas well head prices. It is also being drive by lease expiration. The years 2007 and 2008 were very active lease acquisition years. These leases usually have a three year term. So there will be large tranches of natural gas leases that are in Shale Place, that will expire in 2010 and 2011, if they are not drilled.

So it seems to me that the softest part of the current cycle is now behind us, and the outlook is much improved. That said, I expect the domestic industry is poised to return to more normal production patterns by the end of the first quarter of 2010.

I appreciate the opportunity to address this distinguished panel. I'd be happy to answer any questions.

MR. DURLING: Good afternoon, my name is James Durling with the law firm of Winston & Strawn, appearing today on behalf of the Chinese Respondents. I will address current injury. Professor Prusa will then address threat of injury. This case is really about two periods of time: the unprecedented boom over the 2006 to 2008 period, followed by the sharp and equally unprecedented decline in 2009.

Petitioners have not even tried to argue that they were injured over the 2006 to 2009 period.

Record shipments, prices and profits, would make any such argument impossible. Instead, Petitioners tried slight of hand, arguing that a dramatic surge of imports in 2008 somehow injured them in 2009.

This argument ignores the critical role of changing levels of demand, both in explaining the increase of imports in 2008 and then the sharp decline in all supply sources in 2009.

The Commission has previously recognized the highly cyclical nature of the OCTG industry, and the extent to which demand for OCTG depends on energy prices. But these conditions of competition take on particular significance in this case.

The 2008 boom was much stronger and the 2009 bust much more pronounced than ever before; and in both cases, the boom and bust depended on sharp changes in demand.

We start by noting that there have been no adverse volume effects due to imports from China. All of the increase in imports from China occurred in 2008, when the domestic industry was having its best year ever. Strong demand and wide spread shortages pulled imports into the market in 2008. The record evidence supporting this interpretation of 2008 is overwhelming.

First, consider the trend in active rigs. The most recent boom started back in 2004, when rig count began to approach the prior peak. Rig count continued to increase through 2004 and 2005. The rig count finally hit the prior peak in early 2005, and then continued to grow throughout 2005 and into 2006 and 2007. At these levels, the domestic industry was already being taxed to supply the market, and imports began to increase to meet demand.

Even after reaching record levels in 2007, rig counts increased even further in 2008, resulting in wide spread shortages and panic buying by customers who were increasingly nervous about having any supply at all.

This unprecedented level of active rigs translates into record levels of monthly operator consumption. Here, 2006 saw record consumption, and was itself a boom year. The next year was a bit softer; but still saw historically strong demand, and demand picked up in late 2007.

Then in mid-2008, operator consumption began to approach its prior peak for mid-2006; and then proceeded to continue to increase month after month after month, until late 2008. These rates of monthly operating consumption were unprecedented for this industry, and represent levels of demand well beyond what the domestic industry could supply and has ever supplied.

This record demand can also be seen in the dramatic surge in prices in 2008. In 2006 and 2007, strong years saw high prices and high profits. Yet, in 2008, prices skyrocketed. Yes, there were raw material price increases. But the prices increased much, much more sharply than raw material costs.

During 2008, the average price of OCTG, as measured by the Commission pricing products, more than doubled. Even in late 2009, after prices returned to just normal high levels, prices are still above the 2006 and 2007 average levels.

These dramatic price increases, which in 2008 seemed to have no end in sight, just fueled the frenzy among purchasers during this period, completely belies the claim that there was plenty of domestic supply available for those who wanted it.

Next, consider the pattern of domestic industry shipments and prices during this period, which demonstrate an unmistakable pattern of constrained capacity. This chart simply plots the monthly domestic shipments and the monthly average unit value of domestic shipments.

Over the 2006 to 2007 period, the domestic industry provided supply under relatively normal conditions, with higher prices corresponding to increased domestic output, a pretty normal supply relationship.

But this normal supply curve cannot explain 2008. Note that as we begin to add monthly domestic shipments and domestic average unit values for the first part of 2008, they fall completely off the normal supply curve.

Prices surged dramatically, more than doubling; but domestic output did not increase. The reason is that higher prices could not induce any more domestic supply, because there simply wasn't any more domestic supply available. They could not make any more OCTG.

So as one would expect, taking into account the demand and the supply, prices increased sharply, even without any increase in the supply. So we have to re-draw the domestic industry supply curve to account for their actual output decisions in 2008. It's hard to imagine a more clear example of capacity constrained supply on the domestic side.

Finally, consider the evidence provided by the purchasers in this case. Numerous purchasers, many more than usual, provided rather compelling statements about their inability to obtain supply in 2008. This slide presents just a few of the quotes about domestic mills unable to keep up with demand; domestic mills placing customers in allocation; and customers scrambling to find supply wherever they could.

The year 2008 was a period of strong demand, and domestic mills capturing the opportunity to disregard their traditional supply arrangements; and instead, push through record price increases that earned the industry record profits.

Imports increased in 2008 because demand pulled them in. The situation changed in 2009 with the collapse of energy prices, rig counts, and eventually OCTG demand. But to understand the dynamics of this decline, and to really put it in context, the Commission has to understand the key lags for this industry.

In Petitioner's view of the world, when energy prices change, imports should anticipate those changes perfectly and disappear immediately. You heard as much this morning; that imports should just leave the market.

But the real world is more complicated. And the staff report confirms this point, and the record evidence on lags from the staff report is quite compelling.

There are two key lags. One is the lag between energy prices and rig counts. As this slide shows, both natural gas and oil prices peaked in June 2008; but the rig counts were not affected until September 2008. This lag makes practical sense. Energy prices go up and down; so any initial downward movement does not necessarily mean a sustained downward trend.

Moreover, the initial declines from peak levels still leave energy prices at very high levels; more than justifying the continued drilling. It takes time for a clear market signal to emerge and for rig activity to respond.

And when that signal emerged, all supply sources reacted to those signals; but with the delay that varied depending on the supply source. Energy prices peaked in June of 2008. By September of 2008, rig counts and OCTG consumption began to react. Rig activity dropped somewhat in October and November of 2008, but did not fall sharply until December 2008.

OCTG supply sources also began to react. The staff report notes that domestic mills typically have a one or two month lag between orders and shipments; although it can be longer in periods of peak demand.

So it is not surprising that domestic shipments peak in October 2008, and then begin to decline relatively quickly in November 2008. The staff report notes that imports from China typically have a three or even four month lag with longer lags during times of peak demand.

So again, it is not surprising that imports from China peak in November of 2008, and then begin to decline in December of 2008. The Chinese reaction is only one month later than the domestic reaction; a short delay explained entirely by the longer lag time between orders and shipments for OCTG from China.

Indeed, given the longer lag time, the Chinese supply response occurred even earlier than the domestic supply response in this instance.

This similar reaction to the market signals can also be seen in the rates of decline in domestic and import shipments in 2009. Domestic shipments declined over the first half of 2009, on average about 15 percent per month. Imports from China declined over the same period on average almost 20 percent per month.

Both sources of supply were in sharp decline, because they were both reacting to the same market signals of dramatically reduced demand for OCTG. Neither source could stop immediately. Both sources declined following a similar pattern.

Now here's where Petitioners tried to exploit a mathematical quirk of the declining market. Because the domestic firms can and do react first, their lag times are shorter. Their total volume over a given period of time will decline a bit faster.

So during 2009, the market share of China did increase somewhat, since the decline in China started a bit later. But any such increase in market share in the face of sharply declining imports that basically are dropping to zero over a six month period, should be given much less weight than market share under more stable market conditions. Overall, the record shows no adverse volume affects from imports.

There have also been no adverse price effects. Commission pricing data shows stable prices through 2006 and 2007, which then doubled in 2008. Output increased little in 2008, since the domestic industry was already operating flat out.

So instead, prices surged to record levels.

Prices in 2009 have declined somewhat, but still remain above the average level of prices in 2006 and 2007. For prices to remain so strong in 2009 during a period of very weak demand reflects the improved pricing discipline of a restructured and consolidated domestic OCTG industry; and it reflects just how high prices had gone in 2008.

The trends for overall sales revenue have been even better. This is all products; not just the carefully selected pricing products that Petitioners selected for this case. The average unit sales revenue over the period, more than about $1,700 per ton, was more than twice the $882 per ton average for the prior decade.

The average sales revenue for all OCTG shipments -- not just the Commission pricing products -- is held steady at the peak level earned in 2008. These prices increased faster than costs, giving the domestic industry better and better operating margins.

The price cost gap began to grow in 2004; reached its peak at $785 per ton in 2008; and then remained higher than historical levels through 2009. There's simply no credible argument for price depression or price suppression in this case.

This absence of any price depression or suppression is why the domestic industry devotes so much argument to underselling by imports from China. If the mere presence of under-selling does not establish adverse price effects, when the Chinese presence was the largest in 2008, and when the under-selling was the greatest, by their account, this morning, domestic prices and profit margins reached their record levels, even in the face of all that Chinese under-selling.

Even in 2009, domestic prices and profit margins remained high by historical standards; nor were the Chinese buying sales in 2009, since the Chinese volumes were falling rapidly -- falling at a faster rate than domestic shipments and basically going to zero, and the margins of under-selling were also falling during 2009. Any under-selling in this case is simply not having any significant adverse affects.

Given the absence of adverse volume or price affects, there's also been no adverse impact due to subject imports from China. Consider first the record operating profits, the 600 pound gorilla, or I guess it was the 800 pound gorilla.

Operating income per ton averaged about $442 per ton, a level five times larger than the historical average for this industry. These are breath taking profit levels, which the industry sustained through interim 2009, albeit at lower levels of shipments.

The same pattern can be seen in operating income as a percent of sales. The domestic industry earned a record 32 percent operating income in 2008, and averaged a very strong 25 percent over the full period. Even in 2009, a down year with weak demand, the industry earned a reported 4.2 percent operating income; a figure that honestly would be even higher, but for some accounting issues for one of the mills that we can't discuss publicly, but which is fully discussed in the staff report and the briefs.

Domestic industry operating profit in 2009, as opposed to shifting accounting policies, is actually much higher than reported. Even taking the operating income as reported in 2009, this level of operating income dramatically exceeded the typical down year for this industry. The average for down years over the 1996 to 2005 period is an average operating loss of 2.7 percent.

Here, the domestic industry remained profitable, even with weak demand and dramatically reduced volume. Again, this is very strong performance in a down year, reflecting a consolidated and restructured domestic industry, that more quickly and effectively responds to changing market circumstances.

But another way to view these enormous profits is to consider the following. Over the entire decade, the domestic industry earned about $1.9 billion in operating profit. Yet, over the three year period at issue here, the domestic industry earned double that amount, $3.9 billion in operating profits.

Indeed, in 2008 alone, the domestic industry earned as much operating profit as the entire decade from 1996 to 2005. I've never seen that fact pattern in a case before the Commission.

Perhaps even more compelling is what the domestic industry could fund with this enormous level of profits. As discussed this morning, the domestic industry had record surplus profits. The average level of operating profit for this industry over the prior decade was about $175 million per year. That means that over the 2006 to 2008 period, the normal historical level of operating profits would have been about $500 million.

The domestic industry, in fact, accumulated that $500 million, plus an additional $3.4 billion, in surplus operating income; profits going well beyond the historical level for this industry.

To be honest, we struggled a bit to find the best way to convey just how big this surplus is. Our pre-hearing brief spoke of funding all labor costs for 10 years. But then we realized the surplus profit could actually fund all industry fixed cost and normal operating profits for two years, which we found quite remarkable.

This slide shows that the $3.4 billion in surplus profit could fund these two full years of all the fixed costs, all the labor, and historically normal levels of profit. It's hard to imagine a more dramatic showing that an industry is not being injured and is not vulnerable to future industry. And this analysis assumes zero additional production; not one extra ton. Given that the industry has been producing and shipping OCTG, and is projected to ramp-up shipments later this year and next year, this cash surplus would stretch well into a third year.

Beyond this year, magnitude of the profits, the other telling feature is the trend in profits. Domestic industry profits peaked in 2008, when the volume of imports from China was the greatest. Profits fell in 2009, even though imports from China also fell.

This disconnect confirms that both the level of industry profits and the imports from China are reacting to the same underlying market condition: strong demand in 2008 and weak demand in 2009.

And it's particularly important to put this decline in demand into a proper factual context. The two most recent declines in the industry saw rig counts decline by about 500 rigs. The decline in 2009 saw rig counts plunge by more than 1,100 rigs in less than a year.

It's not a question of going back a decade ago and seeing what the rig count was. What is the rig count, relative to where rig count has been over the past period of time? This is a sharp decline, even by the standards of a highly cyclical industry; and as noted earlier, this decline in rig activity and consumption explains the decreased domestic industry shipping volume.

So let's recap what the record shows about the allegations of current injury. By every measure, the industry has never been so profitable. It made so much surplus profit over the period, that it could fund two full years without any additional production.

In 2008, the industry was flat out shipping every ton it could possibly make. But because the demand was so great and so dramatically exceeded their ability to supply, even with the imports in the market, domestic prices surged to unprecedented levels.

Imports from China may have increased in 2008, but they cannot have had any adverse effect on domestic volumes, prices, or profits. And this lack of any adverse effect is equally true in 2009. When the demand fell, prices and profits actually remained quite strong throughout 2009; albeit off the 2008 peaks.

The domestic industry volume did decline; but so did imports from China and imports from all sources. All supply sources declined in 2009, because of the collapse in demand. Any minor shifts in market share in 2009 pale in comparison to the dramatic declines by all supply sources.

Indeed, imports from China essentially disappeared from the market before the effects of the trade case could even kick in. This industry has not been material injured, and any adverse trends are not by reason of imports from China; thank you.

MR. PRUSA: Good afternoon, my name is Professor Thomas J. Prusa. I'm a Professor of

Economics at Rutgers University. I'm testifying today on behalf of Chinese Respondents. I'd like to talk to you about the threat of injury.

Let me begin by highlighting some of the points made by Mr. Durling, as much of what he said also has strong relevance for the question of threat.

In prior cases, the Commission has recognized that the OCTG industry is highly cyclical, and its fortunes are closely related to the trends in the oil and natural gas industries.

While the downturn experienced over the past 12 months has been sharper than other OCTG down cycles, the fact remains that up and down cycles are a characteristic of this industry. The boom that preceded this downturn is the other side of the same coin.

This is a case involving a cyclical industry. And when thinking about both injury and the threat of injury, you need to keep in mind that this most recent boom lasted more than five years; and the current downturn appears to have already bottomed out.

Given that the OCTG industry is such a cyclical industry, the question of threat must be viewed in the context of how well situated the industry is for the inevitable downturn. No matter how one slices it, the industry's recent performance essentially makes the threat issue moot.

Mr. Durling has already shown that one, the domestic industry experienced record profits in 2008. Two, three of the industry's four best years ever occurred during the period -- as I said, this is a cyclical industry, but the most recent up cycle was far better than any up cycle in the past.

Three, as compared to the industry's historical or normal operating profit, the surplus profits over 2006 to 2008 amounts to $3.4 billion. Let me stress, I did not say operating profits. But I said surplus operating profits of $3.4 billion.

And four, the surplus was so big that the industry could have funded more than a decade of lost wages, or two full years of all its fixed cost and full payment to all of its employees through 2009 and 2010.

Let's cut to the chase. The Petitioner's case hinges on a single factor: volume. This is true, both for the question of present injury and also for the issue of threat. The declining production in shipments at interim 2009 is their only real claim of injury.

But in making their volume claim, the

industry is asking you to ignore several important facts. As the Commission is aware, OCTG demand depends on the number of active rigs; and as Mr. Durling showed, the drop-off in rig activity in late 2008 was unprecedented -- at least twice as great as the demand fall as the previous downturns.

The adverse impact on domestic volume, stemming from a demand collapse of this magnitude, cannot be attributed to imports. Both subject imports and domestic shipments fell in interim 2009; and Mr. Durling pointed out, both sources of supply turned down in the October/November 2008 period, and have remained low.

Both OCTG imports from China have fallen month after month after month, since last November. By the time this case was filed in April, subject import volume was 20 percent of its January level. Subject imports responded to the market when the record demand conditions changed. It is simply false to claim that subject imports have not responded to market conditions.

Let me also comment on the April, May, and June 2009 import numbers. As the Petitioners try to draw inferences for May, without any context for the bigger picture, the data clearly show the large decrease in shipments when demand collapsed. During the second quarter of 2009, imports from China averaged only 53,000 tons per month. This is about one-fifth the volume in January 2009.

While focusing on any one month can be misleading, the pattern over time is clear. China was existing the market as demand declined.

I would now like to talk about something you have heard a lot about: inventories. The inventory bulge could only be understood in light of the record collapse in OCTG demand. Back in mid- to late-2008, rig operators were telling their distributors that they needed more OCTG, because they were anticipating consuming OCTG at very high rates.

Distributors were buying the OCTG to meet their customers' demand and to replenish their dwindling inventory. No one was buying pipe simply to build record levels of inventory. The fact that demand collapsed precipitously between the time the OCTG was ordered and when it was delivered to distributors, means the inventory build-up is demand.

As you have seen, this was an unprecedented collapse in OCTG demand. The fall in rig counts occurred at a greater rate and in a shorter period of time than any other time in recent history.

Quantifying the demand impact is unusually straight forward in this case. Unlike most other steel products, OCTG is used by a single industry, the drilling industry.

