UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
CARBON AND CERTAIN ALLOY	)	731-TA-1099-1101
STEEL WIRE ROD FROM CHINA,	)	(Preliminary)
GERMANY, AND TURKEY	)	

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Thursday,
December 1, 2005

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

The conference commenced, pursuant to notice, at 9:15 a.m., at the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

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JONATHAN ENGLER

APPEARANCES: (cont'd.)

In Support of the Imposition of Antidumping Duty Orders:

On behalf of Connecticut Steel Corp.; Gerdau Ameristeel U.S., Inc.; Keystone Consolidated Industries, Inc.; Mittal Steel U.S.A. Georgetown; and Rocky Mountain Steel Mills :

DAVID CHEEK, President, Keystone Consolidated Industries, Inc.
ROBERT SIMON, Vice President and General Manager, Rocky Mountain Steel Mills
BILL GROOM, Director of Rod and Bar Sales, Rocky Mountain Steel Mills
KEITH MARTIN, Rod Sales Manager, Gerdau Ameristeel U.S., Inc.
GUS PORTER, President, Connecticut Steel Corporation
BRIAN KURTZ, Vice President and General Manager, ISG Georgetown (Mittal Steel U.S.A. Georgetown)
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APPEARANCES: (cont'd.)

In Opposition to the Imposition of Antidumping Duty Orders:

On behalf of Group/Shoudu Iron & Steel Company; Anshan Iron & Steel (Group) Corp.; Jiangsu Shagang Group Co. Ltd.; Xiangtan Iron & Steel (Group) Co. Ltd. (subsidiary of Hunan Valin Iron & Steel Group); Tangshan Iron & Steel Group, Inc.; Hangzhou Iron & Steel Group Co., Ltd; Henan Jiyuan Steel & Iron Group, Ltd.; Maanshan Iron & Steel Co., Ltd.; Nanjing Iron & Steel United Co., Ltd.; Pingxiang Iron & Steel Co., Ltd.; Qingdao Iron & Steel Group Co.; Shanghai Baosteel Group Corp.; and Tianjin Tiangang Steel Group Co., Ltd.:

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On behalf of The American Wire Producers Association (AWPA):

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ROBERT MOFFITT, Vice President Purchasing, Davis Wire Corporation, and President, AWPA
JOSEPH DOWNES, President, Industrial Materials Segment, Leggett & Platt Wire Group
JOHN T. JOHNSON, JR., President, Mid South Wire Company

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APPEARANCES: (cont'd.)

In Opposition to the Imposition of Antidumping Duty Orders:

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On behalf of Saarstahl AG and Saarsteel, Inc.:

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On behalf of Michelin North America and Rubber Manufacturers Association:

CHRISTIAN L. GULLOT, Director, Government Affairs, Rubber Manufacturers Association
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APPEARANCES: (cont'd.)

In Opposition to the Imposition of Antidumping Duty Orders:

On behalf of The Lincoln Electric Company:

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On behalf of Illinois Tool Works, Inc.:

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On behalf of Bridgestone Firestone North American Tire, LLC and Rubber Manufacturers Association:

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On behalf of The Goodyear Tire and Rubber Company and Rubber Manufacturers Association:

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P R O C E E D I N G S

(9:15 a.m.)

MR. CARPENTER: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation Nos. 731-TA-1099-1101 concerning imports of Carbon and Certain Alloy Steel Wire Rod From China, Germany and Turkey.

My name is Robert Carpenter. I'm the Commission's Director of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my far right, Douglas Corkran, the supervisory investigator; Michael Szustakowski, the investigator; on my left, June Brown, the attorney/advisor; Amelia Preece, economist; David Boyland, the accountant; and Harry Lenchitz, the industry analyst.

I understand the parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones. We also ask that you state your name and affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. CARPENTER: If not, welcome, Mr. Rosenthal. Please proceed with your opening statement.

MR. ROSENTHAL: Thank you. Good morning, Mr. Carpenter and members of the Commission staff. I'm Paul Rosenthal of Collier Shannon Scott representing the Petitioners, the domestic producers of wire rod. I'm accompanied this morning by my colleagues, Kathy Cannon and Alan Luberda.

Unfortunately, it was not all that long ago that I appeared before you in an attempt to obtain relief for this industry from other unfairly traded imports. On the heels of that successful case, however, it was only a matter of time before dumped imports from China, Turkey and Germany rushed in to cause further injury to the U.S. wire rod industry.

Our tale is all too familiar: Increasing market share of subject imports at the expense of U.S. producers, underselling by subject imports leading to suppression of U.S. prices at a time of rising costs and a consequent decline in both trade and financial variables for the industry as Dr. Magrath and our industry witnesses will tell you about this morning.

The earlier cases did however provide the

Commission the opportunity to examine a number of issues that should expedite the Commission's analysis here. On the like product issue, for example, the Commission found that wire rod is a continuum product and that all types of wire rod, including tire cord and tire bead, welding rod and cold heading quality rod, are part of a single like product. Nothing has changed that would lead to a different result in this case.

I should also add that the U.S. industry produces each of these types of rod and is being injured due to imports of each of these more specialized types of rod, as well as imports of the basic commodity grades of wire rod.

Similarly, the Commission had the opportunity to examine factors relevant to the cumulation of imports in the earlier case. The ITC determined that the factors of fungibility, channels of distribution, geographic overlap and contemporaneous sales supported cumulating the subject imports. Again, those same findings remain true of the imports in this case.

In fact, the Commission specifically examined imports from Germany and Turkey at the preliminary stage of that earlier case and found that cumulation was appropriate based on competition among such imports and the U.S. product. Imports from China similarly are fungible with and compete against other subject imports and the U.S. product, justifying cumulation here.

Various conditions of competition the Commission identified in the earlier case also continue today, including the interchangeability of the product regardless of source and the resultant price-based nature of competition. That price-based nature of competition for rod sales has enabled imports from China, Turkey and Germany to take sales away from U.S. producers by undercutting U.S. prices.

The story of the past few years is fairly straightforward. The domestic industry tried to earn the much needed profits when they could when demand for rod increased last year in particular, but did so at the expense of lower production, declining sales and reduced market share due to surging volumes of subject imports.

This year, in an effort to prevent further declines in sales, the industry has tried to compete with the low-priced imports in a way that does not permit recovery of increased costs, leading once again to price suppression and substantial deterioration in industry profits for the first three quarters of 2005.

As if the large financial decline for the industry this year is not bad enough, the massive capacity looming on the horizon from each of the subject countries with strong incentive to ship to the U.S. market given the world conditions threatens to bear down on the industry with even larger volumes of dumped imports. Relief for this beleaguered industry is needed now.

That concludes my opening statement. I understand Mr. Barringer will be speaking next. I'm going to relinquish my chair to him.

MR. CARPENTER: Yes. Thank you, Mr. Rosenthal.

Mr. Barringer?

MR. BARRINGER: It is a rare opportunity for me to sit among the Petitioners. I'll relish it for a few seconds.

I'm Bill Barringer. I'm from Willkie Farr & Gallagher. We're representing the Chinese Respondents. My remarks today are on behalf of all of the Respondent countries.

I'd like at the outset to point out that this investigation is somewhat unique in that subject imports are declining both absolutely and relative to domestic shipments. While this decline is ignored in the petition because it covers only the first half of 2005, the fact is that Petitioners are claiming injury or threat of injury from declining imports.

Interim 2005 domestic shipments were down 17.9 percent from interim 2004. In contrast, subject imports were down 21.5 percent during this same period, but subject imports are declining absolutely and relative to domestic shipments in interim 2005.

I would note that this decline of subject imports has occurred despite the fact that because of labor problems substantial quantities of domestic supply have been removed from the market because of the shutdown by Gerdau of its Beaumont facility due to labor problems.

The question then becomes why did subject imports increase significantly during the earlier period of investigation and specifically 2004? As our witnesses will testify, the reason was quite simple. Lack of availability of domestically produced product.

One of the largest producers of wire rod, Georgetown Steel, was either not producing at all or producing in limited quantities from late 2003 until the third quarter of 2004. This resulted in several hundred thousand tons of supply being removed from the market.

As all of our industry witnesses will testify, they had to resort to imports in 2004 because of the lack of supply from domestic producers. Indeed, at least one company was told by its supplier, a Petitioner, to seek import sources because it could not meet its demand for wire rod.

In 2004, the domestic industry was able to sell every ton of wire rod it could produce. There was a scramble among wire producers to find wire rod from whatever source they could find. This in turn led to the increase in imports, including subject imports. Price was not an issue. Availability was the only issue.

Indeed, there is no correlation at all between increased imports and domestic prices since domestic prices increased dramatically at the same time that subject imports were increasing. With prices at historically high levels and supply unreliable, both wire producers and their customers sought to build up inventory to be able to supply their customers.

When supply caught up with demand in late 2004 and early 2005, the entire supply chain -- wire rod producers, wire producers and wire users -- had too much inventory. The inventory had to be worked off, which in turn affected demand. Demand, and with it prices, softened affecting both profits and production.

The combination of the destocking throughout the supply chain and the slight weakening of prices led to a decline in operating profits, production and shipments of the domestic industry in the first three quarters of 2005. This had nothing to do with the subject imports.

The combination of reduced demand because of destocking and reduced profits because of higher costs attributable primarily to higher energy costs led to reduced profits during the first three quarters of 2005. However, as we enter the fourth quarter the domestic producers are again demonstrating their ability to increase prices to recover increased costs, and availability of wire rod is again becoming an issue for the wire drawers.

With Georgetown back in full operation and Gerdau having announced that it will recommence production at its Beaumont facility in December, domestic shipments will increase. With announced price increases and the industry track record in 2004 of being able to pass cost increases along to customers in the form of price increases, profits should recover imminently.

With subject imports declining faster than domestic production, the domestic industry should recover any market share it lost in 2004 in 2005, providing that it has the product available for the marketplace.

In short, 2004 was a remarkable year in every way for the domestic industry. Moving into 2005, it caused some problems for the domestic producers because of high inventory levels throughout the supply chain.

Neither the remarkable 2004 nor the 2005 downturn were related to subject imports. The prospects for the balance of 2005 and for 2006 should approach the record performance of 2004.

Thank you.

MR. CARPENTER: Thank you, Mr. Barringer.

Welcome back, Mr. Rosenthal. Please proceed whenever you're ready.

MR. ROSENTHAL: Thank you. Our first witness this morning will be David Cheek, who's the president of Keystone Consolidated Industries.

MR. CHEEK: Good morning. My name is David Cheek, and I'm president of Keystone Consolidated

Industries, Inc. I've been with Keystone for six years, and I've served as president for the last two years.

My company was one of the Petitioners in the unfair trade investigation filed in 2001 against imports of wire rod from a number of countries. Information we presented to the Commission in those cases indicated that the subject countries were using unfair trade practices to increase their share of the U.S. market at the expense of the U.S. industry. We also demonstrated that the unfair trade practices permitted the subject imports to undercut our prices at a time when our costs were steadily increasing.

The Commission found that the imports had created a cost/price squeeze for our industry, suppressing our prices and leading to significant declines in our industry's financial performance and issued an affirmative injury finding. Orders were imposed against imports from seven countries in the fourth quarter of 2002 to offset these unfair trading practices.

As a result of the imposition of orders, the volume of imports from the seven countries declined significantly. Unfortunately, these beneficial effects were short-lived as other imports rushed in to fill the void, bringing a renewed injury to our industry.

Notably, our 2001 petition targeted imports from Germany and Turkey, two of the three countries subject to this case. Orders were not imposed against those two countries, however, because German imports were found to be negligible, and imports from Turkey were found not to be subsidized.