There's no need to figure out how much goes to one downstream industry, and how much goes to another, and how much is internally consumed; or any need to assess how steel demand has changed in the various downstream industries. All the Commission needs to look at is the drilling industry and ask, what if consumption had not collapsed?

To get a sense of how big the demand fall-off has been, I performed a simple counter-factual. What if the drilling rig market had not collapsed? What would consumption have been like?

Luckily, Preston Pipe and Tube provides the data we need to perform this analysis. Using data from Preston, we can compare actual consumption in each month, after the demand collapse, with what it was before demand collapse.

Suppose, for instance, consumption had been running at 450,000 per month; but then fell to 400,000 tons in one month, and 375,000 the next. In this case, the difference, 50,000 plus 75,000, reflects the demand fall.

In this example, we would have 125,000 tons of OCTG that went into inventories because of the demand fall. I performed this calculation each month since last summer. Over time, I can calculate an aggregate number of tons of OCTG that would have been consumed, if demand had remained robust.

On this slide, I show you the results of the analysis. In the solid line, I plot the actual tons of inventory. As you can see, inventory levels were rising in the summer of 2008.

But this was needed; some extra tonnage was needed in order to cushion the impact of the operator's torrid rate of consumption. The real bulge only occurred after the market turned down in late 2008.

I'd also plot what inventories would have looked like, had demand not fallen so sharply. The red line depicts the trend, had demand remained at the September 2008 level. The other dotted line shows what inventories would have been, had demand remained at the more moderate second quarter 2008 levels.

Using the September 2008 benchmark, analysis reveals that over two million tons of OCTG demand has been lost due to the demand collapse. Using the second quarter 2008 benchmark, the analysis reveals that over one and-a-half million tons of OCTG demand has been lost.

Under either scenario, the demand collapse has directly resulted in millions of tons of lost consumption. Thus, the volume effect the domestic industry in complaining about is, in fact, a demand story.

Inventory has also been discussed in terms of the number of months of inventory. If there are two million tons of OCTG inventory, and operators are consuming 500,000 tons a month, you would say there are four months of inventory.

It should be noted that in October 2008, the inventory to operate our consumption ratio was 6.7 months. By coincidence, the inventory to operate our consumption ratio averaged 6.75 months in 2006 and 2007. In other words, at the summer 2008 demand levels, the market needed about 3.1 million tons of inventory to just match the average inventory cushion.

When we think in terms of months of inventory, the crucial role of demand becomes even more apparent. As is shown in the slide, in the second quarter and third quarter 2008, the months of available OCTG inventory were falling; not rising. That is, up until the fourth quarter of 2008, the OCTG market was getting tighter. It was not overwhelmed by supply.

The incredible price increases imposed by the domestic firms during the September and October 2008 period reflect real shortages in the market. It was only when demand collapsed in late 2008 that inventory months began to rise. But as the chart shows, the large number of months of inventory is entirely due to demand. Had demand remained robust, inventory months would have peaked at only 7.7 months, a mere four weeks of inventory bulge.

According to Preston's most recent data, the current inventory stands at about 11 months. The demand calculation shows that it would be a minuscule 1.5 months, if demand had not collapsed.

In other words, the analysis reveals the demand fall is directly responsible for nine and-a-half months of the inventory build-up. As stated above, this translates into about two million tons of lost consumption.

The domestic industry argues that the inventory build-up indicates that an excessive amount of OCTG was imported in 2008. That is simply incorrect, given the operator consumption rate in the middle of 2008.

According to Preston Pipe and Tube, monthly consumption in the middle of 2008 was 470,000 tons. In addition, as I mentioned a few minutes ago, there was, in fact, too little inventory in 2008, given the consumption rate, to bring the market to a normal number of months of inventory required, almost 900,000 additional tons of OCTG.

In other words, Preston's data indicates apparent domestic consumption in 2008 was headed for 6.5 million tons; a number very close to the number reported in the staff report. And this 6.5 million tons would have been consumed with no significant inventory bulge.

Again, this look at the Preston data shows that the real culprit for the overhang is demand, not imports. Now everything in my analysis of the inventory overhang has been done using actual reported Preston data.

Petitioners submitted an economic analysis by Professor Hausman and Dr. Kaplan. In their report they claim my analysis is flawed, because I over-predict demand based on oil prices.

Note that nothing I presented here today, or in the Respondent's pre-hearing brief, makes any such assertion. Everything I've presented is based on actual operator consumption, as reported by Preston Pipe and Tube. Based on the Preston data, the reality is that as of September 2008, domestic operators were consuming OCTG at an annual rate of about six and-a-half million tons.

The Petitioners view that operators could not consume that much OCTG is false. That is exactly what they were doing, according to the Preston data.

One final comment on the inventory issue; Preston reports that the tonnage and inventory, as of October 2009 --that's the most recent issue -- is almost exactly the same as it was in September 2008.

Remember, in September 2008, the current inventory tonnage was associated with record profits. There is no way the inventory level in September 2008 could be deemed injurious, as the domestic industry reported earning an operating profit in excess of 30 percent at the time.

This suggests that to the extent that there was an inventory overhang earlier this year, the problem is largely now resolved. The inventory issue was not about imports; but rather about demand.

So the only remaining issue is what is the forecast for the OCTG industry over the near future? Independent industry experts are bullish for 2010.

Let me take a few minutes and document this for you.

To begin with, there are already signs that the demand in the imminent future already looks like we're on the cusp of a very strong recovery. Rig counts are already recovering. Almost 200 more rigs were reported active in November 2009, than were active just a few months ago. This is about a 20 percent increase in rig activity over the past few months.

Not surprisingly, the higher rig activity is generating greater OCTG demand. The most recent issue of Preston Pipe and Tube reports a 16 percent increase in OCTG rig operator consumption in its most recent reporting month, as compared to the mid-year levels.

I note that this Preston Pipe and Tube report was released a day after the briefs were due. So unfortunately, this discussion does not appear in the brief. Overall, both the rig count data and Preston's consumption data makes it clear that the market is getting stronger, not weaker.

Secondly, oil prices have already recovered off their loads. In the middle of 2008, oil was at over $130 a barrel; and then it dropped to $40 a barrel by early 2009. Over the past few months, oil prices have risen and remained above $70 per barrel.

IMX futures indicate oil prices will remain north of $70 per barrel for all of 2010.

Third, IMX natural gas futures markets predict that natural gas prices will be up 25 percent, relative to 2009 levels. While this is still below natural gas price levels in 2006, the Commission must recognize that more drilling is viable at these prices than in earlier years.

This leads into the fourth reason why the near future is so bullish. The emergence of natural gas shale plays makes drilling viable at current prices.

According to the country's biggest operator, Chesapeake Energy, natural gas shale plays are about two-thirds the cost of traditional drilling plays. Chesapeake's investor briefing rejects the notion that drilling is not economically feasible, unless prices are near the old benchmark of $6 to $7. For companies with leases in premiere shale locations, the old benchmark is irrelevant.

Chesapeake accounts for one out of seven gas wells being drilled in the United States. So their forecast must given heavy weight. Their bullish forecast on drilling is supported by the official views of the U.S. Department of Energy.

In its short term energy outlook publication, the DOE forecasts that the new cost efficiencies will promote more drilling at current prices than we observed in the past. As a result of this more intensive drilling, DOE believes that natural gas prices are not likely to return to their 2008 peaks in the near future. But nevertheless, drilling will be done.

In addition to the bullishness on the economic viability of shale drilling, there is this separate matter of the vast number of shale leases that were signed in 2007 and 2008 when the market was booming. These leases require the energy companies to produce in these lease areas within three years, or the leases expire.

Thus, the opportunity cost of not drilling in these millions of leased acres is far higher than in traditional plays. Given that these large companies are faced with the prospect of use it or lose it, they will drill at current prices.

Chesapeake is not alone in their bullish prospective on the OCTG market. Just last week, Preston Pipe and Tube issued its forecast for 2010. Preston sees a robust OCTG market; both in absolute terms and relative to all pipe and tube markets.

For instance, Preston predicts the average rig count for 2010 will exceed 1,300. By the end of the year, Preston foresees a rig count approaching 1.375. Further, consistent with what Chesapeake statement's indicate, Preston predicts rising consumption per rig. Taken together, Preston forecasts rising OCTG demand.

In fact, Preston quantifies its demand increase. As shown here, Preston is forecasting 4.1 million tons of OCTG consumption in 2010. This represents a 28 percent increase over 2009. This figure implies a monthly operator consumption of almost 350,000 tons. This is very close to the OCTG consumption during 2006, a year in which the domestic industry reported a 27.8 percent operating margin.

In fact, when you look at what Preston is projecting for 2010, you see it compares favorably with the 2005/2006 period. In effect, Preston is predicting a recovery that puts the domestic industry at the limits, but not beyond their production capabilities.

As Mr. Durling demonstrated, the rise in subject imports and, in turn, the rise in subject import market share was a result of the domestic industry's inability to supply more in 2008. That type of demand surge is not what Preston is projecting for 2010. Rather, Preston is predicting a year more like 2005/2006.

All in all, it would be hard to find a better market forecast than the one just issued by Preston. They foresee strong demand; but not so strong to imply domestic mills will not be able to meet demand, as was the case in 2008. Imports will be needed; but at levels comparable to what they were in 2006.

The Petitioner's view on imports in the future is purely speculative. Here is what we know. One, subject imports declined before the case was filed, and declined month after month after month following the demand collapse.

Two, subject imports only entered the U.S. in large volumes when operator demand exceeded the domestic industry's ability to produce; i.e., when domestic producers were capacity constrained in 2008.

Three, as promising as 2010 looks, it is not likely consumption will return to 2008 levels in the near future; and hence, there's no reason to expect a large volume of subject imports.

In conclusion, there's really no threat of injury. To begin with, the domestic industry's record profits mean it is not vulnerable to injury or threat of injury. Secondly, by any historical context, domestic prices continue to be very strong. They only look soft in comparison to their record levels in 2008.

Third, imports from China have fallen sharply, and the fall began long before the case was filed. Fourth, and perhaps most important, the decrease in domestic shipments purely reflects the demand collapse. However, all current signs indicate that we are at the cusp of a strong rebound. Thank you.

MR. PORTER: That concludes our testimony. Thank you, Madam Chairman.

CHAIRMAN ARANOFF: Thank you very much. We are going to begin the questioning this afternoon or evening --it is just about sundown -- with Commissioner Williamson.

COMMISSIONER WILLIAMSON: I want to thank the witnesses for their testimony this afternoon. First, I wanted to go to the question of Tenaris' participation in the proceedings at Commerce, but not at the ITC.

And you heard the Petitioner's points about the multiple Chinese producers supplied data to

Commerce, but failed to supply requested data to the Commission. How should the Commission evaluate the situation of these producers?

MR. PORTER: Thank you, Commissioner. I will answer that. Honestly, this argument by the Petitioners is a complete red herring, okay? You have responses from about a dozen of the largest Chinese exporters to the United States.

Those responses account for about 65 percent of imports into the United States. That level of coverage is similar to the level of coverage experienced by the Commission in many cases, including cases in which the Commission thought there was sufficient evidence to issue a negative injury, negative threat, determination.

So this is just a complete red herring. At the end of the day, you need to think whether you have enough information to make a determination, and whether it is credible. The level of coverage that you have in this case is similar to many, many cases that the Commission has had.

COMMISSIONER WILLIAMSON: In this case, how do you respond to the capacity estimates that the Petitioners have given, the Chinese capacity estimates that the Petitioners have put in their submissions, and they testified to this morning?

MR. PORTER: Thank you, Commissioner. Again, I will take that question as well. I have to tell you that the Petitioners' discussion of Chinese capacity, a lot of it is simply rank speculation and it is divorced from reality.

And let me give you an example, and it is an example that we sort of put together last night. In U.S. Steel's brief, they go through a lot of press reports, investor presentations, to try to show all of this additional Chinese expansion.

And then they try to get you to believe that all of this additional Chinese expansion will somehow be directed to the United States. Well, even a cursory analysis of the evidence shows that is simply not true. Take the example of Ruse.

In Petitioners' brief, they submit one page from a Ruse September 2009 investor presentation. On that page, it notes that Ruse is going to have essentially four capacity expansions over the next couple of years.

But look at that page more closely. All four of the expansions are at Ruse plants that are in the operational complexes of China's largest gas and oil fields, some in the very northwest part of China.

Needless to say, if you have a plant that is in the operational complex of an oil and gas field, 100 percent of that output is for the Chinese customer. So, again, I ask the Commission as it has done in prior cases separate speculation from hard evidence when thinking about Chinese capacity and the prospect that is left.

COMMISSIONER WILLIAMSON: Well, how are we going to have hard evidence on the Chinese capacity if we don't have the participation of the Chinese industry? I note even in your presentation that there was no talk about Chinese capacity when talking about the whole threat discussion.

And you seemed to have assumed that imports were going to stay at a fairly low level when talking about threat, and if there is --

MR. PORTER: Commissioner, with all due respect, capacity itself is not a threat as the Commission itself has found in many cases, and by the way, the Court of International Trade has stated increased capacity itself does not constitute threat.

What you need to show is a propensity to ship to the United States, and that's where the coverage comes in. What you have before you is that you have responses by the largest exporters in China, and those exports have historically supplied the U.S. market.

So just like the Commission has done in prior cases, you use that as a proxy for those exporters who care about the U.S. market, and what are they going to do, and what is the evidence that you have before.

It shows that in fact the U.S. is actually a small part of their total production. Most of their production is geared to the Chinese market and third-country exports. There is a table in the staff report that confirms that.

So again this whole -- you know, these 200 mills are irrelevant if they are not shipping to the United States, and they are not, because you have the largest exporters who have responded to the questionnaire.

COMMISSIONER WILLIAMSON: Okay. And what about the question -- and this is the point, that there have been a number of trade cases in other countries. Is that going to have any impact on the availability of supply to come to the U.S.?

MR. PORTER: Yes, Commissioner, of course. Again, we need to separate cases which actually have orders, and what the rates are, and there are some cases that are ongoing, but of course that is a consideration. There is no question about that.

But they assume that just because they can get their bread in other countries, and file a case, that that means that we should eliminate all those exports to that country, and I submit that I think that is a bit of a threat.

COMMISSIONER WILLIAMSON: It would be helpful in post-hearing is you could address the specific numbers and the answers that you have to them in response to their estimates about capacity, because clearly there is more capacity in China than -- you know --

MR. PORTER: Yes, Commissioner. What we intend--

COMMISSIONER WILLIAMSON: -- than they are shipping here.

MR. PORTER: What we intend to do, Commissioner, is as much as we can. We will go through their sort of press reports, their industrial presentations, and we will show that where it is confirmed that this capacity expansion is most likely not directed to the United States. But there was a reason that the Chinese producer expanded capacity, and mainly to serve the Chinese or other markets.

COMMISSIONER WILLIAMSON: You also might address on your Chart 52, where you present the data about threat and their forecast. As I said, the import numbers have not changed, or are much less than what was being shipped here before from China, and why it is reasonable to assume that they are going to stay that low given the capacity, and given the other cases, and things like that.

MR. PORTER: We will address that. Honestly, Commissioner, I think we actually have answered that question in-part already. What we were trying to do here is to show you that the Chinese exporters who participated in the increased demand, the increased shipments in 2008, were reacting to market forces.

And quite honestly that is what this case is about. The Petitioners claim that the Chinese are not sort of reacting to market forces is wrong, and we have hard evidence to show it. We showed that when you were taking accounts of the import lag, and Chinese shipments dropped severely way before the trade case was filed.

So what we have already shown is that the reason you can sort of trust Preston is because he has looked at the same thing that we are, actual experience over time, actual experience over both the boom and the bust cycle, and he has seen what we are seeing. And which is that the Chinese are reacting and they are following the ups and downs of demand.

MR. PRUSA: Commissioner Williamson, Tom Prusa, on that point. If you look at Slide 52, I think they are referring to the Preston chart. He gives you the import numbers, and estimates the import markets are about 31-1/2 percent.

And you have to take into account that in 2008 the domestic industry could not produce any more than they could, which was about 3 million tons, a little over 3 million tons, and the rest -- and that's why you can't use 2008 as the benchmark year where China is going to be.

So if you look at all the other years, import market share is in that 30 percent range, and that's why Preston is estimating a normal year, not a 2008 boom, or a 2009 collapse. He is looking at 2010 as being a normal year in the market, and that is a normal market share, with normal domestic and import participation.

COMMISSIONER WILLIAMSON: So he is saying that is a normal -- that the imports are much below where they were in 2008?

MR. PRUSA: Absolutely.

COMMISSIONER WILLIAMSON: And they are producing the same amount?

MR. PRUSA: Right. The problem in 2008 -- I mean, the problem in the sense of why imports came in, was operators were consuming OCTG far beyond the rate that domestic mills could produce.

Again, natural gas was above $11, and oil was $130. The idea that nobody is saying that 2010 is going to have those types of energy prices. Preston is saying that 2010 is going to be a return to normalcy, and that's why 31 percent, if we go back to, let's say, 2005 and 2006, that is the import market share.

By the way, Preston is reporting total import market share, subject and non-subject, of 31 percent is his guess.

COMMISSIONER WILLIAMSON: My time has expired, although that does raise the question of where is that Chinese capacity that was coming in during 2008 going to be going in 2010, because I assume it is still there. Anyway, my time has expired. Thank you for those answers though.

CHAIRMAN ARANOFF: Commissioner Pinkert.

COMMISSIONER PINKERT: Thank you, Madam

Chairman. I want to start with Professor Prusa. I am very much interested in your model regarding what would have happened with inventories had demand held up at various levels going into 2009.

And I am wondering what assumptions do you make about the relationship between levels of demand and inventories, and in order to generate that counter-factual?

MR. PRUSA: I'm sorry, I am not following your question. If you could try again?

COMMISSIONER PINKERT: There must be some sort of a relationship between the demand levels and the inventory levels that you are assuming in order to generate the counter-factual predictions or results?

MR. PRUSA: Right. So I am looking at in the data and the counter-factual, I am looking at actual -- according to -- and again the Preston monthly data, which it seems that is one issue where both Petitioners and Respondents are in agreement, and I think the staff also has confirmed that the Preston data is essentially the best data for this industry.

Preston reports each month what operator consumption is. He also reported --

COMMISSIONER PINKERT: Mr. Prusa, I think your answer is that he is assuming historical inventory, and it is around six point something months. That that is the normal inventory that the industry has.

MR. PRUSA: Not in the counter-factually. That would be a normal amount. No, I'm sorry. In the counter-factual, you are trying to get at how much of the inventory buildup that we actually saw -- and I understand that actually we have inventory goals. Absolutely.

I am trying to identify for you how much of the inventory goals, is because at the time that people purchased the OCTG, versus the time that it arrived, demand had changed. So you could look at that in a given month actual operator consumption might have been only 150 thousand tons, and at the time in September of 2008, when apparent domestic consumption according to Preston was about 6.5 million tons, it might have been at 450 thousand tons.

So in that month, because of the difference between what they were consuming when it was ordered, versus when it arrived, would be in that case maybe 250 thousand tons of OCTG, would go into inventory.

But it was intended when it was ordered to go in a hull, but demand had collapsed, and now it can't go into a hull right now. So that would be for me, that is 250 thousand tons of the inventory build up, and that one month is attributable to demand fall in January or something.

And you do the same calculation for February, and March, and April, et cetera. And each month, you can calculate how much actual consumption was, versus what it was when the market was high. And that tells yo how much inventory bulge is due to lost demand.

Now, Dan Porter was referring to that on average in 2006 and 2007 the number of months of inventory was 6.75. That is again just taking his reading straight from the Preston report data.

COMMISSIONER PINKERT: Okay. Now staying with Professor Prusa, but anybody else can comment on this as well, I am wondering about the argument that imports from China merely track demand changes in the U.S. market when you apply that argument to the period from 2006 and 2007.

The reason that I ask that question is that it is my understanding that during that period subject imports continued to increase even though demand was declining.

MR. PRUSA: That is one of the Petitioners' arguments, and again I find that if you actually look at the data, subject imports in 2007, almost entirely their gain in market share came at the expense of non-subject imports.

I went and looked at it after I saw the argument in their brief, and it amounts to about 40 thousand tons in 2007, and of the gain in Chinese market share beyond what they took from non-subject imports literally is 40 thousand tons.

Everything in 2007 that China gained would have been imports had imports been supplied by non-subject suppliers. So do I think there is competition in the market between China and non-subject suppliers? Yes, there is a need for imports in the OCTG market. Absolutely.

And in 2007, total import market share grew in terms of -- the equivalent to the market share gain was equivalent to 40 thousand tons.

COMMISSIONER PINKERT: Thank you. Now, this next question is not directed towards any particular person on the panel, but feel free if anyone has a comment on it, and please feel free to answer.

If as you suggest there was a shortage of OCTG in the U.S. market in 2008, what explains the pattern of underselling by the subject imports?

MR. PORTER: I'll take a one stab at it, and

I invite Byron and Mike to also respond. Commissioner Pinkert, underselling is a comparison between U.S. and the Chinese price. If as Commissioner Pearson so eloquently noted this morning, if the U.S. producers raise their price through the roof, you are going to have underselling even if you assume that the Chinese are sort of the normal market price.

So what the real question is whether underselling is having any effect. As the Commission has noted time and time again, underselling by itself doesn't really mean much. The question is the effect of underselling.

And what we tried to show is although underselling increased in 2008, the Petitioners' prices and profits increased in 2008. So the underselling my definition really wasn't having any effect.

COMMISSIONER PINKERT: I understand that your argument is about the effects, and whether they are price effects or other effects from the underselling. What I am still asking is if you have any explanation for what was going on.

I take it that you are saying that it was really a pattern of overselling by the domestic industry rather than underselling by the imports?

MR. PORTER: Byron, Mike, do you want --

MR. DUNN: Commissioner Pinkert, I think one way to think about it is everybody is setting a price level, and the Chinese were setting a price level that they felt was a profitable price level.

Everybody's prices were going up. If you plot everyone's prices during '08, everyone's prices were going up because demand was strong. The U.S. prices were just going up a lot faster than the Chinese, and they were going up a lot faster than their costs.

So is your question why didn't the Chinese raise prices to the same extent as the domestic producers, because that is what was happening. Everyone's prices were going up, and the domestic prices were going up so fast that they were basically racing ahead of the Chinese.

And to be honest, if anything, it just completely belies their claim that the level of Chinese pricing is actually having any effect on anything, because, yes, there was massive underselling in '08, and it had no effect on anything.

So I just have trouble reconciling their view of the competitive dynamics in the market and their view that there were no shortages in '08. I would turn it around and how can they possibly reconcile the level of prices and the level of the price cost margin in their level of profits in '08 without there being shortages.

COMMISSIONER PINKERT: Thank you.

MR. PRUSA: One thing on this underselling issue. In the month of May of 2008, U.S. Steel announced an $800 price increase. So I think it took a while for other participants, including other domestic mills, after they got up off the floor, they then also -- U.S. Steel was the market leader in 2008.

So the fact that the market underselling margins increased following an $800 per ton increase in a single month, to me again highlights what Mr. Durling was saying, which is for U.S. Steel in 2008, this didn't matter. This was how quickly can I raise prices again, and so the analysis, you have to look at who was raising the prices.

COMMISSIONER PINKERT: That's helpful. I was trying to get at what you thought the dynamic was, rather than the question which Mr. Porter focused on, which is what are the price effects and other effects. Go ahead.

MR. DUNN: My experience is that when you have a constant dynamic cost changes, and as a producer, you have a tendency -- and at least in my experience when it was dead, convert our pricing policies from price and effect at the time of order, to price and effect at the time of shipment because things are moving too quick, and that is essentially what happened.

And the Chinese didn't play by that game. The price and effect kind of order is what they locked into, and there is about a 60 to 70 day lag time between the time they enter an order in China -- that was the best case -- to the time that you got it delivered. But if you have a dynamic market --

MR. PORTER: I remember a question in Mr. Jordan's testimony where that was paid for before it essentially left China. You could not play the change the price at time of delivery game, and the Chinese had to do when it was ordered, that was the price, and that probably also answers your question about the underselling.

COMMISSIONER PINKERT: Thank you.

CHAIRMAN ARANOFF: Mr. Jordan, I have a question for you, and I want to make sure in order to put it in context that I understand your business a little. Are you a distributor who stocks product, or are you a trader who buys and sells, but actually does not stock product?

MR. JORDAN: I stock product.

CHAIRMAN ARANOFF: Okay. And in the range of distributors who do business with OCTG, are you a large distributor, small, medium-sized, compared to the size of other participants in the market?

MR. JORDAN: '06, '07, and '08, total sales were about 250 million.

CHAIRMAN ARANOFF: Okay. Thank you. And do you purchase from both domestic mills and import sources?

MR. JORDAN: The domestic mills won't sell to me. I am not in their little closed fraternity.

CHAIRMAN ARANOFF: And do you buy non-specific imports from countries other than China?

MR. JORDAN: I have in the past, yes.

CHAIRMAN ARANOFF: Okay. If you place an order for OCTG from a Chinese mill, or maybe another import source that you have done business with, and at some point between when you order it and the lag before it is actually delivered, you decide that you don't need it, are you able to cancel that order?

MR. JORDAN: No, and that is a very good question. I'm glad that you touching on that. Let me tell you what happened a lot last year. Again, I mentioned when I place an order, and it is finalized, and you sign the contract, I wire 20 to 30 percent of the money.

At that point in time that order gets put in the mill, and they start processing it, and again depending on what time in '08, and we got into June, July, and August, and things were real busy and backed up, a lot of this pipe didn't -- as I said, you order it in July, and I might not have seen the product until February.

I put 20 to 30 percent down four or five months later that pipe gets put on a boat. At that point in time, they send you a bill of lading that shows what you paid, and you have a balance. Within five days of that boat being out at sea, they want your money.

Now what a lot of people did because the market was going like this because of the price of oil and gas was doing this, and that is what started this whole thing, some people said that I am just going to give up that 20 to 30 percent that I wired, and let them have this pipe.

So imagine these boats that can carry 40 to 45 thousand tons, and it may be from five or six different mills, and maybe 25 or 30 customers here in the U.S., and all that pipe is loaded in the ports and in the hull of these ships, and it is out to sea for five days.

And let's just say that I decided that I didn't want that 10 million dollars of pipe that I ordered anymore, that steel mill who I bought it from can't call that boat captain and turn that boat back around, and go unload at the port somewhere.

That pipe is going to come this way and it is going to get unloaded at the port at Houston. That is where you saw a lot of inventory that we have for the last 6 or 7 months ended up that way.

It is not a fault of the Chinese. It is the fault of the buyers in the U.S. that all of a sudden decided after they paid their 20 or 30 percent down that they weren't going to pay for the balance of it.

CHAIRMAN ARANOFF: Okay. But wouldn't the rational thing to do -- and I understand what you are describing, but if you ordered this in the summer, and into as late September of 2008, and you weren't expecting delivery until the first quarter of 2009, and in between that is when we see the huge fall off in demand, why wait until the boat is on the water?

Why not cancel the day before the product gets on the boat, or a month before, or two months before?

MR. JORDAN: You very well good if you wanted to lose that 20 to 30 percent.

CHAIRMAN ARANOFF: So you think that people hang on until the last minute, because that 20 to 30 percent is down the tubes anyway?

MR. JORDAN: Some of us are enteral optimists and we do, yes.

MR. PORTER: Commissioner Aranoff, I want to state the obvious. Hindsight is 20-20. They have an expression of in the fog of battle, and you can also say in the fog of sort of a demand kick, a buying frenzy.

The Petitioners like to go back and say, look, they are saying that on July 22, the gas price came down by -- oh, my god, why didn't you see that. At the time the recount was still high, and the gas price came down, and the recount was still high, and who is to know.

It is like market timing. Can anyone pick? Hindsight you can pick, and in the fog of a buying frenzy, I submit that it is a little more difficult.

CHAIRMAN ARANOFF: Okay. I want to go to a couple of issues that are relevant to threat. This morning the Petitioners put on -- and it was also in their brief -- a number of quotes from Chinese industry and government officials, which addressed the intentions of Chinese producers, or the effect of this investigation, on Chinese producers at which the Petitioners has posited as evidence that the Chinese industry has a very strong interest in re-entering the U.S. market with substantial volumes as son as ever possible.

How would you respond to those various statements as evidence of supporting a threat determination?

MR. PORTER: Chairman Aranoff, it's evidence. You have lots of evidence before you. You have done this many times. We have come before you with lots of statements, and SEC statements, and press things by domestics.

You look at that and you weigh it. What we are saying is that you have rarely put a lot of heavy weight on press statements by salesmen, by salesmen whose job is to be the enteral optimist so that customers will order more pipe.

What we have presented here today is we believe a little more hard evidence about economics and trends, and what actually happens during both the boom and the bust part of the cycle. So, yes, Commissioner, it is evidence.

But we have our evidence of actually how they actually behave during different parts of the cycle, and you just need to weigh it all.

CHAIRMAN ARANOFF: Okay. First, I want to say that I really appreciate that answer. There is nothing that I like better than when people concede that there is some adverse evidence, and then tell me why there is also better evidence that I should weigh.

But let me jus say that you may want to take a look at the Commission's determination in the recent case involving uranium from Russia. I think it was a sunset review, where we had a Russian official making very similar statements, and the Commission actually did put a lot of weight on it.

MR. PORTER: We will certainly look at that, but again we have, I would submit, sort of isolated quotes from a few Chinese, when you have quite a lot of exporters and quite a lot of tonnage, and again you just need to weigh it. Thank you.

MR. DURLING: Commissioner Aranoff, if I could just add that the counter-factual exercise in a sunset case is different than what you are doing here, because you are positing a situation that doesn't exist, and that is what is going to happen if you lift the order.

And in the context of a case like this, where you basically in typical original investigations, the Commission seems to put the greatest weight on what has in fact been the recent trends, because what you are trying to do is not guess what is going to happen in one year, or two years, or three years.

And will the Chinese return at some level to the U.S. market? Well, probably. The question is does the evidence in the record here show that there is going to be an imminent surge that is in fact going to be injurious.

And traditionally the greatest weight seems to have been placed on recent trends. It is typically matter of is there a recent trend showing an increase, and is there other evidence that suggests that increase is going to continue in the future and become injurious.

CHAIRMAN ARANOFF: My light is yellow, and this question is complicated, and so I am going to come back to it. Let me turn to Vice Chairman Pearson.

VICE CHAIRMAN PEARSON: Thank you, Madam Chairman. Welcome to the afternoon panel. Mr.

Jordan, am I correct to understand that this is your first time in front of us?

MR. JORDAN: I was at the preliminary hearing.

VICE CHAIRMAN PEARSON: Oh, okay, but the first time in front of the Commission at a public hearing?

MR. JORDAN: Yes.

VICE CHAIRMAN PEARSON: Okay. Good, because I think I recognize everyone else, but not picking on you. I am following up on the Chairman's question of you, but I am curious. We visited with the domestic industry panel about speculative imports, and the effect that they were having in the marketplace as they sit in inventory now.

Could you give me a perspective on that? Were there imports that you would consider speculative?

MR. JORDAN: I never speculated more than probably 20 percent above what my demand would have been, and I was also padding that maybe 20 percent in case of some type of damage on the water.

You know, from time to time, you have got storms at sea, and you get saltwater on pipe, and maybe potential shortages from different orders of pipe that I had ordered. So my speculation when I would an order is that I never would pad it anymore than 15 or 20 percent.

VICE CHAIRMAN PEARSON: But you currently still own pipe from China that you are trying to work at a cost competitive rate into the marketplace; is that correct?

MR. JORDAN: Very little. Very little. I have sold it.

VICE CHAIRMAN PEARSON: Congratulations. But I --

MR. JORDAN: I don't like looking at it. I mean, I buy it to sell, and so I have over the period of the last five, six, seven months, business is picking up, as you can see the rig count that we now have as of yesterday, 1,135 rigs running. It did get as long as 900.

So there is an uptick in this market, and I think it will continue this way.

VICE CHAIRMAN PEARSON: But do you know anything about other importers? Are there some who ended up really long with Chinese pipe, and have it in inventory, or people who walked away from their pipe while it was on the water, and forfeited the 20 or 30 percent they put down, and someone else then owned that pipe when it arrived in Houston, and is trying to get it into the marketplace? Tell me a little more about that if you could.

MR. JORDAN: What I know most about that is that I think the easiest way to describe it is let's say that you ordered $10 million of pipe from WST, and from the time that you ordered the pipe, and from the time that the pipe arrived, your market had just deteriorated. You customers were no longer drilling.

And I would say that pipe had to stay in WST's inventory when it arrived in Houston. Some of the Chinese mills were nice enough, and people who had done a lot of business with them, that they worked with you very well, and allowed you to give them that pipe back.

I think that is really the best way to describe it. These mills again from people that had canceled these orders, it stayed in their inventory as it came through the customs process in Houston.

VICE CHAIRMAN PEARSON: Okay. And are you aware of firms or individuals who just started importing from China within the last couple of years, and who have now gone out of the business?

MR. JORDAN: I am not. I am not. I know that we heard that in previous testimony, and I am not saying that didn't happen, but as far as people out of the wild blue calling me and saying, hey, the pipe business got good, and I bought two, three, four, or five million dollars of pipe. Would you like to buy it. I never got any of those phone calls.

VICE CHAIRMAN PEARSON: And do you import pipe only for your own account, your own distributors' business, or are you importing sometimes on behalf of other distributors?

MR. JORDAN: Only my customers that are end-users that are drilling these wells. I do not sell to other supply companies.

VICE CHAIRMAN PEARSON: Okay. Mr. Dunn, do you have any perspectives on this issue of speculative imports that you could share?

MR. DUNN: Yes, Commissioner. There were as of the morning session communique, there were distributor groups that anybody with a cell phone could order the Chinese pipe, and I think Scott DuBois called them speculators.

To me, they are just traditional trading companies. They trade, and I am being a little silly to make my point, but if they were trading peanuts, or they were trading pipe, they really don't care. They are just looking at the margin.

So there are speculators, and Mr. DuBois couched it correctly, and it doesn't take a rocket scientist in a hot market to see the opportunities. It reminds me of -- and I forget the quote of the bank robber, but he was asked why do you rob banks. Well, that's where the money is.

And these guys were going to China and ordering a lot of pipe. Commercial Metals is a good example of that. Commercial Metals is a publicly traded significant trading company in Dallas. They have been kind of tinkering in the OCTG business, but they got really big into it thinking that they had spotted a trend.