Publicly available information shows that imports from Turkey and Germany surged before that petition was filed and then fell off significantly in reaction to the cases. Once a negative subsidy finding was issued for Turkey and a negligibility finding for Germany, however, imports from those two countries again increased to account for a sizeable share of the U.S. market.

The third country targeted in this case, China, was not subject to the original investigation. Frankly, imports from China were very low in volume in 2001. That has changed radically in the past few years. China has surged to become the largest supplier to our market in 2005 with sales of extremely low-priced wire rod.

We have evidence that we will supply in our post-conference brief showing that there was a significant inventory overhang of Chinese material from 2004 being offered for sale this year. Further, given the massive additional capacity being added in China, this surge in imports apparently is just the tip of the iceberg.

So here at the end of 2005, despite successfully battling unfairly traded imports from a number of countries in 2002, we find ourselves once again needing to pursue trade cases to address the injury caused by imports from China, Turkey and Germany.

Although the timing is different, many things remain the same. Imports from these countries are increasing their share of the U.S. market at our expense. Subject imports are also undercutting our prices at a time of rising industry cost, placing us in a cost/price squeeze and suppressing our prices. In fact, the cost increases we are experiencing now are even greater than were the cost increases in the earlier cases.

Other facts that the Commission found to be true in the earlier cases also remain the same. Wire rod is still a commodity product sold in the U.S. market largely on the basis of price. At Keystone, we sell commodity grades of wire rod, focusing on low to medium-low carbon industrial and standard quality rod, but also selling an increasing amount of high level grade. We compete directly against imports from China, Turkey and Germany in sales of these products.

In the original investigation, the Commission examined whether imports from the subject countries, including Turkey and Germany, were interchangeable with U.S. produced rod, as well as with rod from other subject countries. The Commission found that imports from all sources, including Germany and Turkey, were interchangeable because of an overlap in product mix.

That remains true today for Turkey and Germany, as well as for China. All three countries sell the basic commodity grades we sell and compete directly against us for business. In the petition we submitted a number of examples of instances in which we lost sales or were forced to reduce prices in competition with these imports.

As a result of these continuing problems of unfairly priced imports, Keystone has suffered significant injury. We experienced a number of shutdowns during 2003 and 2004 and reduced schedules again in 2005 due to unfair import competition.

Keystone was in bankruptcy from February 26, 2004, until August 31, 2005. As we emerged from bankruptcy in the second half of 2005, however, we're struggling to maintain profitability in the wake of ever lower priced imports. If action is not taken to address these unfair trading practices, our selling price of wire rod will continue to drop, leading to financial losses for my company and our industry.

On the heels of what have been too many past years of financial problems for Keystone individually and for the industry as a whole, it is critical that the injury from these new and renewed sources of import competition be addressed.

Thank you.

MR. ROSENTHAL: Our next witness will be Brian Kurtz, who is the vice president and general manager for ISG Georgetown.

MR. KURTZ: Good morning, members of the Commission staff. My name is Brian Kurtz, and I'm general manager of ISG Georgetown, Inc., which is a part of Mittal Steel U.S.A. I have been in the steel industry for over 10 years, starting with Nucor in 1995. I joined ISG in 2002 and moved to run ISG Georgetown in 2004.

Our mill has always been one of the leading mills for quality in the United States. We not only make the industry grades of wire rod; we also are making welding rod grades, including S-6.

Georgetown has always been the leading U.S. producer of tire cord and tire bead product. We currently produce both products, including 1080 high tensile tire bead. These tire cord and bead products are very important to our product mix.

Import competition cuts across all of our product areas, and without question the biggest problem we face at Georgetown today is dumped imports of wire rod from China, Turkey and Germany.

Georgetown, under various ownership, has been battling unfairly traded imports both in the marketplace and in trade cases since well before my tenure. When the last set of trade cases was filed in 2001, the mill was known as GS Industries and was in bankruptcy due in large part to imports, including at that time imports from Germany and Turkey.

By the time those cases finished in 2002, the mill had emerged from bankruptcy under new ownership to become Georgetown Steel Company. Those cases were very helpful to the industry and generally, but Georgetown never really got a chance to catch its breath.

As Georgetown emerged from bankruptcy in

2002, the bottom fell out of the market in 2003. By late 2003, low prices in part fueled by nearly 800,000 tons of low-priced imports from China, Turkey and Germany, made it impossible for the Georgetown mill to make enough money to pay raw material suppliers.

Again the mill went into bankruptcy and ceased production in late 2003, just as the market was poised to improve again. Despite the improving market in early 2004, it took nearly eight months for Georgetown to find a buyer and consummate a sale that would bring it out of bankruptcy as ISG Georgetown in 2004.

ISG worked hard to bring the mill back in line, and we were producing steel by July 31, 2004, only about six weeks after the purchase, and shipping rod by August. Georgetown is rightfully proud of that achievement.

Because of the period that Georgetown was closed, the domestic industry would have been down about 500,000 tons of wire rod supply for 2004. That is about the amount the non-subject imports increased from 2003 to 2004. At the same time, however, imports from China, Turkey and Germany increased by over 1,000,000 tons between 2003 and 2004.

That is really a staggering amount,

particularly when you consider that these imports from China and Turkey and from the Brandenberg mill in Germany in particular were lowest priced or among the lowest priced rod in the market.

With wire product demand relatively strong, raw material prices rising and an abundant supply of low-priced rod imports surging into the market, the entire supply chain of our customers and their customers built significant inventories in 2004.

The increase in the low-priced imports during this period really had both an immediate and lingering effect on Georgetown. It eroded the price increases of the first half of 2004 that the industry needed to cover the rising cost of energy and raw materials.

In other words, the industry could have done far better in 2004 had it not been for the huge volume of low-priced imports from China, Turkey and Germany. Thus, the immediate effect came in the form of deteriorating prices in the fourth quarter of 2004 and into 2005.

The industry's 2004 profit scheme may seem good in a vacuum, but in the context of what was going on in all steel markets in the United States and the market we did not fare as well as the rest of the steel industry.

For example, Mittal Steel is the largest producer of carbon plate in the United States. The carbon plate industry was making 22 percent operating profits in 2004. Georgetown certainly did not do that well after it reopened, nor did the wire rod industry generally come anywhere close to that profitability last year or this year. This is in large part because of the surge in low-priced imports from China, Turkey and Germany in 2004 and 2005.

The second continuing effect came when the customer chain began working down its inventories in 2005. Thus, imports from 2004 were being consumed in 2005 from the consumer level on up the chain. While demand for finished products remained reasonable in 2005, wire rod apparent consumption fell as customers worked down rod inventory.

Imports of rod from China, Turkey and Germany unfortunately remained high and continued to undersell U.S. prices. As a result, our prices declined significantly during 2005, and profitability this year will be much lower for the wire rod industry than it was last year. Profitability will also be much lower in comparison to other parts of the carbon steel industry in 2005.

Georgetown is now part of the largest steel producer in the world, Mittal Steel. We have a great mill that can virtually make any product that the market demands. We have overhauled our labor contracts, cutting labor costs and increasing flexibility.

Despite the Gerdau Beaumont mill and a major Canadian supplier being down for part of 2005, we were still unable to fill our mill through most of 2005. At the same time, imports of dumped wire rod from China, Turkey and Germany continued to undersell our prices, take additional market share and cut into our sales and profitability.

As the Commission is aware, Mittal Steel owns wire rod producers in other countries. It also has facilities in the United States producing other basic products. We at Georgetown are continually judged by Mittal based on how we are performing compared to our other North American units and against our other foreign wire rod units.

To justify investments in this mill, I have to compete against other Mittal units in the U.S. that do not face the same level of import competition and can therefore outperform us. For example, we still have a relatively new Stelmor cooling deck taken from

Georgetown's now-closed Kansas City mill that we have not been able to justify installing in South Carolina absent an indication that the mill can have a sustained period of reasonable profitability.

We've done everything possible to improve our performance, but the dumped imports from China, Turkey and Germany continue to harm us and threaten to do even more harm. There is a tremendous amount of capacity that can be turned towards the United States from these countries, and any cooling decline in prices on demand in the world markets for these countries will lead directly to an even higher level of dumped imports at lower prices.

Wire rod imports from China, Turkey and Germany are not required to be traded fairly, thus enabling us to improve and maintain prices and profitability. Mittal will not be able to justify continued investment in and operation of the Georgetown mill.

Thank you very much.

MR. ROSENTHAL: Our next witness will be Keith Martin from Gerdau Ameristeel.

MR. MARTIN: Good morning, members of the Commission staff. My name is Keith Martin. I am the manager of wire rod sales for Gerdau Ameristeel.

We're the largest producer of domestic wire rod.

I've been in the business for over 20 years. I've been selling wire rod since the early 1990s. I was with Georgetown Steel during the 1990s and then worked for Evaco Steel of Canada from 2001 to 2003 and joined Gerdau in 2003.

Gerdau Ameristeel has two primary production facilities, one in Perth Amboy, New Jersey, and Beaumont, Texas. We also produce a small amount of wire rod at a rebar facility in Jacksonville, Florida. Gerdau Ameristeel today combines the former facilities of Co-Steel Raritan, Ameristeel and North Star Steel, all of which were bought by Gerdau since the last set of cases were filed in 2001.

At our three locations, we have the ability to make a wide range of wire rod products, including low, medium and high carbon industrial quality wire rods. We can and do make coal heading quality and welding rods, as well as a variety of other types of rods. The domestic industry overall makes all of the categories of wire rod.

I came to the Gerdau organization in 2003 after its purchase of Co-Steel in 2002. At that time, Germany and Turkey had already shown themselves to be a problem in the market, and China became a significant player for the first time in 2002.

Since they entered this market, China and Turkey have consistently had the lowest or among the lowest prices in the market. When the market slowed in 2003 the volume of all imports dropped, but cumulated imports from China, Turkey and Germany dropped by less than the other imports, and they took an increased share of the market at prices that were lower than other suppliers. In a down market, this contributed to a very difficult year in 2003.

2004 really saw a fundamental shift in the market. First, as everyone knows, costs skyrocketed, particularly energy, raw material and transportation costs. This meant the prices had to increase for our industries to survive.

Second, demand increased, which also permitted us to recoup prices and profits. At the same time, there was an explosion of imports from China, Turkey and Germany. They went from about 25 percent of all imports to about 45 percent of all imports and increased the presence in the market by over 1,000,000 tons.

Even with demand at such high levels in 2004, this was a challenge for us because these countries represented nearly half of all the imports and had the lowest prices in the market. If we had not had some major North American producers out of the market and a deliberate effort by our customers to build inventory, this kind of input surge in 2004 could have been disastrous.

As it was, coming on the heels of so many poor years in the industry, we needed and hoped to have a much better year in 2004 than we actually had. This is the sort of industry that you need to have some very good years to cover the inevitable down year.

The low-priced imports acted to hold down price increases. That had an effect of putting a ceiling on profits last year and made the downward turn in the market come much faster this year. Even during the brief period in 2004 when demand was strongest, we were limited on prices we could offer our customers because of the huge presence of Chinese, Turkish and German rod in the marketplace.

Remember, the increased demand was in part caused when our customers built inventory. Part of the incentive to build inventory came in the form of the availability of large volumes of dumped imports. Because they were buying for inventory rather than current consumption, the customers could simply decline to purchase from us or purchase imports if we tried to offer higher prices.

If Georgetown had not been out of the market for most of 2004 it's likely that we would have done much worse. As it was, prices started to erode in late 2004 and in early 2005, and they continued to fall during the first three quarters of this year. At the same time, imports of wire rod from China, Turkey and Germany have remained high and have significantly undersold the market. The result has been a significant hit to our profits.