And they also have a big inventory that they are trying to get rid of, and I would expect that the capital will not be redeployed into that market in the future. I don't know if that helps, but yes, there were several significant, well capitalized, companies that were speculating. There were some big ones, and then there were a bunch of little guys that were doing ones and twos.

VICE CHAIRMAN PEARSON: And just to clarify, when you use the word speculating in that context, you are talking about people who are importing pipe and have not yet found a home for it?

MR. DUNN: Yes. Like the testimony this morning, that was right on track. These distributors have, like Mr. Jordan, they have end-user customers, and they are engaged in programs where they are procuring pipe from domestic and foreign suppliers to fill programs.

About 70 percent of the tubular sold in this country are sold into stocking programs, and speculators, to use Mr. DuBois' term, are guys who are looking to have a nice spread between what they can source it for, and what they can sell it for, and in a rising market, that is not that difficult to do.

And they were calling on distributors who had end-user customers to find a home for it, and the music stopped, and they couldn't find a home.

VICE CHAIRMAN PEARSON: But anybody can make money during a long and rising market.

MR. DUNN: Even I can.

VICE CHAIRMAN PEARSON: I can't, because I am a commissioner, but I am familiar with the concept. Mr. Porter.

MR. PORTER: I just wanted to make sure that we circled back and what does this mean for the Commission's analysis, and I do want to make the point that whether a U.S. customer is a speculator, or a bona fide distributor, or an end-user, the fact that they are placing an order to the Chinese, that is the important point.

Now, with all due respect, I don't think it matters what the sort of motive of the U.S. customer is. The point is that they were placing an order to the Chinese, and that is why the Chinese were shipping it here.

So that is directly contrary to the Petitioners' view that the Chinese were shipping it without an order. They had the order. The motive of who was ordering it honestly is not terribly relevant.

VICE CHAIRMAN PEARSON: So you are saying that there are not Chinese producers who have been shipping pipe to the United States on their own accounts, and then looking for other speculators?

MR. PORTER: Quite honestly, we know of no one who engaged in that. Everyone, all our clients, told us that they were simply responding to orders received from U.S. customers.

VICE CHAIRMAN PEARSON: Okay.

MR. DUNN: I would just add that speculators generally lack knowledge about the market, and in terms of the SK use, and the size, the grade, wall thickness, they didn't have a lot of knowledge. So when they went to source material, whether it was China or other countries, they bought what they could get.

They did not necessarily know what the industry needed. They bought what they could get, which is part of the overhang.

VICE CHAIRMAN PEARSON: Okay.

MR. PORTER: And the hard evidence that backs up my assertion is the sort of inventory inventories. They have never been accessible for the period, and so our clients are mostly their own importers.

So if that were true, what essentially what you were positing, and were they speculating on their own account to bring it in, they would have got caught, and you would have seen it. But you don't see it, okay? And so that is evidence that they were simply responding to future orders.

VICE CHAIRMAN PEARSON: Mr. Jordan, did you have another comment?

MR. JORDAN: I just wanted to back up just a little bit. Another size of pipe that I was bringing in for a couple of particular customers, the domestic mills would not roll that particular length and size of pipe. So I was filling a void there.

VICE CHAIRMAN PEARSON: Okay. Thank you. My light is changing. Madam Chairman.

CHAIRMAN ARANOFF: Commissioner Okun.

COMMISSIONER OKUN: Thank you, Madam Chairman. I also want to welcome the witnesses here this evening. I appreciate your willingness to answer questions. Let's see. I want to return to the capacity question with respect to China's excess capacity.

From information in the record, China is the world's largest producer of OCTG, and has been since 2002. I had thought -- and some of this is detailed, and so I will ask you to do this post-hearing, but I had found very interesting reading the Wiley Rein brief with respect to the Maverick Tenaris information in there, because they had a global producer who had information, because they were also in China.

So I an not sure if there is something that you want to respond to publicly. I do want you to look at their brief and provide the best information you have in response to their arguments on why China has a lot of excess capacity, and doesn't have very many places to go except to the United States.

MR. PORTER: Okay. Commissioner Okun, I am not sure if you might have been out of the room. We had a little bit of discussions about this before about what does excess capacity mean in importance for the Commission's analysis.

And I believe you might have been out of the room when I made the point that the Commission and the Courts have said excess capacity in and of itself doesn't constitute a threat.

COMMISSIONER OKUN: I heard you when I was back, yes.

MR. PORTER: Fine. But what I do want to make a comment about is sort of -- and with all due respect, this assumption game that the Petitioners are playing. Why is it that if Chinese have excess capacity that they will absolutely max out their capacity and ship. But yet the Petitioners, when demand falls, they don't ship.

Why do you assume that the Chinese are not also saying I am not going to produce, but I am going to maintain excess capacity so in order to have demand, and supply, and balance.

COMMISSIONER OKUN: But let me ask you, and not going to the Petitioners' assumptions, but you have been before the Commission many times, and you obviously have looked at this issue in other cases.

And many of the things that the Commission and I have focused on is again excess capacity, and I agree with you that it by itself doesn't mean anything, but some of the things that I think have been relative in other cases are is there a home market growing and is that where they are going to go.

And I know that you mentioned a couple of the facilities that you thought that was their purpose, although again I am having a hard time finding in the record where their home market is actually going into the imminent future.

Do they have the ability to product shift. We know and have seen OCTG being a very high value product, and what are the prices around the world, and in some cases where it seemed like excess capacity was not coming to the United States, you had prices -- good markets elsewhere with high prices. And I guess I don't see, or haven't seen that evidence yet. So help me out there. Let's start with those three.

MR. PORTER: Okay. I would like to flip it around, okay? In essence --

COMMISSIONER OKUN: I like it my way.

MR. PORTER: Well, honestly, Commissioner Okun, I think that this is serious, because you are asking me to essentially sort of almost prove a negative, okay? And what I want to say is that with all due respect, I think it is the opposite.

They have to show in order to meet the threat criteria that imports will increase. Imports will increase to injurious levels. What we have shown is that the largest exporters in the market are falling demand signals, and have decreased.

So the most recent data you have, is you have decreasing imports, and so the question is what are they pointing to, to show that that trend that you have before you is somehow going to change just because there might be some excess capacity.

And I think they have the obligation to show why that is rather than for me to have to disprove that, or to say that is not going to happen.

COMMISSIONER OKUN: And again I look at the Commission's job as looking at what evidence we have on the record, and analyzing that, and figuring out which way it goes. So I am saying what evidence do you have that when I look at the capacity numbers of China, and I look at where they have shifted, and where they are going.

But let's look at imminent future in terms of demand. I think you have testified that you think that the market has bottomed out, and maybe Mr. Dunn, and Mr. Jordan, you can jump in here.

And you have argued that we are coming off a very, very large, boom cycle in '08, and so that is not the actual right place to look. Where do you see it going in the imminent future? I mean, we are starting to bump along? Where is it going?

MR. DUNN: Where is it, being the demand, going?

COMMISSIONER OKUN: Yes, for the U.S., and elsewhere if you have information about other markets or Chinese home markets.

MR. DUNN: I don't know how to approach this. The Chinese home market, I don't have that much information. There was testimony earlier this morning that the home markets in the two million ton range, and I thought it was closer to three.

Clearly, China is a hydrocarbon dependent country. They are looking to import all they can from every resource that they can, and they are trying to develop their own resources as much as they can. That is just a kind of microview. Relative to the demand in the U.S., my formal comments kind of covered my outlook.

COMMISSIONER OKUN: Mr. Dunn, you had mentioned lease acquired demand, and that some of the demand had changed because of these lease acquisitions. I am not sure, and I probably just need to go back and look at that, but is the information in the record of what that accounts for?

MR. DUNN: I don't have any idea. I prepared my own testimony and so I don't know what is in the record.

MR. PORTER: Commissioner Okun, not yet. Honestly, this is an investigation for us as well, and we learn new things all the time, and this is something that we just learned recently about this sort of extra incentive for rig operators to drill because of the expiration of leases, something that we very much intend to pursue and present evidence to you in the post-hearing brief.

COMMISSIONER OKUN: Okay. I appreciate that, and I am sorry that I interrupted you, Mr. Dunn.

MR. DUNN: That's okay, and I mention this as Mr. Schagrin pointed out earlier this morning, I did do a presentation in October, and he was also at that meeting. And the purpose of my presentation was to forecast the status of the OCTG and line pipe markets and the outlook for the coming year.

I made the statement there, and basically in the shale plays, there is three really big shale plays for gas; the Barnett, the Hainesville, and the

Marcellus, and those are all three terms that I think you are familiar with.

There is also a significant oil shale play, the Balkan, and all four of those shale plays are significant to drilling activity. All four of those plays were very, very active in lease activity in 2007, and then again in 2008.

Lease bonuses peaked in those years, in 2008, with leases going up to in the Hainesville as much as 25 to 30 thousand dollar lease bonus per acre. The capital structure for the national gas price does not allow those leases to be renewed at those rates.

So somebody said, and I think the Professor talked about use it or lose it, and what you will see in 2010 will be a significant ramp up in shale play lease preservation drilling, because once they drill the lease, they can hold it by production.

Quicksilver is doing that on a pretty aggressive basis. In fact, the wells that were drilled at Quicksilver are those leases that will expire first, and then the next one we drill is the second decreasing leases, and not necessarily where the most prolific resources are, but where the leases are expiring.

So all the guys are going to be playing, and that's why I think it is going to be a pretty good year next year. 2010 will be the year that the 2007 leases expire, and 2011 will be the year that the 2008 leases expire.

And I just don't expect that the oil companies will go and pay those big lease bonuses. They can extend the leases. They have that option, but they have got to pay that lease bonus again, and that is really expensive.

COMMISSIONER OKUN: Okay.

MR. DUNN: I don't know if that answers your question.

COMMISSIONER OKUN: That's fine, and then -- well, was someone else trying to say something? No? I don't know if you can answer this in a public session, but if not, for post-hearing, can you tell me whether the Chinese Respondents' 2010 projections include any kind of contractual obligations?

MR. PORTER: I am not able to answer that. I simply don't know. We will find out for you.

COMMISSIONER OKUN: Okay. I appreciate that, and I see that my light has come on, and my other question will take more time, but thank you for those responses.

CHAIRMAN ARANOFF: Commissioner Lane.

COMMISSIONER LANE: Good evening. I have a few questions, and I know that they have been asked before, but I am not sure that they have actually been answered. So I am going to try a different way of asking the questions, and I think I will start with Mr. Durling.

What percentage of the Chinese industry do you actually represent?

MR. PORTER: I think I should answer that, Commissioner Lane.

COMMISSIONER LANE: Well, I am not so sure that you have really answered the questions today, and so I thought I would try with Mr. Durling.

MR. DURLING: Commissioner Lane, our entry of appearance lists the specific companies. These are the companies for which we were able to put in questionnaire responses. If you say what percent of the industry, I would ask you by what metric.

COMMISSIONER LANE: Okay. This is where we are going to get into a little bit, and I would like it answered without questioning my motivation, or what I am going to do with the information.

MR. DURLING: Sure.

COMMISSIONER LANE: How much capacity does China have to make OCTG, and how much of that capacity are you representing today?

MR. DURLING: Commissioner Lane, we only have the information to work with is the information on the record. In other words, there is no place to go and look in a book, and look up Chinese capacity is this number.

This is a number that -- I mean, to be honest, it is not a number that anyone can look up in one single location. So it would be impossible for us to answer the question. We know what percentage the companies we represent what they represent of shipments to the U.S.

So we can tell you with confidence based on information already in the record that the large companies that we represent account for the overwhelming portion of historical exports to the United States.

Are there other companies in China that make OCTG or are thinking about making OCTG? Sure, there probably are, but these are companies that are small, have never shipped to the U.S. before, and with all due respect, there is no reason think that all of a sudden a small company in the heart of China that has never shipped to the United States, including not shipping to the United States in 2008, the best year when they could have shipped to the United States.

If the company didn't export in 2008, why in the world would you think that this company all of a sudden is going to export to the market now when demand is weak, and there are no particularly compelling incentives to ship here.

COMMISSIONER LANE: Okay. So if we have on the record that in China there are -- and I forget what the number was -- okay. If there are 7 billion tons capacity, and we had testimony this morning that there was a lot of excess capacity.

So you can't say that that is wrong with information that you can provide us as to what the actual capacity is?

MR. DURLING: I think there is already a pending request that we in the post-hearing, and we will certainly do this, go through and provide our response to the allegation about Chinese capacity provided by the Petitioners, and we will certainly do that. But that is not something that we can do for you right now.

COMMISSIONER LANE: Okay. This morning we heard that we should be taking adverse inferences because so much of the Chinese industry is not participating here today after they participated at

Commerce. Why shouldn't we take adverse inferences? And, Mr. Porter, why don't you take this question.

MR. PORTER: Okay. Commissioner Lane, as Commissioner Williamson and I sort of discussed this point, I am not exactly sure when you say you should take adverse inferences what you mean.

Quite honestly, I can't remember when the Commission has ever taken adverse inferences.

I think what more historically has happened is that the Commission looks at the evidence that it has, and then weighs it based on what it believes the credibility of the evidence. As Mr. Durling has stated, and that I stated a little bit earlier, you have questionnaire responses for 65 percent of the imports into the United States.

And I submit that is a level that is comparable to many, many other cases with respect to foreign producer questionnaire responses, including from China, including when you made a negative determination.

And so again the fact that there was one or two exporters who said, you know something, I want to hedge my bets, and I want to undertake a very limited participation at Commerce, and I am sure that Commissioner Pinkert can explain.

It is simply filling out a few forms, and showing to the Commerce Department that their export activities are not controlled by the government. There really is filling out a few forms, and providing some documents.

And by just doing that, for a very limited effort, they get to get the all-others rate, and not the 99 percent. So if you are an exporter, and you say, gee, I don't have a lot of resources, and so I only want to do very little for the trade case defense, because I am not shipping that much to justify a lot of effort, I will do this little effort at Commerce.

But I am not going to join the group of companies who went out and engaged counsel, and did a lot of effort for the ITC defense. That is the reason that you have different levels of participation.

COMMISSIONER LANE: Okay. Looking at your exhibit on page 49, which shows the futures markets prices for natural gas, and it shows that in 2008 that it was $9.12; and in 2009, it is going to be $4.02; and in 2010, it is going to be $5.25.

Now, is $5.25 per MMCF sufficient to attract new drilling to the market?

MR. PORTER: I am going to ask the industry witnesses to comment, and then I have a quick comment after as well.

COMMISSIONER LANE: Okay. Mr. Dunn.

MR. DUNN: Well, part of my earlier testimony was about hedging.

COMMISSIONER LANE: Yes.

MR. DUNN: And so what is really important about the coming drilling activity is how much of the production is hedged, and at what price, because generally the practice has been for the very active operators drilling for natural gas is to hedge up 50 to 75 percent of their production, depending on their bank covenants.

And that becomes their drilling budget for the coming year. So they drill cash flow, and everybody in their public declarations will say they are a low cost producer. There is tier one shale players, and the early entrance in the Barnett, and the early entrance in the Hainesville, and the early entrance in the Marseilles, would be people like Range, and Cabot, and people like that, and Chesapeake, and the same is in the Balkan.

So the guys that were in early with low lease costs, and have a significant infrastructure or economies of scale with a lot of acreage, they can go in there and operate those wells at a profit under five bucks.

COMMISSIONER LANE: Okay. So at what price --

MR. DUNN: Under five dollars on the NYMEX

COMMISSIONER LANE: So you think that is sufficient to attract new drilling?

MR. DUNN: Sure. But again, Commissioner, my testimony is the drilling in the next two years is going to be driven primarily by lease expiration in the shale.

COMMISSIONER LANE: Okay.

MR. DUNN: And supported by their hedging activities and the cash flow from it.

COMMISSIONER LANE: Okay. And would you say that most people who buy OCTG watch the NYMEX index pretty closely to determine what the futures price is for natural gas?

MR. DUNN: They probably do, but their bosses watch it closer, because the bosses watch it, and set the capital spending, and the guys that buy the OCTG then therefore execute against a capital spending plan.

COMMISSIONER LANE: So people would know whether or not the demand for OCTG is going to rise or fall depending upon the NYMEX index?

MR. DUNN: It is not a clear indicator, but it is one of what is an important indicator.

COMMISSIONER LANE: Okay. Thank you. I will wait until my next round.

CHAIRMAN ARANOFF: Commissioner Williamson.

COMMISSIONER WILLIAMSON: Thank you, Madam Chairman. Mr. Dunn, I would like to -- you talked about these lease expirations and anticipated additional drilling that is going to come from that.

Could you maybe post-hearing give us some indication of how much volume, how much one might anticipate of increased demand for OCTG might come as a result of this? I am assuming that if people have a program, it is going to be in early 2010, and that they are going to have to be placing orders pretty soon for this.

So what I was hoping that you could give us post-hearing is some indication in the imminent future how much are we going to see of increased demand resulting from this?

MR. DUNN: I will be happy to work with counsel and provide the information that you need. It is pretty easy, because I think it would be kind of a one sentence response, which is I believe that the drilling rig count a year from now will be about fourteen to fifteen hundred rigs.

You had earlier testimony that Press and Pipe thought that it would be about 1,375. That kind of rig count is an indication of how many leases will expire, and other factors that drive the domestic rig count.

I mean, that is what the OCTG demand is going to be a year from now, and we are going to be in my opinion -- and everyone has got one in here. So unfortunately that is how we have to play the game.

We have to anticipate what the market direction is, and it is easier to anticipate an up-cycle than it is a down-cycle as demonstrated in September of '08.

COMMISSIONER WILLIAMSON: Okay. So you are saying that a lot of that increased rig count is going to be with the shale drilling?

MR. DUNN: In my opinion, that's correct.

COMMISSIONER WILLIAMSON: And I guess one of the things that we never got clear this morning is to whether or not people who are going to be doing that drilling, are they more likely to be buying pipe from China than the U.S. because of the nature of the specifications of the pipes that are make in the two different countries?

MR. DUNN: In my view, they are more likely to buy from the guy who can make the best delivery, and at the highest quality, and the cheapest price. That is indicated in some of the recent transactions that we have watched.

Domestic producers have prevailed against inventory, and that is a good thing, because the inventory overhangs significantly. What hasn't been said today that I think is an important thing for the Commission to understand is the relevance of the existing inventory.

Because most of the inventory, at least in my experience, and from my observations, 5-1/2, 17 pound, and 80. That is where the bulk of the inventory is in this country, and most of that product will not be used in 10, or 11, or 12.

The multi-stage fracs in the stores plays no longer will allow you to consume 5-1/2, 17 pound, and 80. You have got to have P. And in most cases, as I indicated in my testimony, more and more you need premium threads. All these guys have --

COMMISSIONER WILLIAMSON: You are throwing out a lot of technical terms to somebody that is not in this industry.

MR. DUNN: Well, horizonal, and you understand that.

COMMISSIONER WILLIAMSON: Yes.

MR. DUNN: You go down and then you go out. In 2006, they were going down at the Barnett about 8,500 feet, and then they were going out horizontal about two to three thousand feet, and that is Quicksilver.

Today, we are going out six to eight thousand feet. So you consume a lot more pipe, and then when you complete it, you pump a whole bunch of fluid down the pipe, and to fracture the shale to release the gas hydrocarbons to go up the pipe.

And in 2006, we were doing three and four stage fracs. We are doing 14-15 stage fracs now. So that means that for a period of time that pipe is under a whole lot of pressure, and the integrity of that pipe has to hold while you are putting this massive amount of fluid down the annulus.

And if it doesn't hold, you have spent $3 million drilling the well, and you walk away from it. So, N-80 no longer works because of the multi-stage high pressure fracs in the Barnett.

And it never would work in the Hainesville. It worked for a little while in the Marseilles, but they have gone to P. So most of that inventory, and when you asked about holds in inventory this morning, holds in inventory on 5-1/2 P, particularly for premium connections, and not necessarily light walls. It is going to heavier walls, which requires new mill production.

COMMISSIONER WILLIAMSON: So inventory is not going to be going into this?

MR. DUNN: No, it is going into fence posts.

MR. PRUSA: This is Professor Prusa. I wanted to comment on that. Again, I think Mr. Dunn's comment here is really important, and so we all understand that there is more OCTG tonnage in inventory. That is a total tonnage, over hundreds of different specs.

Mr. Dunn is testifying that the main area that he foresees demand is in the shale plays, and most to his knowledge, and I think if I understand you correctly, you were saying, Mr. Dunn, that most of this tonnage of OCTG cannot be used where the demand is now.

MR. DUNN: Because it was ordered for a different usage.

MR. PRUSA: And it is not high P, high pressure pipe. So you heard earlier that it is all the same. The representative for Tenaris said that Chinese pipe can be used in all the shale play applications. It would have to be high pressure pipe, and a lot if I understand the amount, but I don't think it was clear what you were saying, Mr. Dunn.

It would have to be high pressure pipe and that a lot of the tonnage is moot. I understand that you can quote the tonnage numbers, but for where the demand is, at the shale plays, it can't be used in the shale plays.

COMMISSIONER WILLIAMSON: Okay.

MR. PRUSA: So this threat issue about this inventory overhanging the domestics, this pipe, as he just said, can be used in fence posts. It would be expensive fence posts, I suppose, but it won't be affecting the demand going forward on these shale plays.

COMMISSIONER WILLIAMSON: Okay. So as I asked the Petitioners this morning, any projections that you have about in the near future on how much demand is going to be there, a volume number would be helpful for us.

MR. PORTER: Yes, Commissioner Williamson, and obviously we are very, very interested in that question as well, and we are going to be doing everything that we can for the post-hearing brief to answer your question.

COMMISSIONER WILLIAMSON: Good. Thank you. Also for post-hearing, and getting to the question of Chinese home market consumption, could you respond to -- well, Commissioner Okun had already asked you based on this question about the Maverick brief, and I wanted to make sure that when you do respond that you particularly also look at Exhibit 3 in that brief and respond to that, because that deals with an overstatement of Chinese domestic consumption.

On page 44 and 45 of your brief, you claim that U.S. producers' refusal to honor contractor arranged as an accepted order constitutes a non-price reason for increased subject import volume.

Can you quantify the volume of the imports that resulted specifically from breaking contracts or failing to fulfill order commitments? This is in contrast to the situation where a producer might decline a purchaser's request for additional quantities.

MR. PORTER: Commissioner Williamson, it is difficult for us to do that, but quite honestly it is -- let's say it is less difficult for your staff, because all the information about breaking contracts came from the purchaser questionnaire responses.

So I am not allowed to call up the purchasers and ask them about it, but your staff is, and so this is one instance in which I am sort of putting it back on the Commission. The Commission can find this answer out a little bit more easily than I can.

COMMISSIONER WILLIAMSON: Well, since you all have put it in your brief, and made this statement, I was trying to see what information you might have.

MR. PORTER: No, it is a very fair question. It is a very fair question. I am just saying that the information about broken contracts came from the purchaser questionnaire responses.

COMMISSIONER WILLIAMSON: Okay. Thank you. I was wondering if you could address this question. What is the significance of the Tianjin and Wu Shei facilities that are being established in the United States?

Are these mills or are they processing/finishing facilities, and to what extent are these facilities likely to increase imports of unfinished casings and tubing for heat treatment, and other threading or coupling? What role are they going to play in the U.S. market?

MR. PORTER: I can only speak about the Tianjin facility. I don't know as much about the Wu Shei facility, and perhaps there is someone else who can. Tianjin pipe is also called TPCO, announced last year that they were going to build a complete integrated OCTG mill in Texas.

And that obviously if they build that will have a hot end. They will roll pipe, and they will make complete OCTG that will obviously decrease the need for that company to ship from China, because it will be servicing the U.S. market from their U.S. facility.

COMMISSIONER WILLIAMSON: Did they indicate whether they are going to be sourcing the billets?

MR. PORTER: No, they are going to be building their facility to make their steel right there at the facility, at least that was the announced plan. It would be a complete integrated facility.

COMMISSIONER WILLIAMSON: Okay. And the other? Do you have --

MR. PORTER: I actually don't have as much information on Wu Shei. Of course, we can find out and ask.

MR. JORDAN: I can talk a little bit about that. WSP is planning on putting in a heat treat facility in Houston, and that project is underway as we speak. As a heat treat facility, what I mean is that they are going to be taking green tubes, and they will be quenching and tempering them into hot collapse LA, high collapse P1-10 specifications.

Where they are going to be getting those billets from and those green tubes from, at this time, I couldn't tell you. I believe their capacity is going to be somewhere in the neighborhood of 10 or 12 thousand a month in tons.

COMMISSIONER WILLIAMSON: Okay. Good. Thank you for that information. I have no further questions at this time. Thank you.

CHAIRMAN ARANOFF: Commissioner Pinkert.

COMMISSIONER PINKERT: Thank you, Madam Chairman. I just have a few followup questions. You heard Mr. Schagrin's testimony earlier today when I was asking about that June 2009 subject import figure.

Part of his answer directed our attention to the May 2009 subject import figure, and his argument that there was a blip, even though it was a period of collapsing demand. Do you have any response to that?

MR. PORTER: I would just sort of repeat the response that I believe either Mr. Durling or

Professor Prusa made, that looking at one individual month is sort of less relevant than looking sort of at a trend, and that is why you focus on quarter versus quarter.

Our point is look at the second quarter, and you will see that there is a decrease in the second quarter compared to the first quarter. I mean, the trouble with official import statistics is that it is about timing.

They may have shipped it here, and what if -- and I don't know this. I suppose that Customs knows it, but what if a huge part of the May actually arrived the last week in May? Maybe it sort of spilled over into June, or vice versa. At the beginning of May, it should have been in April.

So that's why looking at just one month in isolation, I believe, is less relevant, and you really want to look at sort of a quarter when you are looking at official import statistics.

COMMISSIONER PINKERT: I would also ask for your reaction to the argument that was made in response to my question that the Chinese exporters certainly would have been aware of the petition before it was actually filed.

MR. PORTER: I am glad that you asked that, Commissioner Pinkert. The reason that I am glad that you asked it is because the Commerce Department investigated this very issue intently. As you, Commissioner Pinkert, I know, know well, the Petitioners in their critical circumstances allegation argued that the comparison period should be earlier in time because the exporters knew that a case was coming.

In fact, as you know well, Commissioner Pinkert, the comparison period will change earlier in time for a critical circumstances calculation by Commerce. So Commerce looked at all the evidence presented by the Petitioners, and they concluded that no, it is not sufficient to conclude that the Respondents knew that a case was coming before it was filed.

So this question has been answered by the Commerce Department. It was just announced and published on November 17th in a Federal Register notice.

COMMISSIONER PINKERT: Mr. Durling.

MR. DURLING: Yes, I would just add to that. That to be honest, if you are shipping a steel product to the U.S., you assume that there is always going to be a case. There is so many of these cases.

Is there ever a time when you are not in fear of there being one of these cases? So the notion that they would try to kind of pick some particular period of time where we are somehow on notice is kind of -- I think it is just a little bit unreasonable because of their propensity for filing cases at any time.

The only people who knew with certainty whether there was going to be a case, and when it was going to be filed, was them, and so if there is going to be speculation about who knew what when, and what effect if may have had on their behavior, I think is actually a question better directed to the other side.

And to what extent have their decisions over the past several months been driven by their recognition that they were going to file a case, and they were going to be defending it. And in particular, you may want to pose that thought experiment when thinking about why are we doing this now.

The normal practice in these cases when you have CVD and dumping decisions coming out at different times, the normal practice has been to basically just do one hearing when both decisions are out, and where if we were all sort of scrambling to get this case done under an earlier timetable.

And I guess my speculation about what people are thinking about is why were they so afraid to have this hearing a quarter later from now? What is it about the rest of this year that has them so anxious to get their decision now, and not let the rest of the year unfold, and that is something that they know.

COMMISSIONER PINKERT: Professor Prusa, would you like to answer Mr. Durling's question?

MR. PRUSA: Well, it is speculation. Are you asking -- I am not sure if you want me to respond to your question about did the Chinese know, or are you asking about what the Petitioners know, and what their strategies are. I am not sure I have a comment on either.

COMMISSIONER PINKERT: Well, I am just giving you an opportunity to comment on that. Mr. Durling raised the question of why there might be a concern about doing this case a quarter earlier than later.

MR. PRUSA: Yes, because I think they know that in this case that there is no injury, and they know that the market is turning up, and an already weak case will be even weaker, or would have been even weaker in February or March.

So they don't want -- I mean, we already saw what the Preston is. That is imagining three more months of up-tick, but again you are going to have to ask them why they did it.

COMMISSIONER PINKERT: Thank you. One last question. Suppose I conclude that distributor inventories could potentially cause future harm to the domestic industry. If I concluded that just as a legal matter, what implications would that have for a threat determination in this case?

In other words, turning from the legal issue to the factual issue, if as a legal matter distributor inventories could be considered as something that would cause or could cause future harm, what should I do with the facts on that issue?

MR. PORTER: I would just refer to Professor Prusa's chart, which shows that the inventory overhang according to Preston, I guess, and others, has largely been worked off. So again, as you know, we disagree a little bit with your legal conclusion, but taking your legal conclusion. --

COMMISSIONER PINKERT: It is just a hypothetical.

MR. PORTER: I understand. As a factual matter, Steve, if you could pull up that chart. And where it basically showed as of, I guess -- when was it, Tom, October, that in October, essentially the inventory overhang had been worked off and we were at an inventory level comparable to before the increase. It is Slide 47.

MR. DURLING: And Commissioner Pinkert, I guess I would just add to that two other points. First, even if you were to consider whether they could, as a factual matter, you would need to weigh the testimony you just heard, that a lot of the inventories are in fact the wrong type of product.

So it is not product that could easily be used to take away sales in the imminent future, and the other thing that you would have to weigh is what is different? In other words, this inventory has been here for a long time.

If it were really going to be liquidated at fire sale prices, or if in other words, if the Petitioners' view of the world were correct, why hasn't it happened? Why are people holding on to inventory where it gets more and more expensive?

The longer the inventory is held, the greater the inference that it is basically inventory that really kind of has no place to go right now, and it is either going to end up as fence posts or it is going to end up as scrap, and recycled as the mini-mills will use it to produce new steel.

But the longer that it is here, the greater the inference that it really has no place to go, and that gradually the demand for prices may recover, and may eventually have a place to go. But we are talking about a gradual process, and not an imminent surge that is going to be injurious to the industry.

COMMISSIONER PINKERT: Thank you. That concludes my questions. Professor Prusa, did you want to add anything to that?

MR. PRUSA: No.

COMMISSIONER PINKERT: No? Okay. Thank you. Thank you, Madam Chairman.

CHAIRMAN ARANOFF: Following up on that, I just want to ask for a clarification, because I think I may have misunderstood some of the testimony. On page 103 of your prehearing brief, you state that recent evidence collected from the purchasers demonstrates that a good portion of recent subject imports from China consisted of those OCTG product that are better suited to the new technology drilling rigs that have been developed to extract the rapidly expanding shale gas market for which U.S. producers have expressed little interest in supplying.

So the argument there was that a lot of what is coming in from China is going into the shale gas market. And what I understood Mr. Dunn to be saying just a few moments ago was that a lot of the Chinese pipe that has come in can't be used in the shale gas market, and that is why it is sitting around in inventory and is largely worthless. Did I miss something?

MR. PORTER: At least I will speak first, Commissioner Aranoff, and then I will ask Mr. Dunn. I think that both are true, and there is obviously a lot of Chinese pipe that we are talking about, and so you can have -- we described and we cite purchaser questionnaire responses for the idea that the Chinese are a little better suited to make not only small diameter pipe, but shorter pipe.

And the idea that the domestic mills were designed to make a larger diameter. We are not saying they can't make it. We are saying, you know, interest. Okay. And as Mr. Dunn can explain, mills have a sweet spot about what they want to produce. And what the argument tried to develop was that the domestic mills' because of their older design, the sweet spot was a larger diameter pipe. That is what we were trying to express.

MR. DUNN: I guess the point I was trying to make, Madame Chairman, was that the technology is moving so fast that when you have a long supply chain, you're likely to make a mistake. If I, you know, ordering Halloween supplies in August and they don't show up until November, whoops, I've got them in inventory, because I don't need Halloween costumes in November. And that's sort of a silly example, but EN-80 was the high-demand item in the spring and early summer of 2008. Technology was moving faster than the supply chain was able to move, and that's why it got hung with a bunch of material that no longer had immediate application.

Now, I think there was testimony this morning, and they were actually right about that. I think Tenaris made that comment, that that stuff in inventory could be used out in west Texas I think was the statement. And that's probably true; there are just not very many rigs running out in west Texas, and it will take a long time. So it was brought in for a shale application; it will go to west Texas in the traditional vertical application, and will be consumed, but it will just take a while. And people will surrender before that probably.

Did I totally mess you up?

CHAIRMAN ARANOFF: I'm still pretty confused. So I'm just going to ask all the parties for purposes of post-hearing, if there's anything that you can put on the record or point to that's already on the record to help me identify, you know, first of all, how much of U.S. OCTG demand is accounted for by shale gas wells? And how much is Chinese imports and domestic production, respectively, of the size and length that's suitable for those applications? Or at least have been historically. That doesn't go to ability, but at least it gives us some historic record of what's going on. That would be helpful.

I also wonder if this isn't one of those cases where the testimony that I'm hearing from Mr. Dunn is well, domestic mills aren't that interested in producing this product because it's not in their sweet spot; and this is where the domestic industry is going to come back to me and say of course we're interested, it's just that the Chinese price is lower. How do you respond to that?

MR. DUNN: Well, first of all, I didn't say that. That was not my testimony. That may have been in the brief, but I didn't prepare the brief.

What I'm saying is that there wasn't -- what I said in my formal comments, Madame Chairman, was that there wasn't sufficient capacity. I didn't say they didn't want to make it. You know, they have the same obligation as anybody else to try to satisfy the customer requirements.

They want to make it. The reason that we're in a joint venture in Tienjin City, China is because it was our perception that there wasn't enough capacity to support the expansive demand. And therefore, we put cold cash down, the U.S. citizen in Tienjin City, to increase the supply. Does that help?

CHAIRMAN ARANOFF: Yes. Well, it helps. And like I said, I invite all the parties to provide any information they can.

MR. DUNN: Well, we'll certainly do that. But let me just kind of echo a point Mr. Porter made earlier. Much of what we presented in the briefs were ideas and information, sometimes qualitative, that we pulled for the purpose of questionnaire responses.