Unfortunately, the standard practice of importers is to offer guaranteed pricing out for long periods of time. For example, I understand that the importers have guaranteed pricing through at least the first quarter of next year, so we are going to continue to struggle to maintain pricing.

I'm sure that the closure of our Beaumont mill since May 26, 2005, has helped some of my domestic competitors, just as we benefitted from Georgetown's closure last year. It shouldn't take the closing of domestic mills to keep the rest of the industry from going into the red.

When all North American mills are again fully operational the market is going to be very crowded. We are already operating Beaumont on a partial production schedule and have announced our intent to resume operations fully shortly.

My customers will not pay Gerdau what it takes to cover our costs and make a reasonable profit if they can buy the same rod from China, Turkey or Germany for as much as $100 a ton less. The Chinese, Turkish and German producers have shown that they intend to stay in this market at large and injurious volumes and at prices that consistently undercut us. They produce directly competitive products, and our customers know these things as well.

As the market stands today, prices are lower and profits are significantly down. We are already unable to fill our mill at Perth Amboy. Once we fully reopen our Beaumont facility, we are going to be forced to either forego sales or give up price to an even greater degree

The Chinese, Turkish and German mills cannot be permitted to continue to dump wire rod in this market if we are to return to healthy pricing and profitability in this market.

Thank you very much for your attention to this critical issue for Gerdau Ameristeel.

MR. ROSENTHAL: Our next witness is Robert

Simon from Rocky Mountain Steel Mills.

MR. SIMON: Good morning, Mr. Carpenter and Commission staff. My name is Rob Simon, and I'm the vice president and general manager for Rocky Mountain Steel Mill.

Prior to this position I was operations manager, which included overseeing manufacturing, costing, industrial engineering and environmental issues. I've been with Rocky Mountain Steel for over 12 years and was part of the Oregon Steel Mill's acquisition team that acquired Rocky Mountain in 1993.

Rocky Mountain Steel is located in Pueblo, Colorado. It has been in the business of making carbon wire rod products since the 1960s. We're a highly competitive wire rod producer and produce all types of carbon wire rod products, including rod for welding wire, music wire, pipe wrap, specialty rope grades and tire bead, and we have made substantial capital investments for future production of tire cord.

Although Rocky Mountain Steel is an efficient, low-cost producer, we find ourselves unable to compete with the flood of low-priced imports from China, Turkey and Germany. Rocky Mountain Steel is aware that foreign producers of wire rod have had a consistent practice of dumping carbon wire rod in the U.S. market. I have been in this business a long time, but I have never had to face competition like we're facing today from these countries.

Over the years, we heard that the Chinese, German and Turkish producers were building substantial capacity to produce wire rod, but we really felt that we would be able to compete with them until their large volumes of low-priced imports began penetrating our market.

China, Turkey and Germany's high production capacity and exports are particularly noticeable in the U.S. marketplace during the past several years. Imports from these countries have become the dominant price force in the market, keeping us from sufficiently raising prices to cover increased cost.

China, Turkey and Germany's internal markets cannot handle the excess production, so their product is being increasingly exported to offshore markets like the United States. Although China's internal supply needs have increased since 2002, the Chinese producers have severely overbuilt capacity and must export this excess capacity of wire rod. Turkey and Germany's limited home market demands also force the majority of their rod production to be exported, especially to the United States.

As the numbers reflect, our business has experienced decreasing sales and profitability in the recent past despite cost cutting measures. This decline in our operating margins has set a negative impact on our return on investments. Our workers have also been directly affected since we've been forced to implement cutbacks so our number of employees has declined, as well as their hours and their wages.

Rocky Mountain Steel is competing head-to-head with imports for virtually every sale of wire rod, and we are struggling to maintain our sales. We reported numerous loss in sales in the petition, and these losses have hurt our bottom line. The sales that we have been able to preserve, however, have resulted in lower prices and consequently lost revenue.

Our customers tell us that if we want to keep doing business with them we have to come close to import prices. From what we hear, foreign producers have been willing to guarantee low prices for an extended period of time without regard to volume or market changes.

Rocky Mountain Steel has had ample excess capacity to produce wire rod over the period of investigation, and we could easily increase our production and sales if it were not for unfair imports' growing market share.

Unless fair trade is restored to our market, we will continue to see lost sales and declining financial performance as our market share erodes further and further. If China, Turkey and Germany are allowed to dump large quantities of wire rod into this market, the injury experienced by the U.S. industry will become even more severe.

Thank you for your attention this morning.

MR. ROSENTHAL: Our next witness is Gus Porter from Connecticut Steel Corporation.

MR. G. PORTER: Good morning, Mr. Carpenter and members of staff. My name is Faragus Porter. I'm president and an owner of Connecticut Steel located in Wallingford, Connecticut. I have over 40 years' experience in the steel and steel-related industries and have been in my current position at Connecticut Steel since 1991.

Connecticut Steel sells a wide range of wire rod products, including rod for welded wire reinforcement and for production of wire rope, furniture and bedding springs, staples and fasteners, chain link fence and, since we are in New England, lobster and crab traps.

We've seen significant inroads by Chinese, Turkish and German wire rod into all of our market areas. We have joined with the other domestic rod mills in bringing this case because we recognize that if we do not do so we will face a continuing erosion in pricing and profits beyond these we have experienced this year.

In the 1990s, Connecticut Steel participated in the unsuccessful trade cases that culminated in the Section 201 investigation of 1998. That investigation produced the remedy from the President which essentially locked in the injurious levels of imported rod and left the domestic industry worse off than before that case had been filed.

After that experience we were, quite frankly, disillusioned at the lack of effectiveness of the trade laws. As a result, Connecticut Steel opted not to be a Petitioner in the 2001 trade cases, even though we did support them.

We were pleased when these cases succeeded, and we assumed that it would set the stage for a return to consistent, long-term profitability for the industry. Modest profits in 2002 gave way to a much more difficult financial picture in 2003, however, as demand dropped and the imports of wire rod from China, Turkey and Germany became significant.

The large and sudden rise of imports from those three countries would have been crippling to the domestic industry had it not been for a significant increase in demand and the closure of two large North American mills for part of 2004.

You will no doubt hear that during 2004 supplies of wire rod were tight, but I believe that period of tightness lasted for less than six months. At Connecticut Steel, we worked to ensure that we could meet our rod customers' actual needs during this period. We even bought a modest amount of rod for our own wire mesh production facility so that we could dedicate more of our production to our own customers.

As far as I can determine, we were generally able to meet our rod customers' normal needs during 2004. During 2005, we have consistently had excess rod production capacity because while demand has fallen from 2004 levels, imports of wire rod from China, Turkey and Germany have increased their share of the market.

Not being able to consistently sell our rod at a reasonable selling price in what should be a good market is very concerning to me. If Beaumont had not been down for periods of 2005 and all the other domestic mills had not restricted production, the effect of the Chinese, Turkish and German imports on the U.S. market would have been even more severe, and the modest profit that Connecticut Steel will have made during 2005 could have turned to losses. Once Beaumont is back in operation, as we've just heard and they have announced they will be, we will face that prospect again.

The other thing that you will no doubt note about the wire rod market is the prices in 2005 are considerably higher than in 2002 or 2003. The industry has undergone fundamental shifts in its cost structure, however.

One cannot simply compare the higher selling prices of 2005 to those in 2003 and assume that the industry must be doing better. We obviously have to sell our product at higher prices to cover increase in the cost of raw materials, energy and transportation. Our profit levels, however, demonstrate the industry has not been able to maintain prices at a level which fully covers rising costs and provides a reasonable return.

It would appear that raw material, energy and transportation costs are unlikely to return to

2003 levels any time soon. However, while our costs are high and likely to remain high for the foreseeable future, we have seen considerable price erosion this year due primarily to import competition. We have also seen consequent erosion in profitability.

With the whole cost structure having shifted upwards for what appears to be the long term, underselling of the dumped subject imports seems to have a greater impact on our business. Even though our costs are at historic highs, it is much harder to maintain selling prices or to get further incremental price increases when our customers are also trying to protect their own profit margins in the face of import competition.

Finally, a way that our customers try to protect themselves is by attempting to get us to lower our selling prices to them. As long as imports from China, Turkey and Germany continue to significantly undersell the market, customers will have significant leverage against our prices. That is a recipe for disaster for the domestic wire rod industry in a market with continuing high input costs.

If antidumping duty orders are not placed on imports of wire rod from China, Turkey and Germany, their past behavior shows they will continue to grow in volume and market share. Their past behavior also shows that they will continue to undersell the domestic industry.

Holding down or pushing down selling prices in a period of high production costs will return the industry to the losses that it suffered in the late 1990s and the early part of this decade. Connecticut Steel's drop in shipments, underutilized capacity, declining prices and profitability this year show that the industry has already started down that road.

The application of antidumping duty orders against China, Turkey and Germany is absolutely necessary to permit my company and this industry to return to a healthy condition.

Thank you for your time.

MR. ROSENTHAL: Our last witness this morning will be Dr. Patrick Magrath of Georgetown Economic Services.

MALE VOICE: Thirty-two minutes.

MR. ROSENTHAL: Thirty-two minutes. Please don't let him use that time.

MR. MAGRATH: I'll try to restrain myself. Good morning, members of the Commission staff, ladies and gentlemen. My name is Patrick Magrath of Georgetown Economic Services. Accompanying me is Ms.

Gina Beck and Dave Rosner, who is on the PowerPoint today.

I will discuss the data on record concerning conditions of competition and the volume, price and injurious impact of the unfair imports from China, Germany and Turkey on the domestic wire rod industry. My presentation will conclude with a discussion of the ongoing threat of unfair imports from these same sources.

As has been mentioned, this product and industry are not new to the Commission. In fact, it has only been three years since the Commission last collected comprehensive data and analyzed the chronic problem of unfair imports of wire rod in the U.S. market within the context of dumping and subsidy cases against various foreign suppliers, including Germany and Turkey, current Respondents in this case.

The recent dates of these determinations and inclusion of two of the three subject countries make 2002 cases particularly relevant to this investigation. In those cases, the Commission identified a number of conditions of competition pertinent to its analysis. These conditions have not changed since the ITC made and published its affirmative determination just three short years ago.

Then the Commission described a product as an "intermediate product used to make a variety of products, a continuum of wire rod products corresponding to various levels of quality and end uses." That's from the 2002 determination.

The ITC also found that imported wire rod and domestically produced wire rod were used in the same applications and that "foreign produced subject wire rod generally is interchangeable with U.S. produced rod." Finally, the price was an important variable in purchasing decisions.

The Commission found that the U.S. industry both as a whole and individually, which is a significant phrase, produced a broad range of wire products and "appears to have the capacity to switch relatively easily from production of one type of wire rod to the other."

As in 2002, the supply conditions in this market are characterized by the fact that U.S. producers had underutilized capacity throughout the period of investigation as shown in our first chart. In fact, even if we subtract out the capacities associated with plant closures and bankruptcies during the period, the United States industry still had substantial unused capacity as shown in Chart 2.

Where is the issue of availability here? Even with the interruptions of Gerdau's Beaumont, Texas, plant, Gerdau's New Jersey facility and other U.S. producers have run at less than full capacity utilization throughout this period.

One final fact on the significance of unused capacity. The ITC noted in its 2002 case the ease with which U.S. producers could shift production between the numerous chemistries and qualities that comprised the wire rod production continuum. Those are the ITC's words.

Unused capacity in this industry is therefore just that; capacity that could be used right now to make and sell U.S. products, to cover the waterfront if you will, but that instead of being displaced by foreign sources, specifically imports from these three Respondent countries. In contrast to declining domestic industry supply and unused capacity throughout the period, we have the success story of the subject imports.

Now, on the demand side of the market, according to questionnaire responses, consumption of wire rod fell from 2002 to 2003 before rising again in 2004, but to a point well short of 2002, the start of the period of investigation. In 2005, we estimate consumption has turned down again, but that unfair imports have maintained their huge market share gain that they registered in 2004.

The volume effect of imports. The increase in subject imports has been spectacular over the period of investigation, rising from nearly 90 percent from 2002 to 2004 in absolute volume. Subject imports continued at high levels, even as the overall market went into a significant downturn in 2005.

In the most recent period, January-September 2005, imports from the three countries maintained the collective significant and increased market share that they had achieved in 2004 even as the overall market declined once again as shown on these charts.

The rapid and sustained increase in unfair imports and unfair import market share to almost 25 percent of the total market in the most recent period is significant, both in absolute volumes and relative U.S. production and consumption.

Turning now to the issue of the price effect of imports, the Commission has long recognized that in a commodity such as wire rod the only way for import sources to get into this market and to increase market share so rapidly as has occurred here is by aggressive and low pricing.

In the determination of October 2002, the Commission reaffirmed the importance of price as a variable in determining who gets the sale of wire rod. The full degree to which unfair imports from the subject countries have undersold comparable U.S. product and depressed or suppressed U.S. prices awaits the development of the record through the submission of questionnaires in this case.

However, there are already facts on the record that indicate such underselling is likely to be widespread and deep. For example, comparing average unit values of U.S. import statistics with those of U.S. producers shows average unit values or AUVs as we say of these unfair traders as consistently lower than those of U.S. producers during each year of the investigative period.

Similarly, AUVs of the subject imports were also lower than the AUVs of all other import sources for each year of the period of investigation. Also, Petitioners have provided 64 examples of sales lost to imports from the subject countries.

A comparison of the quoted U.S. price and the import price from these lost sales examples reveals margins of underselling -- 33 percent for China, 23 percent for Germany and 20 percent for

Turkey -- beneath U.S. price offers. See Exhibit 10 of the petition.

Most of the examples cited are the high volume basic products on which the Commission has requested price data, such as Grades 1008 and 1006. Unfair imports from the subject countries are coming after the heart of the U.S. market.

Negative volume and price effects of these unfair imports have resulted in a significant and negative impact on the U.S. industry's operation. The wire rod industry was injured by these imports throughout and in each year of the investigation, we point out, based on the statutory requirement that the Commission examine such effects "within the context of the business cycle and the conditions of competition that are distinctive in the affected industry."

The adverse volume and price effects we have discussed have had an increasingly negative impact on this particular industry, an industry that has been the victim of almost constant such impacts from a serial tag team of import sources over many years.

Compiled producers' questionnaire responses in this case show the following trend back here in red for declines and in black for favorable trends to the U.S. industry. This is U.S. industry producers' questionnaire data.

All the factors listed on this chart the staff will recognize readily as statutory factors or ratios the staff itself calculates and the Commission often cites in its determinations. Note how many of these are in the red for the 2002 to 2004 period, the comparison between 2002 and 2004, as the rapidly increasing low-priced subject imports began to bite into U.S. producer operations.

The industry was profitable in 2004, but almost every other injury indicator examined by the ITC indicates deterioration, indicates injury. Now look at how many more of these indicators inevitably rolled over into the red in the 2005 period. In fact, every single one of them.

When one examines the whole condition of the U.S. industry by 2004, the evidence of material injury is present. By 2005, it is overwhelming as every statutory factor, including notably operating profitability, is in decline, but instead of all this red, all these declining factors you see in back of me, later on this morning we are just going to hear about one thing, 2004 operating profits, as if all those other factors are not in the statute and should not be considered.

Well, even 2004 profitability proved ephemeral. Questionnaire responses show operating profitability plunging to near break-even levels in the period January-September 2005, as several of our witnesses have emphasized.

In sum, despite a recovery from operating losses, deep operating losses in fact in 2003, the U.S. industry continued its contraction in 2004 as production, capacity, capacity utilization, quantity of shipments, productivity and the various employment variables all continued to decline from the previous year 2003 as well as from the base year 2002. The declines in these enumerated factors continued and broadened out in 2005 as industry profits inevitably followed the other indicators down, dropping sharply from 2004 levels.

Now one final point about 2004. Even a casual review of the trade press in the period would demonstrate that 2004 was the market of the decade for carbon steel products, the high point of the business cycle. We're happy to see Mr. Barringer of the Respondents agreeing with that.

The operating profit of U.S. wire rod producers in that year, which we estimate to be less than 10 percent of sales when all the data are in and when the staff goes through and makes everybody fill in all the blanks, this kind of operating profit, this level of operating profit, is really unremarkable.

In fact, it lags considerably operating profits registered by producers of other carbon steel products, for example, as well as operating profits reported by other carbon steel long product firms on their total operations for the year 2004.

The Commission will consider the wire rod industry's profitability in 2004 within the context of the business cycle, this business cycle, as instructed by the statute. When it does, the wire rod industry will be shown to be significantly lagging its peers, some of whom are up here, due to the greatly increased level of the subject imports in the market at low dumped prices.

The injury caused by these imports, which was already evident in most statutory indicators in 2004, manifested itself in a huge drop in profits in 2005 and, as we've said, with every indicator rolling to the red.

Now, the evidence provided in the petition on threat demonstrates that the threat of additional material injury to the domestic industry is real and imminent. For each of the subject countries there are capacity additions. There is significant unused capacity. There is bountiful evidence of the ability to rapidly increase import volumes and market share by the Respondent countries. The import statistics and market share statistics will show you that.

And there is the potential for continued depression and suppression of U.S. prices. Subject imports jumped by 1,000,000 tons last year, and absent this case there is nothing to prevent them from achieving a similar increase in 2006.

The producers in these countries share similarities that make them a significant and persistent threat to the health of the U.S. industry. They all have significant wire rod production capacity. Excess capacity can be targeted to the United States. They are all export oriented, and they have demonstrated that the United States is an important market for them by the increases in their volumes.

All three of these Respondent country producers face falling prices and diminished markets at home that makes the United States, which is still the world's growth engine, an attractive market. All of the importers and users who are lining up here today want access to those tons.

The Commission can expect a push from the subject producers due to their weakened economic condition, as well as a continued pull from the importers and users in this country that will continue to increase unfairly traded subject imports into the United States unless this case succeeds.

First we have China. As you can see from our petition, there is no doubt that the Chinese wire rod industry has massive -- don't use that term lightly; massive productive capacity and has been adding to that capacity.

The results of our internet search of well recognized trade publications identified 40 producers of carbon wire and alloy rod in China with a breathtaking capacity to produce wire rod somewhere north of 33,000,000 metric tons, over four times the entire U.S. market consumption in 2004.

This figure is only for the capacity of the producers that we could identify from public sources. Actually, thanks to the service list which we got a couple days ago we can add Tangshan Iron & Steel Group, which we missed in assembling our gang of 40.

These 40 plus wire rod producers are in the main equipped with modern facilities and equipment, as you can see from the exhibits in our petition, as many of the sources we got of information that were used in our petition to compile capacity expansions and modernizations in China are from websites of equipment suppliers and announcements of sales and construction of wire rod facilities in China.

China's rapid development of a wire rod industry producing quality products is in evidence from Exhibit 12 in our petition and also from the U.S. import statistics in Exhibit 9. Imports from China have simply skyrocketed in this period, increasing 88 percent from 2002 to 2004 and an additional 156 percent in interim 2005, all against the backdrop of a declining market.

A new supplier cannot achieve such acceptance, indeed cannot achieve such an embrace, by users here without offering quality as well as dramatically lower price.

China's volume and market share have been increasing continually throughout the period, and like its counterparts in Turkey and Germany it was aggressively pricing its products and underselling U.S. prices to increase volume and market share. The average unit values of rod imports from China has been the lowest, along with Turkey's in fact, of any major import supplying country.

Finally, prices for rod are falling in China and Asia as we speak, indicating a slump in demand. Thus, Chinese producers of wire rod will continue to be export oriented and will continue to increase export and market share in the United States.

Germany, like China, has an export oriented wire rod industry with a strong interest in the U.S. market. Our petition at Exhibit 14 lists nine producers of carbon and alloy wire rod from Germany with a combined capacity of 8.4 million metric tons, a capacity exceeding U.S. consumption in each year of the present investigation.

Germany's capacity to produce rod, like that of Turkey and China, has also increased over the period. With a downturn in world prices and softening demand, increased competition within and from outside of Europe, Germany will increase its exports to the United States.

Finally, Turkey has a large and expanding capacity for wire rod already estimated by Petitioners to be at least 4.6 million metric tons. That capacity is expanding, and Turkey, again like its other two brethren, China and Germany, is export-oriented and uses the United States as the market for any unused capacity.

This excess capacity in the industry, the export orientation and the demonstrated ability to shift rapidly between export markets, the aggressive low price of Turkish producers make them a threat to the United States industry.

In terms of the ability to depress or suppress U.S. prices, import statistics show AUVs from Turkey lower than even the Chinese for certain periods and consistently among the lowest of import sources throughout the period of investigation. Underselling margins and a lost sales allegation in our petition indicate imported product from Turkey underselling U.S. offers by up to 20 percent.

This concludes my presentation. Thank you for your attention.

MR. ROSENTHAL: That concludes our direct presentation. We'd be happy to answer questions at this time.

MR. CARPENTER: Okay. Thank you very much, all of you, for your testimony. Dr. Magrath, we will incorporate your exhibits as an attachment to the transcript.

We will begin the questions with David Boyland, who has to leave for a vote at 11:00.

MR. BOYLAND: Thank you for your testimony.

I have just a couple of general questions.

During the period was there a change in the product mix that was being sold? A change within the product mix in the sense that from period to period you're selling X product mix. Did that change substantially in the following period?

MR. CHEEK: No, not that we know of. We didn't see any.

MR. BOYLAND: Okay.

MR. G. PORTER: It was business as usual. It was just there was more demand.

MR. MARTIN: We increased some of the production capacity in New Jersey and as a result added some products that had not been previously run in 2003 simply because business was down.

MR. KURTZ: At Georgetown, during 2005 we did see a strong shift to mostly high carbon compared to the historical numbers that they had been producing.

MR. BOYLAND: Okay.

MR. SIMON: You will see the same thing at Rocky Mountain. We saw some shift towards the high carbons. I wouldn't call it anything overly significant, but there was some shift.

MR. BOYLAND: Would you say as a percentage of volume 10 percent?

MR. SIMON: As a percentage of rod volume, I would say maybe 10 to 15 percent.

MR. KURTZ: Ours is similar. About 15 percent.

MR. BOYLAND: Okay. With respect to energy, is there a common input for the producers, or is it different?

MR. CHEEK: Those of the producers like Keystone who make our own steel use electrical energy and electric arc furnaces. We also have a large input of natural gas because of reheat furnaces where the steel is reheated before rolling.

MR. BOYLAND: So your primary energy input would be natural gas?

MR. CHEEK: It would be electrical energy followed by natural gas.

MR. BOYLAND: Followed by the natural gas. Okay.

MR. SIMON: It would be the same for us. We're the single largest user of electricity in the State of Colorado, so it's major.

MR. BOYLAND: And natural gas?

MR. SIMON: Natural gas also for reheat furnaces. Correct.

MR. BOYLAND: Okay.

MR. KURTZ: For Georgetown, we also have the ability to use No. 6 fuel oil on our reheat furnace as an alternative to the natural gas.