To be honest, we had lots of conversations with lots of purchasers. And I can tell you that there was more than the usual amount of fear about coming public and appearing on our side of the table because of their experience in '08, limited supply.

And so honestly, this is one of those cases where their written answers to the questionnaire is the voice you're going to hear from the purchasers. To the extent there are issues like this one, which you think are important, we will do the best we can to gather the information we can.

But again, I urge you to ask the staff to call the purchasers. Because what we've heard from a lot of them is, we have no problem talking to the staff, we just can't appear publicly and present testimony on your behalf because we're afraid of the consequences. So take advantage of their willingness to talk to the staff; call them, and you'll get more information.

CHAIRMAN ARANOFF: Okay. Let me just ask for one more qualification, one more clarification on this sale well issue.

You're talking, Mr. Dunn, about the specific type of pipe that's required for that. Does that require seamless, or can it use seamless or welded?

MR. DUNN: Either one. We're talking about P-110 grade, and Euroseal makes it both as welded and as seamless. And many other companies do the same.

CHAIRMAN ARANOFF: Okay, thanks.

(Pause.)

CHAIRMAN ARANOFF: I wanted to go back to some of the sort of bigger-picture arguments in the case. And there has been a lot of discussion in the case about whether subject imports were pulled into the market by demand in 2008, or you know, pushed into the market by some forces at work in China.

And I think your argument has been they were pulled in by demand, and, you know, absent that demand, they wouldn't enter at least in significant quantities in the imminent future.

But what I want to ask you is, you know, when we look at threat, couldn't we reasonably find, you know, couldn't we agree with you that they were pulled in by demand in 2008? But then say, but you know what, current conditions are a game-changer. There's a lot of circumstances in China that changed the incentives that face them now from the incentives that faced them in 2008. And so in the imminent future we find that the product would be pushed in; that it wouldn't be a continuation of a trend, but a totally different trend.

MR. DUNN: Commissioner Okun, I'll take a stab at that. Could you find that? Of course you could find that.

The question is, is there evidence of that. I think what you are suggesting is that well, we see some increased capacity in China, and we see perhaps increased called under-utilization, excess-capacity utilization.

And you're saying well, because there's been an increase in capacity, an increase in excess capacity, why can't we assume that that, there's going to be shipments to the United States?

I guess I just don't, I'm not so sure there is a lot of hard evidence to make that assumption, okay? And what we tried to show is what hard evidence there exists is those Chinese exporters that are participating in the U.S. market follow demand signals. They increased when demand went up, and they decreased when demand went down.

And so getting back to Mr. Durling's point, you have a Chinese producer somewhere in the middle of China who has increased capacity, who has never shipped to the United States. Why would you make the assumption that when he has some excess capacity, he's going to turn around and ship to the United States? Could you make that assumption? Yes. I'm not sure there's a basis to make that assumption.

CHAIRMAN ARANOFF: Okay. Well, that's a fair point, and I guess I would say you're on the right track in responding to me. But I see a number of pieces of evidence on the record, some of which you addressed and some of which you didn't, which, you know, I agree with you that the Courts have said that capacity alone is not enough; there's got to be an incentive. So we need to look for evidence of incentive.

You know, in addition we've got the evidence on the record that you acknowledged before, that various Chinese market participants have said that this market is important to them. We have the fact that the U.S. is the largest export market for Chinese product during the period; that a number of other export markets where Chinese producers were selling this product or other products that they can make on the same mills have now been closed or limited due to trade remedies.

We have some evidence on the record that Chinese home market demand, while certainly there, can't absorb existing or new capacity that's coming on line; that they have to export some of what they produce. And as you said, we know that capacity is growing, even though the parties disagree on exactly how much.

This looks like as much, or maybe even more than the Commission had had in some prior cases. And so I guess I'd invite you now or in your post-hearing to show me why either that's not enough, or why those individual pieces of evidence are just wrong.

MR. DUNN: Commissioner, I know your light's on, but just one quick followup.

The followup is, I do not deny or disagree with anything you have said. You have accurately described some of the evidence on the record, okay?

What I would say, though, is again, you are making an assumption that the Chinese are going to behave differently than the record evidence suggests that they have behaved to date. And that's the thing.

If it gets to, you know, yes, they have excess capacity; yes, they increase it. But why are you assuming that they're going to ship it to the United States?

CHAIRMAN ARANOFF: Well, I'm assuming they're going to behave differently because the incentive structure has changed since --

MR. DUNN: But why to the United States? When the evidence shows that those exports were participating in the market, you know, follow demand signals in the United States. So you know, I guess that's where I think you and I are a little bit in disagreement, is you're looking at something saying well, that means they're going to get up and ship to the United States. I'm saying, you know, possibly, but the evidence is that they haven't done that; that they follow the demand.

They weren't irresponsible players in the U.S. market. And what Petitioners are trying to get you to assume, that they're irresponsible players in the U.S. market. And I'm saying that that, there is no, that there really isn't any evidence of. That's the purpose of the charts.

CHAIRMAN ARANOFF: Okay. Well, I appreciate those answers, and I ask my colleague's pardon for going so far over the red light.

Vice Chairman Pearson.

VICE CHAIRMAN PEARSON: Madame Chairman, you're having fun. Ask another. Okay, okay.

Mr. Dunn, one of the great things about being a Commissioner is that if we wish, we can ask questions that are only tangentially relevant to the case. And some of my fellow Commissioners would say that that's my norm.

But the question that's been on my mind for years, since I first heard about the idea of horizontal drilling, is how long does it take to make the curve with that pipe? I mean, are we talking about hundreds or thousands of feet of pipe to get around the 90 degrees?

MR. DUNN: No. It's a very, it's a very tight turn. It requires, that's where the premium threads come in. You've got to rotate the pipe to go those long horizontal rings, to keep it from hanging on the bottom, you've got to rotate the pipe as you go horizontal. So, and that was part, I guess, I read a couple things from this brief regarding the drilling technology.

These new rigs are especially built for horizontal drilling. And for instance, a well that we were drilling in the Barnett shale to 12,000 total feet in 2007 was taking us about 22 days. By 2008 it was taking us 11 days, and we're drilling them this week, it takes us nine days. Same well, same formation, same -- so the productivity of the drilling fleet is so much higher. And the horizontal is, with rotating the pipe, it's not that big a deal.

And the consumption of tubular goods when you're drilling a well every nine days as opposed to drilling one every 22 days is massive. And it's a good thing.

VICE CHAIRMAN PEARSON: Well, obviously I should have visited a production site somewhere to watch the product being used.

MR. DUNN: I would be happy to escort you to one.

VICE CHAIRMAN PEARSON: But back to the first question. You do start out vertical, and then you --

MR. DUNN: You just take it out.

VICE CHAIRMAN PEARSON: Pardon?

MR. DUNN: It's just a directional drill, but you just start turning that drill bit and it goes out horizontally.

If you go too, you know, it's about -- I don't know, somebody else in the room's going to have to tell you the angle or the degree of the turn. But it's pretty tight. And Barnett, if you go, if you miss the turn, you're going to have an ocean coming at you. Because the Allenberger is wet, and it brings a lot of water to the surface. And you've got to stay out of the Allenberger, and go right through in the Barnett shale.

VICE CHAIRMAN PEARSON: Okay. Well, for the post-hearing, if you want to --

MR. DUNN: We have diagrams and things that might be helpful. We'd certainly be happy to give you information about the angle, if that's important to the case. And even if it's not, I'll be happy to supply it.

VICE CHAIRMAN PEARSON: It probably won't affect my decision on the case.

MR. DUNN: Sure, okay.

VICE CHAIRMAN PEARSON: It would be interesting technology.

Mr. Jordan, Mr. Dunn, there has been some discussion about the inventory of Chinese pipe that may go out of condition; 20 to 30 percent was the figure that was used. And you had indicated, Mr. Dunn, that it likely could be used for fence post, which, you know, probably not a real high-value use.

And so my question to you is, if you would be owning some of that, is there anything you can do to recondition it? Either to use it as OCTG or as perhaps line pipe, or some other more high-value product?

MR. DUNN: There is not, there is a limited surface, low-pressure downhill application. Manufacturers don't like to see their product go down a hole with their markings on it, if it's going into a service application.

There are two things in aging pipe, in my experience. One is rust, which is indiscriminate to method of manufacture or country of origin, and it's surface rust, or damaged or pitted threads, which is also indiscriminate. Although there are some, there are some practices that you can put on threads that prolong the life.

But two things happen. If you can preserve the threads well, but the surface of the pipe becomes so corrosive that you no longer can find the mill markings, it's not API. And therefore, it's --

VICE CHAIRMAN PEARSON: It becomes fence post at that --

MR. DUNN: Yeah, you can't ship material that you can't identify against a prime application.

So there is a burden of inventory management, and a cost associated with that, to all this inventory that's on the ground.

VICE CHAIRMAN PEARSON: Okay. So the two of you who have experience in this marketplace, talk to me about how difficult it will be to unwind the current inventory, and how it likely will play out. Because you've seen ups and downs in the market before, and you've dealt with surplus inventory at times in the past.

MR. JORDAN: What's happening right now, as I told you, you know, I'm basically out of new import material. I've been pretty quiet here in the last few minutes, letting everybody else talk, sitting there figuring.

I can argue there are 60 to 70 very common sizes of pipe that I would bet the 1135 rigs we've got running today, 90 percent of these rigs would be running somewhere between these 60 and 70 sizes. Okay?

From an import point of view, Chinese pipe on the ground, half of these sizes are getting extremely low, or they're not even available right now. They've been sold, something's been done with it. And I can assure you, from the question that you asked this morning that I don't think I answered correctly, you asked one of these gentlemen about their current inventories. And they went, their answer was they started talking about Chinese inventory.

There's a lot of inventory holes that are filling up in domestic sizes, too. I promise you that. So Chinese inventory is getting depleted. Again, from the rig count going down. What you see as far as the imports that have not come in over the last five, six, seven months, and this material getting put in the ground, these inventories are getting lower and lower and lower.

VICE CHAIRMAN PEARSON: Again, just to go back to, Steve, go back to Figure 47. I think, I want to, you know, make sure we're not stuck in the past. The latest figures are that the inventory level has come down substantially. And so I want to make sure, at least as we sit here today, there is not as big an inventory overhang as there might have been when you made your decision.

MR. JORDAN: Right. But I think both Respondents and Petitioners agree that inventory is a meaningful issue in this investigation, more so than in some others.

MR. DUNN: But excess inventory is like a garage sale. The good stuff goes Saturday morning, less good stuff goes on Saturday afternoon, and by Sunday you just want to pay somebody to come and get it. It's surplus to your needs, you're trying to monetize it.

And one of the reasons inventory has moved pretty significantly in the last few weeks is it's being picked over by the good items. This is Saturday morning.

VICE CHAIRMAN PEARSON: We're about at lunchtime on Saturday now?

MR. DUNN: We're getting into Sunday.

VICE CHAIRMAN PEARSON: Oh, really?

MR. DUNN: Yeah.

VICE CHAIRMAN PEARSON: Okay. And so, maybe Mr. Jordan, who has gotten, he's placed his inventory, so it's no longer inventory, he brought in stuff that the market wanted on Saturday morning, is what you're saying.

MR. DUNN: Yes.

MR. JORDAN: I want to give you another real-life example here. Four or five weeks ago we had a client approach us. It's going to be extremely busy next year. Better stay on top of the OCTG market. They inquired on half a million feet, half a million feet of a particular size.

We didn't have any of it in inventory. I told him we'd be happy to check and see what we could do for him. But when you've got a client that does that, half a million feet of this particular size, you know, we're looking at, you know, anywhere from around $30 a foot-pipe, okay. So we spent quite a bit of time, several days seeing what was out on the market.

To make a long story short, this client was amazed. After he thought this was something he could do in two days and kind of satisfy his, where he would be able to buy this material at, from what he'd been hearing from, you know, from other partners of his or what the market was doing, he ended up placing, he ended up buying 250,000 feet of that pipe that was on the ground, okay? The other 250,000 feet he could not find, and he placed an order with one of the domestic mills. Okay.

So that size right there, after just one company making that kind of purchase, there's no more excess material on the ground. Or if there is, none of us could find it, and he couldn't find it. And we weren't the only supply company he called. He put this out to about four or five vendors.

VICE CHAIRMAN PEARSON: This might be something you want to address, since I'm red, in the post-hearing. But I'm curious. Where will you find pipe in the months or years ahead if there's an order on China, when you get these types of requests? If you want to comment now, you may, or you may respond afterwards. I don't want to get into issues that are proprietary to you, but I'm curious about this.

MR. JORDAN: It's a great question, it's a great concern of mine. I directly employ 50 people, indirectly I probably employ four or five hundred people.

I'm extremely concerned. The last four,

five, six months, knowing this is pending in pipes that I have, and I don't want to give them up, where am I going to find material?

There is going to be some voids out there that if Chinese material is not allowed in this market, and if rig count continues to do what it's doing, the domestic mills, I'm convinced, cannot supply enough Quinsten tempered pipe to supply these needs.

And more directly to me, looking out all over the world and at the steel mills that can produce this kind of quality pipe, I'm not coming up with anything. So you know, I'm, you know, I'm at a place to where I'm struggling trying to find certain inventories for clients of mine that I know are going to be busy.

VICE CHAIRMAN PEARSON: Okay, thank you, Mr. Jordan. And thanks to my fellow Commissioners for your indulgence.

CHAIRMAN ARANOFF: Commissioner Okun.

COMMISSIONER OKUN: Thank you, Madame Chairman. The Chairman had asked the question about what we were talking about, the confusing one about whether what's in inventory is related to the shale or not. So I think I understood the response about what's possible they make. And Mr. Dunn, I think you clarified a lot of that.

But with respect to the holds in inventory that you've all been talking about, I guess my request would be for post-hearing, to do as much as you can on explaining that to me. Because again, I looked. You've just taken off that inventory chart.

But Mr. Prusa, I wanted to ask you, because this chart, this inventory-back-to-record-profit-levels chart, to me, I still don't understand. It's a confusing chart to me, because you've got the one line on here, which is inventory in millions of tons. But you know, you look at our chart or Figure 2; this doesn't relate to inventory on hand, right? I mean, the '09 number for inventory on hand is still 11.8 months in our records. So that's going to change, right?

MR. PRUSA: But that's demand. Again, what this point is is that if demand were robust, and Chinese imports had nothing to do --

COMMISSIONER OKUN: Just to make it clear, that's just a hypothetical, right?

MR. PRUSA: This is saying that the level of imports, that the demand, when the market was healthy, this, the issue about the level of imports is related to demand. So actual tonnage number, as Mr. Porter was just saying, the bump up is now essentially gone.

And in fact, as the other graph would have shown you, the one part of this in fact, it hardly ever would have gone up except for the fall in demand. Maybe it's a couple before it, then.

COMMISSIONER OKUN: So I guess I think what I still think more relevant is, if what is recorded as on hand is -- you know, again, if you look at the historical inventory on hand, '09 inventory on hand is about double what it was in '08, 5.9 versus 11.8.

But I think what I've heard from Mr. Dunn and Mr. Jordan is that within that number, which is a long, which is a big number, that there are holds in inventory, and that's the argument you've been trying to make. Is that, is that -- Mr. Jordan, you're shaking your head yes.

MR. JORDAN: Yes.

COMMISSIONER OKUN: So the market to you appears tighter than, than what our figures might show.

MR. JORDAN: Yes.

COMMISSIONER OKUN: Okay. Mr. Porter.

MR. PORTER: Commissioner Okun, just real quickly. Just what will, I guess this is a more complicated way of saying it's Petitioner's assumption that every ton of OCTG is fungible with every other ton is simply not true.

MR. DURLING: And Commissioner Okun, just one point of factual clarification. Our point on the earlier slide was the total tonnage of inventory is now back to a level that was, you know, typical for the earlier period.

It is true that in terms of number of months, it is still somewhat high. That's because the number of months of inventory is also a function of the fact that for much of '09, total shipments were down. And it was just important because you were --

COMMISSIONER OKUN: Right, okay. But for me, I guess I mean for my purposes of looking at threat in particular, I still think that the relevant one is, if it's double what it was in '08, why won't it have an impact on the market? I mean, you've made some arguments here, but I'm asking you to comment on that.

MR. PORTER: Because very simply, demand is going to pick up. If demand picks --

COMMISSIONER OKUN: To the '08 level?

MR. PORTER: No, obviously not to '08 levels. But what the chart I think was trying to show is expected, Professor Prusa's chart was showing demand is expected to pick up to 05/06 levels, okay? And if demand picks up, obviously your months of inventory are going to go down because shipments are going up.

I mean, the little problem with months in inventory is the calculation. And so that's why we were sort of focused on the total absolute volume of inventory. And so then you can simply pick which demand level you think it is, and then you recalculate your months.

MR. PRUSA: Let me add, can I add just one thing, though?

COMMISSIONER OKUN: Yes.

MR. PRUSA: So being the most recent issue of Preston Pipe and Tube, which came out in a week, last week.

COMMISSIONER OKUN: Right after, right.

MR. PRUSA: Okay, so they're predicting about 350,000 tons-per-month operator consumption next year. Okay. So that's immediately this number, in terms of number of months in inventory, if Preston Pipe and Tube forecast is correct, we're talking at least two months off your total right there.

This is your number, which again is correct, I'm not disputing the number at current operating rates. But two points. One is Preston Pipe and Tube has already released what they projected to be next year a lot higher. And number two, you're hearing testimony from Mr. Jordan and Mr. Dunn that in fact in the areas where the demand's really going to occur, the inventory already is tighter than even this number is showing.

So on both reasons, I don't see how you can see at a higher forecast operating consumption, and in the areas that they need it, the inventory issue doesn't seem to be an issue.

COMMISSIONER OKUN: Okay. So I will look at that, and I will look at the post-hearing for that as well.

And then I think my last question is that with respect to the Texas facilities, for Wook See and Tienjin, is there any relevance to anything with respect to how we decide this case? Any Chinese interest in the market that they are -- as I understand it, the public information says that the initial line in Houston is expected to begin operations by the end of 2009. But the heat-treating facilities have been delayed because of unfavorable market condition?

MR. PORTER: Right. Well, I would, for the Tienjin, that's sort of easy, because they are contemplating building a fully integrated facility that they'll make their own steel. They're not going to import green tubes, they're not going to import billets; they're going to make everything in Texas.

And so when that is up and running, that company will no longer need to ship to the United States. And so honestly, I don't know anything more than was reported about when that will occur. But if it will occur in your sort of threat time period, then at least that importer -- sorry, that Chinese exporter -- shipments to the United States will decrease in the imminent future.

COMMISSIONER OKUN: Do you have any access to their business plans?

MR. PORTER: I am trying to get that for the post-hearing, to see if we can get a little better idea of what they are currently thinking about, when construction will begin and so forth.

COMMISSIONER OKUN: Okay. And with that, Madame Chairman, I don't have any other questions. But I appreciate all of the responses, and I look forward to the post-hearing briefs.

CHAIRMAN ARANOFF: Commissioner Lane.

COMMISSIONER LANE: Thank you. I have a few more questions. Mr. Dunn and Mr. Jordan, I want to talk a little bit about the role of master distributors. And it's my understanding that neither one of you are a master distributor, but I have questions anyway, if you can answer them.

Do U.S. importers typically have a single dedicated master distributor? Or do they, themselves, generally assume the role of master distributor?

MR. JORDAN: I just simply go out on the open market and try to find the best-quality pipe I can that my customers will accept, at the best price.

COMMISSIONER LANE: And so you buy for your customers, and you are a distributor, and then you sell them to your customers. Sell the pipe to your customers.

MR. JORDAN: Yes. I will buy directly from the mill, bring the pipe in, do the necessary work. Each customer has different specifications of work that they want done on that material. We will perform that, and we will ship that to the client.

COMMISSIONER LANE: Well, am I wrong in thinking that there are master distributors out there?

MR. JORDAN: Master distributors of imported material?

COMMISSIONER LANE: Yes.

MR. JORDAN: Yes, there are.

COMMISSIONER LANE: Okay. And --

MR. JORDAN: There's a few, I think you could put a couple of companies I know that are, you could put them in the master distributor category of Japanese mills.

COMMISSIONER LANE: And if you know, do they typically commit to quarterly or annual purchase volumes? And if so, are the prices fixed, or do they vary with market conditions?

MR. JORDAN: They vary with market conditions.

COMMISSIONER LANE: And how firm are their volume commitments?

MR. JORDAN: Did you ask how firm are the volume commitments?

COMMISSIONER LANE: Yes.

MR. JORDAN: I couldn't answer that. Byron, you got a clue on that?

MR. DUNN: They're as firm as the market. So they're not very firm.

COMMISSIONER LANE: Okay. In general, do master distributors typically hold substantial inventories of a broad range of OCTG products?

MR. DUNN: Most of the master -- I mean, I'm not sure I completely understand your framework of master distributor, because I may be thinking something different than you are.

But my observation of what you would call master distributors are generally niching large quantities of, you know, fewer SKUs. They're not a big broadband SKU stocker. They'll have a few, bulk quantities of a few hot items.

Again, it's a risk, it's a risk absorption issue. The longer out the lead time, the more risk they absorb.

COMMISSIONER LANE: Okay. The other question I have is, with respect to China, what is the role of trading companies? Do such companies have a role in selling OCTG within China? Or are they typically focused on export opportunities?

MR. DUNN: Again, it's kind of a definition of trading company. There are, most trading companies that I'm familiar with are engaged in both, on your side of the transaction. They're either selling or they're buying. They've got inventory, they're selling; if they don't, they're buying.

And my experience is that trading companies both engage in and solicit business in China and product from China to sell in other markets, on a global basis.

COMMISSIONER LANE: Okay. Mr. Jordan, do you have anything to add to that?

MR. JORDAN: I am not familiar with that market overseas.

COMMISSIONER LANE: Okay. Mr. Porter or Mr. Durling, do you have anything to say about what role trading companies play in this market in China?

MR. PORTER: We will have to get the information about what happens in China for you for the post-hearing.

COMMISSIONER LANE: Okay, thank you. And with that, I have no further questions, and I thank you all for your attention this afternoon and this evening. Thank you.

CHAIRMAN ARANOFF: Commissioner Williamson, you don't have any further questions?

COMMISSIONER WILLIAMSON: No further questions, and I thank the witnesses for their testimony.

CHAIRMAN ARANOFF: Commissioner Pinkert?

COMMISSIONER PINKERT: I, too, thank the witnesses, and I look forward to the post-hearing.

I would add that if you have any analysis of what would have happened with the non-subject imports had the subject imports retained their market share from 2006 all the way into 2008, that would be helpful. That's a question that I had asked the Petitioner's side earlier.

Thank you, Madame Chairman.

CHAIRMAN ARANOFF: I have two more questions. One is more for now, and one is more for post-hearing. This goes back to the very first question that Commissioner Lane asked at the beginning of questioning of Petitioner's panel this morning, which is a question about your argument that the domestic industry has a sufficient cash cushion to not have laid off any workers, and to pay all their operating expenses for two years.

I understand the rhetorical point that you're making. But I just want to check in and see whether you can identify any publicly held corporation that has ever adopted that strategy in real life, or could realistically do so.

MR. PORTER: Actually, we actually looked into this before coming here. We anticipated this.

We can put together reports of several U.S. companies that have opted not to let go workers in a period of a downturn, if they are financially able to do so. And we actually did identify some, not to see if they're publicly held or not. But we have put together some of that, and we will put that in our post-hearing.

Chairman Aranoff, you correctly identified it was a rhetorical thing to indicate what we think is the core of the, you know, sort of what you need to do with respect to threat.

Is the industry able to do what they need to do to be a thriving, healthy industry? Do they have it, you know, the wherewithal to do it? And our point about the substantial surplus excess profits is just that. They have the ability to invest. They have the ability to do all these things, and still make a reasonable profit without any production.

And so the question is, are they really vulnerable to injury if they can do all the things they need to do to maintain a healthy industry. That was really our point in doing this.

MR. DUNN: Well, and just, Commissioner Aranoff, just an additional point. It's a way of getting at the artificiality of just kind of looking at each year as a narrow box. I understand that's the traditional analytic framework, but it's a starting point, not an ending point, in the analysis.

And the question is, if you need financial resources to maintain a thriving industry, do they have to be earned in that year? Or can you in fact preserve the future of the industry based on either profits they will have in the future, or profits that they have already earned, that you know with certainty have occurred, that are basically sitting in the bank? Or have been used for some other purpose.

But it just seems a little unfair to basically allow an unbelievable cash cushion to develop in one year, and then for a down year to come, and say oh, well, we're going to just look at the down year. We're going to say now you're vulnerable, and not in some way take into account the magnitude of the cash cushion you had going into the down year.

So yes, I mean, we think from a statutory perspective, it's relevant for assessing vulnerability, which is an important element of evaluating the threat.

Put differently, if they had not had that cash cushion, they certainly would be arguing that. That would be part of their vulnerability; we just had two bad years, we didn't have the benefit of a cash cushion to ride out the downturn, we're vulnerable, we're more likely to be hurt. It's just in this case it's the exact opposite.

CHAIRMAN ARANOFF: The one thing I struggle with on this is, your argument has a certain amount of force when addressed to the issue of profitability and ability to invest. But employment indicators are also a statutory factor that we have to look at.

And you know, if it is true that, you know, there is probably a very rare publicly traded company that could tell its directors and shareholders that it's going to pay people not to work over an extended period of time, then the fact that the one factor maybe looks pretty good doesn't really affect how we look at the other.

MR. DUNN: Actually, Commissioner Aranoff, with respect to the employees, that's the easier part of the puzzle. Because honestly, there are examples of companies that basically say it's a downturn, we know it's going to turn around; we don't want to lose skilled workers, and so yes, we will continue to pay them. It may be on some different level; it may not be absolutely every person.

Our point is that they had lots of cash to give them lots of flexibility about how they were going to manage this issue going into the downturn.

But I guess the other point that I would just emphasize is, they know these cases are coming. And the Commission needs to be careful about creating sort of the wrong incentives. The more emphasis you place on this particular indicia, the greater the incentive they have when they're contemplating future cases to make sure that they're having a record that allows them to make the case they need to make.

And I just think much the same way that they are arguing that somehow we know a case is coming and that alters our behavior, that they know more about the case coming than we do.

MR. PRUSA: Commissioner Aranoff, may I add one thing? This might come back, it might have been Commissioner Lane that asked the question this morning about the cyclical industry, and does that matter for the context of this case. I'm sorry if it wasn't Commissioner Lane.

But I think that's very important in the context of this question you are getting at right now. The cushion knows this is a cyclical industry. They know it's a cyclical industry. This is not an industry that has the same output year after year after year after year. We know this is an industry that has a cycle, because the underlying demand, industry oil, natural gas, has a cycle.

So to act that, that as soon as there's a downturn, that there's no way that they are ready to weather this downturn, which is going to turn out to be about nine months, again, it doesn't seem plausible in light of, number one, they know it's a cyclical industry. And number two, the magnitude of the profits earned just in 2008, let alone 2006 through 2008.

CHAIRMAN ARANOFF: Okay. Well, let me go on to my last question. And this was for you, Dr. Prusa, which is just following up on your charts that you gave us on sort of what would happen to inventory levels at various different levels of demand that you had projected out.

Can you add to that what inventories would look like now, assuming that the volume of subject imports or the market share of subject imports had remained steady at the level that we saw in 2006?

MR. PRUSA: Can I just be sure I understand your question again? So you're asking, so what if, when the market turned in 2008, you're asking what if, what --

CHAIRMAN ARANOFF: If the market share of subject imports had remained steady at the level from 2006.

MR. PRUSA: The market share.

CHAIRMAN ARANOFF: Market share.

MR. PRUSA: Okay.

CHAIRMAN ARANOFF: Then what would inventories look like now, compared to all those other lines on your graph?

MR. PRUSA: Okay.

CHAIRMAN ARANOFF: Thank you very much. With that, I don't believe I have any further questions. Let me check.

Vice Chairman Pearson?

VICE CHAIRMAN PEARSON: Yes, I am still in. I haven't folded yet.

Earlier today I had a discussion with the Domestic Industry Panel to try to understand better the role that price had played, particularly in 2008. Because you know, I saw a price gap of, you know, fairly high domestic price, and I'm thinking okay, that may be drawing in imports.

What I hear from you, though, if I'm understanding correctly, is it wasn't so much the effect of price in the United States; it was a more fundamental need on the part of end users for pipes somehow. Get me OCTG. And so that it was more raw demand needing to be filled that brought the stuff in.

And of course, if you're in that type of desperate situation as an end user, then price becomes pretty negotiable.

Am I understanding that correctly? I'm not trying to put words in your mouth, I just wanted to make sure I understand.

MR. PORTER: You understand our argument perfectly, Commissioner Pearson.

MR. JORDAN: When the price of oil is $135 a barrel, then it got up to even at the price of oil at, I'm going to say $80, $85 a barrel and upward; and more importantly, since of the, as of right now, 1135 rigs that are running, 70, 75 percent of those are doing it for natural gas. So it's more importantly to follow the price of natural gas.

The price of natural gas got as high as $13.50 per thousand. It also dropped as low -- that was what, I believe in June/July of '08. And then about six months later it got down as low as $2.50, $2.60 a thousand. So a huge decline there.

So as an operator drilling a well, you're drilling for natural gas, you see that fluctuation. So when gas is seven, eight, nine, 10 dollars, and you've got it hedged, you want to get pipe in the ground, are you concerned about the price? Yes, but not as much as if your commodity price is lower than what you're selling it at.

VICE CHAIRMAN PEARSON: Okay. Now, if I could continue with you, Mr. Jordan. Let's assume for a moment that going forward we have a more modest demand situation than we had in 2008, which seems to be fairly likely based on the record.

I assume you're still going to want, there is no order on site, okay. That's the operating assumption here. You're going to want to continue to serve customer demand. It's not as robust as in 2008, but you're getting some inquiries.

And you know, the customer will probably buy domestic price unless there's some price advantage to buying imported pipe from you. It may not be true in all cases, but that might be kind of a general rule.

What type of price gap do you need between what the domestics are charging and what you can lay pipe in from China, in order to be able to keep your customers with you? And if that's proprietary, you don't want to go into detail, that's okay.

What I'm trying to say is, in relatively normal demand conditions, if the price gap gets big enough, importers are going to find it attractive to go ahead and import some product. Elaborate if you could.

MR. JORDAN: So will the steel mills that we were doing business with in China, after a lot of investigation trips over there, and trial and error bringing that material in, putting it through stringent inspections that were required by our clients. We were basically getting the same price for it to the end users as what the domestics were.

So was there a huge price gap as to what I was having to sell this material for, as opposed to the domestics in a lot of cases? No.

VICE CHAIRMAN PEARSON: Okay. So even though our record does show largely under-selling on the part of imports from China, in your own personal experience, you weren't accounting for much of that under-selling.

MR. JORDAN: That is correct.

VICE CHAIRMAN PEARSON: Mr. Porter.

MR. PORTER: Obviously the testimony I think you heard this afternoon, the answer to your question is, it varies. For some products, which you know, it has to do with availability of the sizes that are needed, and you know, what the domestics are offering for that particular size.

As we heard, for some sizes, as Mr. Dunn said, the domestics didn't have the capacity when, in a time of rising demand, to do the sizes that took a lot of capacity to do. They prefer to do the sweet spot of the larger diameter.

So in that situation, there may not be a need as much to do a price preference. But in a different situation, where there is more, there might be more meat. So I think it really sort of varies size by size, and it's hard to answer just oh, I always need to be 10-percent lower, where you can in some other products. I think it's harder to do that here.

And it gets back to our point, Petitioner's assumption that every ton of OCTG is fungible with every other ton is not true.

VICE CHAIRMAN PEARSON: Okay. Did you have something else?

MR. JORDAN: And again, everybody buys different. Every end user, if you run an operating company and you run an operating company, you're going to do a lot of things different.

For an example. I had a client, had four or five rigs running, okay. As long as I could keep him in pipe, he would give me X amount of dollars per foot for it. Okay? But he had an agreement with me that if they did drop a rig or two, that he would not be responsible for buying that pipe; that it would remain in my inventory.

So here I'm out buying pipe for him four, five, six, seven months ahead of time, and I'm taking that risk. So you've got, you have all different types of variables when you're dealing, when you're dealing with end users. It's not just -- or in my case, it's not just a slam-dunk easy, hey, here's the price.

And I think you heard this morning a lot of domestics over the last five, six, seven, eight months of 2008 got into the price of effect. They weren't even giving prices. Once the pipe got rolled, you know, then that's when the price would be established.

My clients wouldn't put up with that. My clients want a price. They want a fixed cost. They've got to go to their boss and say this is what it's going to cost us to drill this well. They don't want a bunch of question marks hanging over them.

VICE CHAIRMAN PEARSON: Okay. Mr. Dunn, you have experience both in this country and some in China. The Commission knows that in some products, including some steel products, the Chinese appear to have relatively competitive production costs. And occasionally there may be other incentives involved that help with that.

But let's assume that they have fairly low production costs in oil country tubular goods. You can comment more on that if you want.

But given that, why shouldn't we expect to see them selling here aggressively over time? I mean, you have been on the other side of these sorts of discussions. Why, in this case, should we not be concerned that if we don't have an order in place, that the Chinese just won't march in here and own most of the market?

MR. DUNN: I think there may be a misnomer in the room that China is somehow this 40-head monster that is collaborating in an organized way. I haven't found that to be the case.

My interface with Chinese producers has been independent. And though they all kind of seem to know what the other one is doing in terms of he got more orders than I did, when they're looking for business, they seem to know what's going on. But they don't seem to act in a strategic way. They act in a tactical way. They respond to demand.

VICE CHAIRMAN PEARSON: Okay. But we have orders on some other steel products, in part because we know that China has large over-capacity in those products, and the ability to produce it at a relatively low price. And so we've been concerned, and this is more in a threat context, that if we don't have an order, that there will be some flood of imports over time.

I'm wondering why we shouldn't apply that same sort of rationale to this product.

MR. PORTER: Commissioner Pearson, can I -- I can't say it never happened, but I'd say you do not have a lot of instances when you have found threat, when there has been a trend of decreasing imports.

Most of the time that you have found threat is when there has been increasing imports, you have excess capacity, and you expect that increase to continue. I actually don't know of a case where you've seen month after month after month of decrease, but yet somehow, because of extra capacity, you're going to have increase beyond historical levels.