MR. BOYLAND: And electricity being the primary?

MR. KURTZ: Electricity is the primary one, but I think it's important to note on electricity our electricity contract takes into account the fact that if natural gas does increase for the supplier of electricity our bill increases also.

MR. SIMON: Yes. We would echo that. We have seen almost triple in our electricity bill in the last three years, even though we have a contract.

MR. BOYLAND: Okay.

MR. G. PORTER: Yes. We are in a slightly different situation because thankfully we don't have our own melt shop any more. We used to have, but we closed that back in 1994.

Our increases have been very similar to Mr. Simon's for the electricity and natural gas. They're up about two and a half times.

MR. BOYLAND: Now, you don't melt or produce the billets themselves?

MR. G. PORTER: Correct. Correct.

MR. BOYLAND: You purchase billets?

MR. G. PORTER: Yes.

MR. BOYLAND: Okay.

MR. MARTIN: Much the same. Our electric furnace is predicated on electricity to melt the steel and natural gas to reheat the billets, to roll the billets.

MR. BOYLAND: I guess as just a general question, Mr. Magrath, regarding the exhibit Operating Profit to Sales Ratios, U.S. Wire Rod Operations, clearly as is presented here 10 percent is lower than the other segments that you're presenting.

Historically should I expect that number to be higher? I mean, obviously the other segments are different themselves. Should I expect that wire rod operations should be closer to the other producers? Historically have they been?

MR. MAGRATH: No. (Microphone off.)

MR. BOYLAND: As a general question, with respect to the products being sold and the markets being served by the producers are they different, or is there a large overlap between the markets being served, or are there differences among the producers that we should be aware of?

MR. CHEEK: From our perspective we compete directly in the same markets with the subject imports.

MR. BOYLAND: And with respect to the U.S. producers, the other U.S. producers?

MR. CHEEK: Well, as I said in my statement, we at Keystone tend to be a little more toward the low to medium-low carbon grades. We do make a little bit of high carbon. We do not make the very high carbon grades at this time.

We have invested a lot of money in our steel making capacity and capabilities in recent years and would like to continue to move on up the continuum. Unfortunately, the situation we find ourselves in makes those capital expenditures a little bit difficult to justify.

MR. SIMON: I think you find that there's different focuses by the different producers on product type, but I can also very comfortably tell you that there's nobody here that I don't compete with directly.

MR. G. PORTER: We are somewhat in the same situation as Keystone. The grades that Dr. Magrath mentioned, the 1006 and 1008, is a big part of our business, and we come up the quality chain as far as the grade of 1078.

There may be references made to tire cord and tire bead and cold-heading quality. We are not in a position to compete with that.

MR. MARTIN: Certain mills have strengths and weaknesses, and others have a better situation to produce products based on either Georgetown, who previously used to run direct reduced iron, or another plant that has the ability to introduce an alternative other than scrap to the mix to produce product.

All the rod mills can in one way, shape or form produce a great many of the grades and types of wire rod. We in fact purchase billets to try to compete in other segments of the market where we don't melt our own.

We're subject to the same situations that our melt is subjected to in terms of unfairly traded imports in cold heading and welding as well, so that also determines whether or not we can be competitive on a long-term basis with a purchased billet just as difficult as it is with our own melt.

MR. MAGRATH: A significant finding was that all U.S. producers were found together and individually to produce a broad range of products and that shifting within quality, shifting within grades, is relatively easy for them.

MR. KURTZ: Mr. Boyland, Georgetown has

probably the widest range of product offerings within the group similar to Rocky Mountain's product group.

MR. BOYLAND: Actually, Mr. Martin, you mentioned something that I was going to ask. The purchasing of billets by an integrated producer. That basically broadened your product line beyond if you were limited to just what you're producing. Is that correct?

MR. MARTIN: Yes. From the melt perspective there's two phases, two important phases of producing wire rod. Obviously you start with a semi-finish. You melt and produce a billet, but then the rolling and the cooling of the product also gives the product a fitness for the end use of the customers.

MR. BOYLAND: I have reviewed the questionnaires, and the rest of the questions would be business proprietary so I'll follow up with your company contacts shortly. Thank you very much.

MR. CARPENTER: We'll go next to Mr. Szustakowski.

MR. SZUSTAKOWSKI: If you can expand a bit more about the wire rod business cycle? What is actually driving demand? Are there just as many end users, or are there more of these downstream products coming into the U.S., sort of domestic production, the consumers of wire rod?

MR. ROSENTHAL: Would you repeat that, please?

MR. SZUSTAKOWSKI: Well, I'm just wondering about the business cycle in general. Is there just as many end users of wire rod, downstream consumers of it in the U.S., as there were four years ago? Is the U.S. now importing the goods that consume wire rod?

MR. ROSENTHAL: Thank you. I actually hear two different questions. I want to make sure everyone is answering the right one.

One is what is going on about the business cycle, and I see a cycle different as what's driving demand or are there fewer customers because of other factors perhaps different than a business cycle that has to do with the economy.

MR. SZUSTAKOWSKI: Okay. Fair enough.

MR. ROSENTHAL: If I can clarify that for the witnesses to go ahead and answer?

MR. G. PORTER: For Connecticut, one of the cycles which drives our business is construction. About 25 to 30 percent of the wire rod that we produce we process ourselves into a wide range of products for the reinforcement of concrete. For instance, the passage of the recent federal highway bill looks like it will give us some opportunity going forward.

The products we make are somewhat typical -- would be somewhat typical -- to import into the U.S. because there's a great deal of air in the shipment so when you get a truckload, for instance, it's up 10 feet high, and if you would bring this in in the hold of a ship you wouldn't get a great deal of weight, so we've been somewhat protected.

Other than that, the rest of the material that we sell out the door is largely driven just by the general economic cycle. Much of it ends up in consumer products and so if the mattress industry is doing well the demand for wire rod to make mattress springs is strong. If let's say mortgage rates cool off and people are spending fewer honeymoons then maybe the mattress industry isn't quite as strong.

I mentioned lobster and crab traps. Regionally that's quite a big consumer for us because in the last 15 or 20 years there's been a couple of very ingenious people who have really changed that whole industry from the wooden slat and mesh, string mesh, cord mesh trap, to a plastic coated steel trap.

MR. CHEEK: There are many sources of data on apparent domestic consumption, and we personally believe that that has peaked in 1998 or 1999 and has gone down a little bit each year, domestic apparent consumption of wire rods.

We don't think the market has gotten significantly larger. In fact, we think it may have contracted somewhat. However, when we look at 2004 in retrospect we also see a large amount of wire rod transactions, and we attribute a lot of this, as we demonstrated, to a significant inventory build which occurred later in the year 2004.

MR. MARTIN: I'd like to comment just briefly on the same thing David mentioned that certainly there's been some changes in the industry relative to consumption of wire rod in certain market segments as a result of downstreamed finished goods, but at the same time there has been an increase in other areas where people are adding capacity and displacing other companies.

A great deal of 2004, when you compare -- I mean, the important thing to say about 2004 is it's an aberration. It's a unique year that we've not seen for many, many years and probably won't see for a long time.

It was driven by a panic in the industry, a panic, a flurry of buying of all products relative to wire rod and wire and then the end use of those products, and it drove inventories up to a level that were unrealistic and primarily because of the unfairly traded imports. It created just a huge mountain of inventory, so to compare year to year and throw 2004 in there kind of really throws a little monkey wrench into things.

MR. MAGRATH: This last remark by Mr. Martin, the Commission staff has seen this phenomenon in other steel products. The last time we were here representing stainless steel sheet and strip this same kind of issue came up in the same time period.

MR. SZUSTAKOWSKI: Okay. My next question is the AUVs of domestic shipments appear to be increasing along with those of imports. Is this strictly due to raw material prices? Is it only the scrap prices? How does that affect the pricing?

MR. G. PORTER: Really it's the items that we've all been mentioning. Raw materials, energy and transportation have all skyrocketed.

When I first got involved in the wire rod business back in 1991 the rule of thumb was scrap was $100 a ton, billets were $200 a ton, wire rod was $300 a ton. Scrap is way past the $100 a ton mark.

As I said, our utility costs are up about two and a half times in the last 12 to 18 months. I used to be looking at $6 to $7 a ton for natural gas and for electricity. These numbers are now in the mid teens.

Transportation. I think everybody knows the effect of fuel costs at the pump.

MR. KURTZ: From Georgetown's perspective, when we entered back into the market last year in October we saw historically high scrap prices when we entered back into it.

In fact, during the fourth quarter scrap prices peaked out over $400 a ton, a metric ton. We saw extremely high scrap prices going into the fourth quarter of 2004.

In addition to that, energy costs recently with natural gas skyrocketing, we're seeing our electric bill increase by over $10 a ton over all of our tons, so very, very significant increases in our input cost.

MR. SIMON: Do you know what? I would echo what these folks have said. I will also add that the main issue for us as you look at our AUVs, that increase for our product is not what others have seen in the steel industry, and we believe that's why we're here.

That's because the imports are driving our prices to come down, and we're not able to get the price to cover these increases in cost that we've experienced over the last couple years.

MR. SZUSTAKOWSKI: Now, as far as the purchasers maintaining these inventories is this something they can just stock real easily, keep in a warehouse? What are the inventory considerations that they might have? Is this something they can just pile up outside basically?

MR. G. PORTER: To some extent it would depend on the grade of the wire rod. Low carbon grades, maybe up to about a 1035 or 1040, the end product made from that rod can still be made satisfactorily even if the rod has been stored outside.

Higher carbons 1055 and up, we know our customers don't want any rust on it when it leaves our place. In the wintertime trucks are tarped, and that would have to be stored inside so there could be a restriction. Warehouse space is relatively cheap if you think you can protect some product.

MR. MARTIN: That's a good question. Certainly it's not a normal practice to buy 90 days or 120 days or six months worth of inventory. However, that was the case coming out of the fourth quarter of

2004, and many customers reported having to go out and lease warehouse space to store rod because they had no space in their rod yard outside their plant.

It wasn't steel that we produced. I can promise you that. It was steel that had come in at very low imported prices.

MR. SIMON: Yes. I would echo that. It differs depending on the product mix what's easy to inventory and what's not easy to inventory, but what we were seeing increasing examples of very large amounts of imported inventories and many cases where the imports were confining that inventory for the end users so the end users didn't have to pay for it until they actually used it, which made the competition with us that much more difficult.

MR. SZUSTAKOWSKI: In the petition you described basically a massive amount of capacity overseas, and you go on to describe in Exhibits 13 through 15 that additional capacity is going to come on line relatively soon.

If there's this supply glut or capacity glut, why are they adding more and more capacity for wire rod?

MR. ROSENTHAL: If I could answer that I wouldn't be here. I don't think it makes a lot of economic sense in many instances to do that.

Obviously there are in some instances national employment concerns; in other instances just a bad sense of the economics of the industry. There is and has been widespread overcapacity in this industry for a long time.

I don't understand why some of this new capacity is coming on stream because there doesn't appear to be the growth in demand to be able to support that. That's what is concerning us, and that's why in part we're here today because in many instances the most desirable export market, the most open export market traditionally, has been the United States.

MR. MAGRATH: One reason why is this product is sort of one of the mothers of all steel products. As we said, it's an intermediate product that has many and various uses. Those uses -- wire, netting, fencing -- are the basis of any economy, certainly any developing economy, and there's good replacement markets in developed economies.

Any country worth its salt will want a wire rod mill and will want wire rod capacity, but you build it, and they don't necessarily come. You have demand slumps. You have other disruptions in those countries and so there the wire rod mill sets waiting for the development of domestic capacity.

When that doesn't happen, throw into the mix that the higher the capacity utilization the more efficient the mill is, and you produce things that you can't necessarily ship. That is why I feel that we've had these chronic import problems and this tag team kind of scenario with these various unfair importers for the last several years.

MR. SZUSTAKOWSKI: You don't really paint a pretty picture for 2006, and yet the Georgetown facility, the Gerdau facility, are ramping up production. Am I correct? What are they responding to? We have Georgetown coming back on line along with the Gerdau facility.

MR. MARTIN: On our plant in Beaumont, I mean, we've been in business for a great number of years. It used to be North Star Steel. There was a labor dispute in May, so we've got a large contingency of workers that want to get back to work, and we've got customers we'd like to supply steel to.

Certainly I'd like to continue to draw a paycheck and have some rod to sell, so I look with anticipation for that plant to get back up and running. Challenges that we confront are everything that we've talked about today.

The same thing is going to happen again is we're going to have to meet a competitive import price that's going to hurt us and inhibit our ability to be profitable, but we've going to go back after the marketplace like we belong in the marketplace.

MR. SZUSTAKOWSKI: What about Mittal's decision to purchase a facility in late 2004? Can you describe now or later if it's BPI information what led to their decision to acquire at that time?

MR. KURTZ: I don't know exactly his incentive to buying all of ISG, but he did buy all of the facilities. He bought the flat-rolled, as well as the plate, along with the wire rod facility. His position, as far as I was aware of, was to keep all those facilities running and to ramp up the production and profitability of all those facilities.

Getting back to your first question, however, we had a ramp up mode last year in 2004, but it was a very short ramp up period from August through October. Then our orders dropped off dramatically in November and December, and throughout 2005, although we've got the capacity, we have only been running somewhere in the neighborhood of 67 to 70 percent of our capacity.

We have the ability to add more capacity or more tonnage to our order book, but with the flood of imports coming in we were unable to compete with the imports coming from China, Turkey and Germany as far as prices is concerned, so we were not able to secure those orders.

MR. ROSENTHAL: Mr. Szustakowski, let me also answer this. It's part economics and part perhaps philosophy.

These mills have been in the United States to supply the U.S. market for a number of years. There's been a lot of contraction over the years, but these mills are still operational. One, the Beaumont plant, has been down because of a labor dispute, but others, including Georgetown, has been shuttered in bankruptcy, and there's been other mills that have cut back on capacity.

The philosophical question is why should not the domestic mills be able to open up and operate and try to supply their own markets? Why should they in essence seed this market to unfairly traded imports? That's the philosophical question.

Why is it that there's an expectation that capacity should be closed in the United States and not closed in the foreign countries where there's excess capacity? Why should they be able to have that capacity dumped on this U.S. market?

The reason why we're here is we don't believe that is the proper course to take. We believe that the workers in the U.S., at Beaumont and at the Georgetown mill, ought to be able to have jobs and sell their products here absent unfairly traded prices and imports.

The economic question also is in many instances the foreign steel that's coming in here is no more efficiently produced than that in the United States. In many instances the capacity installed abroad has been put in place, going back to your earlier question, without respect to the economic consequence of that excess capacity.

Now that they've got it they've got to ship it here whether they make money on it or not. Again, their operations are no more efficient or economical than those in the U.S. We've seen for many years in trade cases before the Commission more efficient U.S. producers being driven out of the business by less efficient foreign producers because they've had no place else to go with the foreign producers' capacity but into the U.S. market.

A long way of answering the question. I

hope I have in fact answered it. I want to add one more thing at the risk of prolonging the answer. You're going to get some folks here later today arguing that the reason why we buy imports is because we can't get a supplier from the U.S. They'll say the U.S. suppliers can't supply all of the U.S. markets.

Two points that you need to be aware of or be reminded of. I'm sure you're aware of it. One is that certainly the requirement under the statute is that the domestic industry be able to supply the entire market in order to get import relief so that shouldn't be a particularly troublesome issue for you, but the second part about that argument which we hear and you hear pretty frequently is akin to the old argument about or the story about the boy who kills his parents and then throws himself on the mercy of the Court because he's an orphan.

In many instances the importers have bought, dumped low price imports. We understand why. They want to have low input prices for themselves. Those purchases have in effect hurt the domestic producers of wire rod making it impossible for them to keep their plants open.

Then when their plants close they say we don't have a source of supply in the U.S. so we must import. That kind of vicious cycle and story is one that really ought to stop here today with this case and say you know what, there's more than enough capacity in the U.S. to supply all the needs of the domestic users here and when you combine that with fairly traded imports everyone ought to be happy.

MR. SZUSTAKOWSKI: You're saying that the domestic producers are just as efficient as the foreign producers. Foreign producers are opening up new mills and purchasing new equipment.

Is that the case that the production process whether it's brand new equipment used to produce it versus U.S. producers they're both just as efficient, it's the same equipment, there's no new practices that these new facilities offer?

MR. ROSENTHAL: It would be required to really be a fair and comprehensive answer a company-by-company analysis there. There are certainly very, very efficient, very productive foreign mills. It doesn't mean they're selling the product here at their fully loaded cost however even though they may be efficient.

So I'll try to answer that more in our postconference brief. The essential answer is that not all the foreign mills even the newer ones are more efficient than U.S. mills because there are very, very efficient U.S. mills as well and there are some very inefficient foreign mills, so it's not like there is a monolithic foreign industry and a monolithic domestic industry.

MR. CARPENTER: June Brown?

MS. BROWN: Thank you. Do any of the U.S. producers import or purchase subject product or are any of them related to subject country producers, and if so could you address that under the related parties' provisions?

MR. ROSENTHAL: The answer is yes. I think you will see the detail on that in the questionnaire responses and we were certainly going to address that related party issue in our postconference brief.

MS. BROWN: Okay. Thank you. I think I had a question for Mr. Magrath, but maybe someone else could answer it. I think he described the product as a commodity product. Is it correct to say that this is a commodity product or are there different types of product that are more commodity-like and other types that are more specialty-like?

MR. ROSENTHAL: I'll continue to answer for Dr. Magrath. I've been doing this for 20 years. I think that when he meant commodity product it's a basic steel product and the vast majority of the products made by this industry are -- well, everything is really made to certain standard specifications and if you meet those standard specifications then the only difference is price.

There are some particular products that are more difficult to make, have more peculiar chemistries, they're a little bit more specialized. Those represent a very, very tiny portion of the overall universe of our products here.

I'm glad you asked this because I don't know how much time has been allocated to each of the witnesses that you will be hearing from a little bit later, but looking at the witness list my suspicion is that a fairly high proportion of the time that will be spent in the testimony later is going to be devoted to product that accounts for a small portion of the entire industry, so it will be a disproportionate discussion from everyone's point of view.

MS. BROWN: Thank you. My last question is when you look at the data that we have there is improvement in a number of the industry's indicators over the period and some of our data doesn't quite square with what Dr. Magrath showed us, but we can work on that. Also, even in the interim period it looks like the quantity of imports was going down.

So I guess my question is are you saying that the industry is not healthy now? Are you saying it's healthy, but declining?

MR. ROSENTHAL: Well, it is not healthy now. It's injured now and it has been in an injured condition for several years. I would include 2004 in that if you want to characterize it that way. I'd also say the following. Yes, imports have been going down, but the last time I checked the statute it didn't require an increase in imports in order to have an affirmative finding of material injury here.

This is not as you know a 421 case where you have to show increased imports. You can have declining absolute imports. As long as the imports are significant, and that is the statutory term, then that is enough for a finding of injury and that's my essential point.

The second one is that even though you have declining absolute imports what you saw from Dr. Magrath's chart is a doubling of import penetration and a maintenance of that doubled import penetration up to close to 25 percent even in this declining market. So the importers have come in here, doubled their market shares and have maintained that market share as the market has gone down.

MS. BROWN: Thank you.

MR. CARPENTER: Amelia Preece.

MS. PREECE: A few questions. Typically is the product sold FOB or delivered?

MR. MARTIN: Our prices are all, well, the majority of them are delivered. We just build the freight into the invoice.

MR. KURTZ: At Georgetown we first started up back in 2004. We were all FOB mill. We are now still primarily an FOB mill, but we do have some delivered pricing.

MR. SIMON: In our case we're primarily FOB delivered.

MS. PREECE: I'm sorry. FOB or delivery?

MR. SIMON: Delivered.

MS. PREECE: Delivered. Okay. Thank you.

MR. G. PORTER: Yeah. We're virtually all delivered, though we do have some material that the customer will send in his own truck.

MR. CHEEK: Same. We have some material that customers do actually pick up themselves.

MS. PREECE: But the rest of it is delivered?

MR. CHEEK: We quote an FOB mill price and then add freight.

MS. PREECE: Okay.

MR. CHEEK: So it's a delivered.

MS. PREECE: Typically it's sold delivered then?

MR. CHEEK: Uh-huh.

MS. PREECE: Okay. Thanks. That's nice and quick. Do you use a surcharge for scrap or energy in your pricing?

MR. SIMON: We do not.

MR. KURTZ: We recently instituted a surcharge for energy.

MR. G. PORTER: We do not.

MR. CHEEK: No. We do not.

MS. PREECE: The price of scrap has been fluctuating wildly recently. How does that go into the price then?

MR. G. PORTER: Well, as a guy that doesn't buy scraps, but we do buy billets and the --

MS. PREECE: It will affect you.

MR. G. PORTER: The billet purchasing function is first of all critical for us and I get involved to some extent, but we have a very effective buyer I would say.

An advantage part of course is that not have our melt shop the cost of scrap can vary from location to location and so we can on occasion buy a certain grade from a mill which is competent to supply because he's in a more favorable scrap situation and then we can switch to somebody else.

MR. SIMON: Again, I think that's one of the reasons we're here. Our prices are driven by the market in this case being pressured down by imports while scrap is going -- we can show you transfer pricing that's going this way and scrap is going that way.

MS. PREECE: I can see the scrap prices. It's obvious that's a big problem.

MR. SIMON: Absolutely.

MS. PREECE: I just wanted to see what's going on because the scrap prices are just crazy, so I wanted to see how you put those in. Which of your firms have put purchases on allocation, controlled order entry or other sort of things particularly in 2004. It seemed to be a thing somebody's been talking about.

Have your firms been putting purchases on these kinds of controls?

MR. MARTIN: We've managed our order books with a controlled order entry pattern from early 2004 through probably August.

MS. PREECE: Okay. Anybody else?

MR. G. PORTER: In 2004 we tried as best we could to at least be able to supply normal levels. If we were selling somebody 2,500 tons a month most times he got his 2,500, but if he came to us and said he'd like 5,000 or 6,000 we weren't in a position to satisfy that. We did buy some rod extensions so we could free up some of our own rolling time to produce rod product to sell into the market.

MS. PREECE: Obviously that doesn't increase the amount of rod out there total since you're consuming part of it. You design one kind of rod and produce a different kind of rod.

MR. G. PORTER: Yes. We bought some low-grade commodity rod which was not manufactured in the U.S. because that's the kind of grade that you acquire for this particular product, but then we were able to source higher-quality billets and make higher-quality rod for sale into the U.S. market.

MS. PREECE: Great. Great.

MR. SIMON: we had a similar situation in 2004. What I think is important to note is that we were supplying and able to supply normal levels of buy. What we saw happen in the middle of 2004 and somebody referred to it earlier was a panic buy where all of a sudden our customers were buying very large amounts of rod to put in inventory.

It was at that time then we had difficulty meeting some of those orders and that was actually for a pretty short period of time in 2004.

MS. PREECE: How long would that period have been?