I have not seen that case. I'm sure Petitioners will try to find it, but I don't think that is the norm. I think most of your threats are when you have rising imports, and you're worried they will continue because of the excess capacity. You don't have that situation here.

VICE CHAIRMAN PEARSON: Okay. Well, if, for purposes of post-hearing, you can help me understand why this steel product is different than the way we, the Commission, have dealt with some other steel products. You know, is this commodity so specialized, if you will, that it's made specifically to the requirements of the end user, and somehow that differentiates it from other steel products? I really don't know. I don't think I've gotten that yet from the hearing.

MR. DUNN: If I could just say, OCTG, on the value-added scale, it's at the top of the steel products, value-added product. And as a result of that, again in my experience, there is a lot of pipe that is made in China that actually has an API stencil on it, that may or may not actually meet the API standards. It's what I call a copy pipe for the application.

On the other hand, there is some significant high-quality manufacturers in China that meet all the API criteria. The trick is knowing who they are, which ones are which. Are you getting a copy, are you getting the real stuff.

And I think this industry has sorted that out pretty well over the course of 2008, because there was a significant amount of Chinese products that has failed in service because it didn't quite meet the API applications. Those products, and as a result maybe the customers that have experienced that are specifying no Chinese. It's not that no more of this brand; they just don't want to take the risk.

So there's a lot of customer revolt against Chinese material. And specifically to the brand that they've had problems with. So you know, there's lots of capacity, but not necessarily applicable capacity. And I'm taking you back to that question of, you know, why just these mills. I mean, how many tons these mills represent. I would say that we represent the qualified producers, rather than the massive amounts of non-qualified producers.

VICE CHAIRMAN PEARSON: Okay. Well, thank you. I'm heavily into the red, and so I want to close it there. I have no further questions. I would like to thank you very much for your testimony this evening. And again, I thank my colleagues for their patience.

CHAIRMAN ARANOFF: I believe Commissioner Pinkert has another question.

COMMISSIONER PINKERT: Thanks. I had thought I was finished, but I had a couple of questions that came up as I was listening to the testimony.

I imagine that the business people on the panel would agree with the statement that the downturn that we've seen in late 2008/early 2009 is not a normal cyclical downturn for the industry. Is that a fair statement?

MR. DUNN: 2008 wasn't a normal, late 2008 wasn't a normal year for anybody in any industry, because there was an economic collapse. And when you have an economic collapse, you can anticipate a reduction in BTU consumption in any economy.

And when you anticipate that, you pull back the reins on drilling activity because you don't want to have too much gas or oil. And that causes a change in demand for OCTG. I mean, it's all connected.

COMMISSIONER PINKERT: Mr. Jordan.

MR. JORDAN: I totally agree with that. 2008, as I testified, was just an extraordinary year, extraordinary year. The only thing I can compare 2008 to, Byron, was in December '82 there was 4200 rigs running, or was that December '83? December 1982. December 1981, when most of us guys in this room were in this business. I was just kind of starting out in it; Byron I think had been in it about 10 years at the time.

But there were 4200 drilling rigs running. If you'll recall, the price of oil was about $30 a barrel. In 1976 it jumped up to $17 a barrel. It was at $30 a barrel, and there was speculation that it was going to $100 a barrel, and everything was ramping up again, 4200 rigs running.

And then the next thing you know, we all went to lunch one day, and we came back and the price of oil dropped three or four dollars a barrel. And the phones were ringing off the wall up to that point in time; next thing you know, the phones quit ringing. So we just had a total collapse again.

So the only thing I can relate 08/09 to is the collapse that we had in the early eighties.

COMMISSIONER PINKERT: I appreciate that. Now, turning to Professor Prusa. I understand your argument that this is a cyclical industry. And let's, for the sake of this question, accept that.

What do we do with late 2008/early 2009 in terms of both subject import behavior, and in terms of the performance of the domestic industry, in a business cycle analysis, when that period might not fit within normal business cycle? Do you understand my question?

MR. PRUSA: Yes. And first of all, I'd like to also probably think about it and try to get to you in post-hearing.

But I agree with you that this case is truly complicated because of the dramatic runup in the nine or 10 months prior to the collapse. So you have both sides that make it very hard. I agree with you completely that the runup was so sharp, it wasn't like it went down, you know, say from a 2006 place. It went to a level far higher than 2006.

And the other thing that's complicated is given the sharp decrease, given the fact, as Mr. Jordan testified, that the lags between the time when the imports were ordered and when they arrived, I mean, without a doubt the increase in market share was completely driven by the lag issue. Imports are dropping faster than domestics, but they're doing so with a lag.

But if you just looked at the two charts that Mr. Durling had up, I mean, it's completely driven by the timing issue.

So I will respond to you in post-hearing. But I mean, if the question is generally is this more complicated because of first the sharp runup, and then the unprecedented collapse, I agree with you.

COMMISSIONER PINKERT: Thank you. I look forward to the post-hearing, and appreciate the Chairman's indulgence.

CHAIRMAN ARANOFF: I believe that Commissioner Lane has another question.

COMMISSIONER LANE: Yes. This is for Mr. Dunn and Mr. Jordan. I want to make sure that I understand what happens in the industry. Because you testified that your customers order pipe, and it takes several months to actually deliver the pipe to them.

Now, do most drillers have drilling programs that they get the financing up front before they actually start drilling? So that when they order that pipe from you, they have the financing in place for the drilling, including buying the pipe?

MR. JORDAN: Good question. Some do, some don't. I know that's not what you want to hear, but for purpose, for the most part, the financing, the financing pretty much is in place.

COMMISSIONER LANE: Okay. So you would know, when your customers order pipe, as to whether or not they've already got their money up front to pay you.

MR. JORDAN: Yes. But on the other hand, some of them make agreements with you that if, for some reason, they quit drilling, that that pipe is yours. They don't want it in their inventory.

COMMISSIONER LANE: Okay. Okay, thank you. And Mr. Dunn, would you agree with what he has said?

MR. DUNN: My experience is that most people don't initiate the drilling programs without capital.

COMMISSIONER LANE: Without capital?

MR. DUNN: Without capital, as I testified earlier. Most publicly traded companies anyway, they drill cash flow. It's pretty typical if you don't -- or they have to go out and fund it publicly. But they drill cash flow. So the budgets are set. And where they're significant in size, they commit to drilling contractors to actually drill the well for them, and they supply the pipe.

And in most cases in '08, the drilling contractors were, you know, were jacking up the prices of their drilling equipment, which cost the operator, the guy that bought the pipe, to go long with the drilling rig. So he would commit to a long-term contract to tie up the drilling rigs for an extended period of time. And once you do that, you're paying the contractor whether you've got the pipe or not. So that's why the supply chain was so critical, because you had long-term commitments on drilling rigs, some of which are still in force and the rigs are laying down because of the economic collapse.

COMMISSIONER LANE: Okay. And that's the question I was asking. So you are saying that most of the drillers, the operators, do not have their financing in place before they start drilling.

MR. DUNN: No, I don't think I said that. If I did, I certainly did not mean to say that.

COMMISSIONER LANE: Okay. So most of them do have their drilling, or their financing in place.

MR. DUNN: Absolutely.

COMMISSIONER LANE: Okay. And so only if they change their mind about actually drilling.

MR. DUNN: When there's a change in circumstances -- if the commodity prices crash, or the cash is redeployed, or their outlook for the future changes -- they may then pull back on those, on that capital spend.

COMMISSIONER LANE: Okay.

MR. DUNN: But most public companies establish capital spend about this time of year. They announce it in the next, you know, 30 days or so. They deploy it in January. They review it at least at mid-year, and they may pull it back if they've outspent the allocation, or they allocate more to continue to the briskness of the drilling cycle.

COMMISSIONER LANE: But non-public companies that rely upon private investors.

MR. DUNN: Yes.

COMMISSIONER LANE: Those companies would get the money before they start drilling.

MR. DUNN: I think your credit department would require that. We don't do business with a lot of people that don't have the money when they order pipe.

COMMISSIONER LANE: Okay, thank you. That's probably the answer I wanted. Thank you.

CHAIRMAN ARANOFF: Are there any more questions from Commissioners?

Do the staff have any questions for this panel?

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Madame Chairman. Staff has two very quick questions, I believe both directed toward Mr. Dunn.

Because of the number of questions about OCTG for the shale plates, I just wanted to make sure I understood the testimony correctly that most typically the casing for such applications is P-110, 4.5- to 5.5-inch product casing, that may be either seamless or welded?

MR. DUNN: I'm not sure I said that exactly, but you're almost correct. For the Barnett, it's 5.5 principally. It's not 100-percent the case, but principally it's 5.5. For the Hainesville it's going to be larger than that, seven, seven and five-eighths, some five-inch OD material, occasionally some 4.5 minor. The Marcellus is going to look similar to Barnett in most of the applications, although they, from time to time, go larger. And the Bocken is larger, sometimes they're 5.5.

So in general, the punchline is small diameter, heat-treat. And in some of those deeper applications, like the Hainesville, it's going to be heavier wall. And therefore, much of that has to be seamless, just because ERW has a tough time efficiently making that product. We made it at Lone Star, but most ERW producers have a tough time with heavy-wall, small-diameter.

MR. CORKRAN: Okay, thank you. That was very helpful.

And then very briefly, the second question was there's a lot of attention focused on casing. Are there particular characteristics for the tubing used in the shale plates?

MR. DUNN: No, because the tubing isn't under the big frac pressure, your frac through the casing, so, you know, you can use more kind of generic tubing. It's in 80-L-80 and P-grades.

MR. CORKRAN: Thank you very much. And with that, staff has no additional questions.

CHAIRMAN ARANOFF: Do Petitioners have any questions for this panel?

MR. PORTER: No, we do not.

CHAIRMAN ARANOFF: Thank you. All right, I believe then that we are ready for closing. So let me just say thank you to this afternoon/evening's panel. We appreciate all of your time and help answering our questions. And I guess we'll ask you to take your seats at the back of the room, and we'll proceed to the closing.

Petitioners have five minutes, Respondents have nine minutes total. Whenever you're ready.

MR. VAUGHN: Commissioner Aranoff, this is Stephen Vaughn representing U.S. Steel.

The other side has made a big point about allegations claiming that we have not actually been injured. But the record shows that thousands of American workers have been jobless for most of the year; that the U.S. mills have been largely shut down;

that they lost over $140 million from April to September. This is not simply a decline relative to 2008. It constitutes material injury under any circumstances.

Second, Professor Prusa says that the inventory buildup would not occur absent falling demand. But his analysis is absurd. He assumes the demand would have stayed strong, but that shipments would have fallen.

In our post-hearing brief, we will show that if this analysis were done correctly, and if demand and shipments had both stayed at Fall 2008 levels, inventories would have surged. His analysis, if done correctly, will prove our case.

Third, there was a lot of back-and-forth over the question about whether or not the information, the pipe that is in inventory can actually be used, or is being used.

We will show that if you look at Preston numbers, you will see that at this point in the market, about 60 percent of operator consumption is being served out of inventory. There is no question that a lot of the inventory that is on the ground is being used, and is taking away sales from domestic mills.

Next, they made an allegation about the critical circumstances determination at the Department of Commerce. That determination was looking at the question about whether or not the Chinese mills were aware of the case as of last June.

The testimony this morning had to do with whether or not they were aware of the case as of several months before the case was actually filed. And the Preston counts and other information on that is overwhelming that they did have expectations of a case coming at that time.

A couple more points. You have heard testimony from Mr. Dunn today about projections of demand. On page 58 of our brief we have a quote from Steve Fowler of Tubular Synergy Group, his company, who says he does not understand why the rig count is not already lower than it is, and that the odds of things taking a steep dive in the first quarter are quite real, and that he is very pessimistic about things going forward.

Finally, I would just like to point out that in 2007 -- and my time has expired.

MR. PRICE: Good evening. Alan Price on behalf of Maverick.

I want to take apart a few parts of the

case, and then quickly close.

This is their page 52, the Preston Pipe report study. The domestic volume projections in here, according to the publisher, we've confirmed this this afternoon, assume that there is an affirmative determination by this Agency. Otherwise, the domestic volumes would be revised sharply downward, according to the publisher. They have assumed no Chinese imports.

Second. Based upon the testimony of Mr. Jordan and Mr. Dunn, I think it's pretty clear that the Chinese could have canceled out all of their '09 exports to the United States; certainly could have canceled out a large chunk of the imports. They chose not to do so. It was apparent the market had collapsed. The product wasn't on boats. They put it on anyway. They continued to move it, and they only stopped because of the risk of critical circumstances.

Now, how do we know the Chinese have a propensity of exporting? Well, because they have. They have increased in strong markets and weak markets throughout this period, including '07, in which everyone else went down. They have seized share. They have constantly done so by under-selling.

They have massive excess capacity, which we've detailed in our brief, including statements by people in China who know very, very well. Including the head of the Chinese Pipe Association.

Now, we also know that they receive enormous subsidies, on the order of $150 to $200 million a ton, to finance the exports. They get a 17-percent tax rebate that helps encourage exports. And all of this is on top of at least four million tons of excess capacity that is acknowledged by the head of the Chinese Pipe Producers Association, saying they have massive problems on their hands. So this capacity will come here as it has done in the past and will do so again. The record is very apparent on that.

And I urge you to look no further than the statements from the head of strategic planning on Wook See which says if there's no water here, we will be back immediately. There's not a doubt. And any additional orders will deprive this industry of any semblance of a recovery. Thank you.

CHAIRMAN ARANOFF: Thank you very much.

(Pause.)

CHAIRMAN ARANOFF: Mr. Porter, you have nine minutes remaining.

MR. PORTER: Madame Chairman, members of the Commission, I know the hour is late, actually very late, and so I will do my best to be very brief. Just a few final comments.

My first comment is actually a request. I respectfully request that you pay particular attention to the purchaser question responses that you have received in this case. The 44 purchaser responses that you have received account for an astonishing 70 percent of total U.S. consumption.

As you know well, purchasers provide the most compelling evidence of the actual competitive dynamics in the market. And these purchaser responses refute many of the arguments that you heard today by Petitioners.

Indeed, in light of the purchaser responses, it is downright incredible that the domestic industry panel and their counsel would actually argue there was no shortage of U.S.-produced OCTG in 2008.

My next comment is another request. We ask that the Commission not adopt the double-counting of imports approach advocated by the Petitioners. Under Petitioners' approach, the same ton of Chinese OCTG is both allegedly causing injury by being consumed in the U.S. market, and threatened to be consumed in the U.S. market at a future date. This can be seen by Petitioners' arguments.

Petitioners point to an import market share of 30-plus percent in interim 2009 by pointing to a calculation of market share that is apparent domestic consumption using official import statistics. Under this calculation, imports are deemed consumed in the market at time of entry. Using this approach, Petitioners point to an increased market share, and claim that this increased market share in 2009 is evidence of injury.

However, Petitioners also point to allegedly increased inventories by importers and distributors as additional evidence of injury. Petitioners claim that the increased inventories represent a threat of future lost sales when the inventories are consumed in the market. This is double-counting Chinese OCTG.

A ton of Chinese OCTG that is consumed, or that is actually deemed consumed when it enters the country, as a calculation of market share assumes, cannot also be a threat of future consumption. A ton of Chinese OCTG could not be consumed twice. While undertaking your analysis, please do not double-count Chinese OCTG.

And my final comment is to ask you -- indeed, implore you -- not to ignore reality when you conduct your injury and causation analysis.

The Petitioners ask you to ignore the real-world reality that the domestic industry made billions of dollars in excess profits over the past few years. Again, we are talking about excess profits; billions and billions of dollars above and beyond the industry's historic profit level of $175 million a year.

We submit that the Commission cannot ignore this fact in its injury and causation analysis. At its core, as I've discussed, the Commission's injury and causation analysis examines whether the subject imports have caused the domestic industry not to be able to earn sufficient revenue to be able to do those things that are needed to do, to be a thriving industry.

And so the question is, do we have that situation here. The answer has to be no. The answer has to be no because domestic industry has billions of dollars of excess profits available to it to help manage the down part of the boom-bust cycle. This fact cannot be ignored in your injury analysis, and it cannot be ignored in your threat analysis.

Thank you.

CHAIRMAN ARANOFF: I want to take this opportunity again to thank everyone who participated in today's hearing. And I also want to particularly thank the Commission staff who helped prepare for this, especially the few, the proud, the ones who are still here.

I also want to thank our Office of External Relations, the Secretary's Office, for helping to manage all the flow of people in and out. And the Agency security staff, who did a really great job of getting all of you in and out of here efficiently, while there is also a Section 337 trial going on in the building.

Post-hearing briefs, statements responsive to questions, and requests of the Commission and corrections to the transcript must be filed by December 8, 2009.

Closing of the record and final release of data to parties takes place on December 23, 2009. And final comments are due on December 28, 2009.

With that, I believe we have completed our business for today. And this hearing is adjourned.

(Whereupon, at 7:30 p.m., the hearing in the above-entitled matter was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Oil Country Tubular Goods from China

INVESTIGATION NO.: 701-TA-463 and 731-TA-1159

HEARING DATE: December 1, 2009

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: December 1, 2009

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Rebecca McCrary
Signature of Proofreader

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

SIGNED: Gabriel Gheorghiu

Signature of Court Reporter