MR. SIMON: I would say probably three months that we were actually not able to meet some of those requirements, but if you look at what we did supply it was very consistent to what our normal buy would have been for those customers.

MS. PREECE: Thank you.

MR. KURTZ: From our perspective when we came back in 2004 we have not put any customers on allocation or a controlled order entry. If you don't mind I would like to go back to your surcharge question just for a moment.

It's interesting to note that within the entire U.S. steel industry the vast majority of the tons are being sold in one form or another with a surcharge on it whether it be an energy surcharge, scrap surcharge, so on and so forth.

Our industry is an exception to that in that the affected imports are such that we are not allowed to pass on the surcharge because the imports become something that our customers will hold over our heads if they can go to the imports if they need *B* versus us passing on a surcharge.

MS. PREECE: Yes. I did notice that I have seen other industries where they were using surcharges. Thank you. Now, what was happening in 2004 as far as strikes, the lock-outs, the bankruptcies, the plant closures that were affecting supply? It seemed like those were sort of somewhere back in the -- can I have a timeline of that?

MR. ROSENTHAL: We'll get you something for the postconference brief. Just to be clear the labor dispute that Gerdau has referenced was in 2005, not 2004, and the only closure that I'm aware of was the Georgetown plant closure that was referenced earlier. If I'm wrong about that I'm sure the other folks around the table will correct me.

MR. KURTZ: That Georgetown, it was closed from January through July. For that period of time.

MS. PREECE: Of 2004?

MR. KURTZ: 2004. That's correct. It actually was closed in October 2003, but as far as 2004 is concerned we were not producing from January through July.

MS. PREECE: Okay. So October 2005 through July 2000 --

MR. ROSENTHAL: No. October 2003.

MS. PREECE: 2003 to 2004.

MR. KURTZ: 2004.

MS. PREECE: Sorry. Am I coherent or not? Is there a regional market for steel wire rod? How regional is the market? Are you, Rocky Mountain, competing with Connecticut on this thing?

MR. G. PORTER: That's the extreme case if you like. Well, geographically since the producer pays the freight we find we can compete out about 600 miles in and out, so we get out into Ohio, and occasionally Indiana and then down into the Carolinas.

MR. SIMON: I would say that it varies on the product. For the lower grade, the more commodity product it's more regional. For the higher grades we are going as far as Georgia and other parts of the east coast with our product.

MR. CHEEK: At Keystone we ship all over the country.

MR. MARTIN: We do much the same. I mean, relative to transportation, availability of rail or barge, we supply rod to just about everybody.

MS. PREECE: Does it vary by quality perhaps?

MR. MARTIN: Depends on where the customers are located and what they use. That determines what kind of qualities that we ship or they buy.

MS. PREECE: Okay. How important are buy American programs? Are they of any importance whatsoever?

MR. G. PORTER: When we're supplying steel into construction projects where that's required we ensure that the steel we've rolled has been rolled from billets which have been melted in America. It's a factor and we always have been --

MS. PREECE: What percent would you say that would be of you --

MR. G. PORTER: For us, I don't know how it is everybody else, 10 percent maybe.

MS. PREECE: Okay. Ten percent?

MR. KURTZ: Similar for Georgetown also. About 10 percent.

MR. MARTIN: Yeah. At the very most.

MS. PREECE: Maximum 10 percent.

MR. MARTIN: At the very most. Yes.

MR. CHEEK: At Mittal Impact one of our companies makes wire mesh and we supply wire rod for that and it's all domestic wire rod, but I don't know of in many applications of any specific buy American requirement.

MS. PREECE: So it wouldn't be 10 percent, it would probably be less than 10 percent for you?

MR. CHEEK: I would think so.

MS. PREECE: Okay. Well, that's very helpful. Thank you. I have no more questions.

MR. CARPENTER: Harry Lenchitz.

MR. LENCHITZ: I'd like to follow-up on a topic that Mr. Boyland raised about your energy costs. How significant are regional differences in electrical prices for the producers that are here?

MR. CHEEK: I don't know what the other guys costs are so I really can't answer that. I only know what our costs are in Illinois.

MR. MARTIN: I can comment that we in our for example New Jersey facility we have significantly higher electricity costs versus the Beaumont, Texas, plant.

MR. G. PORTER: In the northeast.

MR. KURTZ: We've had significant energy increases in both electricity and natural gas. In fact it got to a point where we have had to switch over from natural gas on our reheat furnace over to

No. 6 fuel oil to save on our costs.

MR. SIMON: There was a time when we had a very competitive electrical rate and that's just not the case anymore. The increases we've seen over the last three years have taken that advantage away.

MR. LENCHITZ: Thank you. That's real helpful, and I have just one more question on material. There's been no mention so far today of any substitutes for scrap and I know there is some trend in certain applications. How does this affect any of your facilities?

MR. KURTZ: We're probably one of the larger users of substitutes for scrap. We bring in both the hot rekitted iron, HBI, as well as pig iron into our facility. As far as the commodities or the grades that we produce those substitutes are primarily used for the higher-end products that we produce.

When we come to the tire cord, Tire B material that we produce those are very significant to making the quality that's required from the customers.

MR. SIMON: We have the same issue. We don't purchase large amounts. We do use HBI and pig iron. What I'll tell you as far as pricing of those items they do tend to trend with scrap. There's usually a lag, but they do trend fairly similar.

MR. CHEEK: At Keystone we use a very small amount of HBI. We use some pig iron in our melts.

MR. MARTIN: Much the same. We're scrap driven. We use some pig iron to dilute the scrap to reduce the residuals in the steel, but it's all relative to the cost of making the steel.

MR. LENCHITZ: Thank you.

MR. CARPENTER: Next we turn to Jonathan Engler from the Office of General Counsel.

MR. ENGLER: I'd like to turn for a moment, please, if we could to something we touched on earlier which is domestic consumption.

I wondered if you could talk a bit more about changes in domestic consumption patterns in 2005 compared to prior years and if in particular there's any change as to the nature of consumption, the particular part of products for which there's been significant change?

MR. MARTIN: Can you clarify the question? Are you referring to what our wire rod customers use and ship out as wire or what they buy?

MR. ENGLER: The demand for your product from your customers. Just the nature of the changes in that demand.

MR. MARTIN: Demand was down. At least our business was down as a result of fewer people buying wire rod.

MR. ENGLER: Understood, but what is driving that from your customer's side?

MR. MARTIN: High inventories and increased low-priced imports.

MR. ENGLER: Last question. Is there any change in the product mix? In other words is demand down across the board in particular products?

MR. SIMON: I would say that it's not because it's largely driven by the build-up in inventories that we saw in 2004 and imports and that's really kind of across the board as we've discussed today, so that the lower demand has been fairly consistent across the board. At least that's how we see it at Rocky Mountain.

MR. KURTZ: At Georgetown it's been across the board, but probably more had we weighed it toward the low carbon side of things. We just have not seen the demand that we saw when we started up in 2004.

MR. CHEEK: Ours has been across the board, across the mix.

MR. G. PORTER: We concur with that as well.

MR. CARPENTER: Douglas Corkran.

MR. CORKRAN: Thank you.

My thanks to all of you today for coming and presenting testimony. This testimony has been very helpful. I may jump around just a little bit so there may not be much rhyme or reason to some of these questions.

The first question I had is I wondered, Mr. Cheek, if you would respond to Ms. Preece's question about customers on controlled order entry. I think we heard from each of the other companies --

MR. CHEEK: We didn't have allocation or controlled order entry.

MR. CORKRAN: You do not have any. Okay. The reason I ask is because in the opening statement for the Respondents the characterization was made that producers sold every available ton in portions of 2004 and with the exception of Keystone and the Georgetown facility it did sound like you were saying that you had mechanisms in place to deal with availability of product.

Can you give me a sense for when that situation began to change and was it essentially tied with Georgetown's return to the marketplace?

MR. CHEEK: The situation from Keystone's perspective began to change in the probably early to mid-third quarter of 2004. Georgetown did come back up, but as has been alluded to earlier they had a ramp up in production over several months' time and during the same period the imports in the subject countries were just dwarfed.

The volume dwarfed anything that Georgetown was bringing into the market at that particular point in time. That's a point in time we began to see volumes drop and prices be suppressed.

MR. G. PORTER: I think we'd probably make it a little bit later, probably early fourth quarter.

MR. SIMON: For us it was definitely third quarter and fourth quarter. The other thing to note, though, because there's been a lot of discussion on Georgetown when they exited the market, when they came back up it's important to know that when exited the market there were other players that entered the market and took over some of that tonnage as far as the market is concerned.

MR. MAGRATH: U.S. players, U.S. corporations.

MR. KURTZ: We were at less than 50 percent capacity during the fourth quarter of 2004.

MR. MARTIN: It's probably a good time to comment. Right about fourth quarter is when we actually added additional capacity and manpower to run a full four crews in New Jersey and by January we laid off 51 people because we didn't have enough demand.

MS. BECK: Also, Mr. Corkran, I think you can see from the capacity and production figures for not only full year 2004, but also January through September 2004 it was a temporary phenomenon to see much excess capacity during those periods when looked at as a whole as opposed to just a month or two.

MR. CORKRAN: Thank you. I very much appreciate those responses. Dr. Magrath very helpfully went down a number of the conditions of competition that the Commission identified in its most recent import injury case on wire rods.

One of the other conditions that I'd like to hear a little bit more about is the safeguard measures that were in effect in all of 2002 and through the first quarter of 2003. We did hear some testimony this morning, but I'd just like to hear a little bit more about how and to what extent those U.S. safeguard measures had an impact on your own operations.

MR. ROSENTHAL: Let me try to answer first and I'll ask the companies to say what they will on that, but the reason why we brought the cases in 2001 was that the safeguard measures were not effective and that essentially was the testimony that the witnesses from the industry presented to the Commission not only during the course of the Title 7 cases filed in 2001, but also as far as the mid-term review I believe also in 2001.

So in essence the filing of those cases in 2001 was a statement that the safeguard measures weren't doing much to help the industry and I don't think there is much of a beneficial affect that you'll find. Mr. Porter had some particularly strong views on that as I recall.

MR. G. PORTER: Yeah. I wasn't familiar with the term safeguard measure. You're referring to the 2001. Yes. That from our standpoint I think was a disaster. The headlines were great, the fine print was what's the deal?

MR. CORKRAN: Was that still the case even after the safeguard measures were modified, that they were implemented in initial form and then in the last year were modified in terms of allocations by regions, and did that have any additional affect?

MR. ROSENTHAL: It's hard to measure the short answer because I think people, even the importers recognized that by smoothing out how the quota system was working it was going to minimize some of the rush to the ports that was taking place prior to that modification, but by the time that had been in place we had also filed these cases.

So it's hard to discern what positive impact was provided by that modification and what was provided by the filing of the cases during that year.

MR. CORKRAN: This was alluded to earlier this morning, but I'd also like to hear more about the filing of or the affect of the anti-dumping and countervailing duty orders that were put into place subsequent to the U.S.A. measures, but more along the lines of did it have an impact on how your particular companies were doing business in the market particularly in terms of product mix.

Certainly some of the countries or at least Canada had at one point been -- there had been particular products that were available from Canada that it was not always clear were available at quite the same levels from other sources. I just wonder if you could talk to me a little bit about your product mix following the anti-dumping duty and countervailing duty orders.

MR. CHEEK: If you're asking specifically about any changes to our product mix I don't think there were any.

MR. MARTIN: We didn't see any significant changes to the product mix itself. 2003 same challenges were there, low-priced rod, that we were really battling, but relative to the mix I don't think there was any change.

MR. SIMON: We had some product mix change, but I'll tell you that was part of a strategic plan for our plants and you'll see that consistently over the years of getting more into the high-end product. I'm not sure that it was related to the case.

MR. CORKRAN: Actually, I believe there was a reference in the public staff report that that was already underway as you said.

MR. SIMON: Correct.

MR. KURTZ: Our product mix remained pretty constant over that same time period.

MR. CORKRAN: Mr. Martin, I wonder if you could comment. There was an article in today's *American Metal Market* that made reference to the situation at the Beaumont mill.

In fact it cited an official as saying this is speculation on my part, but there was a downturn in the wire rod market during the summer and they, meaning Gerdau, didn't need the business at the time he said and the company needs the business now. Now, he noted that he was speculating when he made that statement, but I wonder if you could follow-up on that?

MR. MARTIN: Who is *he*?

MR. CORKRAN: I apologize. *He* is Patrick --

MR. MARTIN: He's a journalist? He's a writer.

MR. CORKRAN: John Patrick.

MR. MARTIN: A writer for the *American Metal Market*?

MR. CORKRAN: A U.S.W. subdistrict director involved in the negotiations.

MR. MARTIN: From the United Steel Workers. I haven't read his comments so I prefer not to address that. I can just throw out one comment to suggest that with Beaumont out as we've talked about during this whole session here the domestic industry was still struggling to keep a full order book, but yet we were competing against, you know, low-priced imports.

MR. CORKRAN: Can you give a little more detail about what the approximate volume affected by the Beaumont situation was?

MR. MARTIN: From May 26 through the present?

MR. CORKRAN: Yes, or even monthly.

MR. MARTIN: The plant, we were budgeted to ship 50,000 tons a month. We didn't achieve that budget even in the first quarter this year for the reasons that we're here, but that's what I'm evaluated upon.

MR. CORKRAN: As I understand it production at Beaumont and shipments from Beaumont did not cease all together? There were some level of operations that were ongoing?

MR. MARTIN: The contract expired actually at the end of March. We continued to do work through May 25.

On the 26th we decided to no longer continue to try to run the plant without a contract to try to stimulate negotiations and then about six weeks ago I guess the decision was primarily to take care of some customer needs, to show some goodwill to customers we began to run on a limited basis with management supervisory people and that's the present situation until this announcement where we've invited the workforce to come back to work on the December 12.

MR. CORKRAN: Very good. Thank you very much. I'd actually like to get some input from the company representatives here today about what is involved in shifting from low carbon wire rod for example to high carbon or to some of the more specialized forms of wire rod.

Now, several officials have already testified to the various different types of wire rod that's produced, but I wonder if you could give a sense of things like adjusting rolling schedules and the impact on capacity it might have to shift from one general form of wire rod to another?

MR. SIMON: For us it has been a twofold process. Process control has been a big part of it, in other words take a look at your process to make that we're under control, but you cannot do that without the capital improvement piece of it.

We made some substantial capital improvements in 1993 when we made the acquisition and we have continued to make those. What you've seen happen in this last few years they still have subsided because of the lack of returns.

We would like to make capital improvements to continue or climb up the ladder into the higher cords for instance, but it's become increasingly more difficult because of the lack of returns. I would say primarily you start out with a capital improvement and then you follow that with the process.

MR. KURTZ: From our perspective we've been in the high carbon business for a long time. As far as high carbon is concerned you have to watch several factors all the way from the melt shop through the rolling cycle. Basically the tempo and the pace of the shop has to be very controlled for the high-end market or products that we produce.

In addition the tolerances at the castor have to be much tighter for our high carbon product. From our perspective we know how to do it, we're good at it and we continue to do well with it. In the rolling side of things for some of the really high-end product there is additional testing that needs to occur and we have to ensure that the tolerances remain very, very tight throughout the operation.

MR. G. PORTER: Everything starts with the billets and so when we're buying billets we need to know the capabilities of our suppliers. We've never bought from anybody that we haven't visited the plant and that really starts with the fleet stock. If it's a scrap-based mill without particularly sophisticated melting capability then that restricts the abilities.

If it's an iron ore-based mill whether it's based on DRI or whether it's based on blast furnace and all sorts of other things are capable.

MR. ROSENTHAL: Really I'll just reiterate what has already been said, but from the steel making billet casting rod rolling there's more process control, there's more inspection and testing, material handling and finished side. It just involves a little more integrity into the manufacturing of the product.

MR. CHEEK: In our particular situation we weren't in the high carbon business until a few years ago. We spent a significant amount of money revamping a melting furnace, putting in a ladle net furnace in our melt shop, we put in a new billet castor. This equipment was commissioned in late 1998.

We've since made further improvements to the water quench cooling capabilities in our wire rod mill and that gets us the capability, and we've been successful at making high carbons up to a Grade 1070.

To move up the continuum we find ourselves in a similar situation as my colleague stated and that is we need to be able to justify doing the next capital projects to further enhance capabilities to go up above where we are today.

MR. CORKRAN: One of the issues I'd like to follow-up on, though, is when you get an order that involves weld and quality wire rod, or CHQ, or tire quota, or tire feed do you need to bundle those orders to reach a critical mass to work them into your rolling schedules?

Are you able to accept them as they come? Do you experience a great deal of changeover time as you try to accommodate different varieties of wire rod in your production schedules?

MR. KURTZ: From our perspective to increase efficiencies throughout the operations it's always much better to do a sequence of heats which typically is between 20 and 22 heats a day or a sequence of 80 tons per heat. It's very good for us to have an entire sequence of high carbon because if you don't you'll have separation between those heats and you'll lose yield loss on the melting side of things.

As far as the rolling side of things you can intermix high carbon and low carbon as you're rolling the billets through the wire rod mill. The problem you run into is if you have an interruption in your operation and you leave high carbon billets in the reheat furnace for too long of time the quality deteriorates rapidly on you.

So whenever you have scheduled down time you always have to or you should always put the low carbon billets in your reheat furnace as you're sitting there waiting to start back up.

MR. SIMON: See, now where pretty much active sequencing is important it's really important for all product lines, so I'm not sure that we see a major difference in how we sequence the high carbon versus the low carbon. We would love to have one month of all low carbon, one month of all high carbon, but it just doesn't work out that way.

MR. CORKRAN: My next question deals with demand. There was a reference today to the recent highway bill. We've and portions of the country have also experienced devastating weather patterns and Hurricanes Katrina and Rita. I wonder if you can comment on the affect of those items on your demand as you see it now and as you see demands going forward over the next year or so?

MR. MARTIN: I'll comment first. It's a bit premature to determine how much consumption, how much wire rod usage is going to result from the rebuild in the Gulf from Hurricane Katrina. We would expect that there would be an increase, but not so significant relative to other construction-related steel products such as rebar and products such as those.

As far as the highway bill goes, you know, until our customers come to us with an increased forecast for demand it's pure speculation to get too fired up about something like that, but certainly we with some optimism see some of these articles and hope to think that we're going to see an increase in demand as a result of that.

MR. SIMON: I would echo that. We have not seen a big difference in our demand, nor do we really project a big difference. I will tell you that we tried from the third quarter to the fourth quarter of this year to move to a four crew operation. We're in essence operating at 75 percent capacity, and we failed miserably and we were not able to go to a fourth crew.

In our forecast for next year I'll call for a three crew operation.

MR. KURTZ: From our perspective at Georgetown we have seen an increase from Hurricane Katrina in one particular grade or quality of wire rod and that's in the welding rod area. We have seen an increase from that, but other than that we have not seen anything significant coming through just yet.

So I echo what everybody else is saying and that is that there will be a period of time before we actually would see anything there, but I think it's important to note that whenever we have seen large increases in demand within our industry we have also seen large increases in imports which in turn have suppressed any type of a price increase that we could see.

MR. ROSENTHAL: Mr. Corkran, I just want to clarify one thing. I think everyone understood the question about demand. One of the discussions we've had within the industry is how do you measure demand? How do you know what demand is? When we describe to them how one analyzes apparent domestic consumption their response to me was well, that's not demand you idiot, that's something else.

I said you're right. One of the things that you'll be grappling with I'm sure is trying to figure out what real demand is versus apparent consumption as you look at the data particularly for 2004 and 2005.

What the industry witnesses have told us is that over the last several years real demand has been declining from their customers, but that over the last two years or so because of what you heard about the panic buying and the aberrational situation in the marketplace there was a lot of product that was bought, put in inventory and not really needed, not really demanded for the present, but was used over a longer period of time.

So I think you have to long at a longer trend line to look at what true demand really looks like.

MR. CORKRAN: That's a fair point. I'd also like to ask about with respect to the hurricanes what impact if any have they had on your own ability to source raw materials? Has that caused any disruption in your ability to get your raw materials?

MR. KURTZ: It has not at Georgetown as far as raw materials. It did impact our natural gas supply. We were put on allocation for natural gas and only allowed to use our firm portion of our natural gas during a six to seven week period of time.

MR. CHEEK: We've been able to source our raw materials at Keystone.

MR. SIMON: No impact on raw materials.

MR. CORKRAN: There are a number of published estimates of production consumption of wire rod in the United States and in other markets. Some of them are published and widely available, others are published but are by subscription only or otherwise deal with copyrighted material.

I wonder if you could comment on a description of the market that I'll just throw out very generally. One of the commonly referenced public sources there is a calculation that U.S. production of wire rod declined in 2004 whereas U.S. apparent consumption of wire rod increased substantially and far in excess of apparent U.S. consumption worldwide.

I would just like your comments on just does that sound to you like an accurate description of the U.S. marketplace in 2004?

MR. CHEEK: I'm sorry. I misunderstood part of what you said. Would you go back to the part about -- I'm sorry, I apologize -- U.S. production last year and consumption? The figures state what?

MR. CORKRAN: These particular figures suggest a decline in U.S. production. I'm not sure that's actually something that our own data agree with, but I was primarily interested in the consumption figures which suggest a very large increase in apparent U.S. consumption in the year 2002 and foreign excess of consumption worldwide.

The growth in the United States or growth in apparent consumption was far outstripping any such growth worldwide.

MR. CHEEK: Well, I think it gets back to the point that Mr. Rosenthal made and that's the fact that when you look at specific inventory bills and the amount of wire rod that came in from the subject countries in particular and how they skyrocketed last year and inventory was put on the ground as a carryover into this year we're not sure all that rod was consumed.

We believe it was sitting somewhere else and not being consumed.

MR. MARTIN: I can attest that I shipped a whole lot of tons to certain customers who in 2004 were buying wire rod on a regular basis up until fourth quarter and if you look at year to year those numbers are significantly down. They're down tremendously this year year-to-date versus last year. So I guess the consumers have to answer that question.

MR. ROSENTHAL: Mr. Corkran, domestic production may have been down. The figures we show show an increase of a million tons from the three subject countries coming into the market in 2004. So you can have consumption going up in U.S. production and U.S. shipments going down and I guess out of who's hide those million tons came.

Then we have the inventory phenomenon that the gentlemen have talked about. It goes back, I mean, I think to the U.S. as being looked upon by the entire world economy as the engine of growth of the economy and the United States very deep and getting worse trade balance in the big picture.

MR. MARTIN: Mr. Corkran, I might comment. We have good friends, obviously colleagues in the industry from the American Wire Producers Association and at the February annual meeting it was the strangest experience that I had seen because there was very little business conducted. Nobody was buying anything.

The comments from most of the rod consumers were in 60 to a couple of months we should iron out our inventory issues and be buying again. So April rolled around and in a couple of months we should be ironing out our inventory issues and buying again. So it really prolonged itself well beyond the first six months of this year. Why all that steel was purchased, again, I can't answer that question.

MR. KURTZ: I think it goes back to I think there was panic buying going on and, you know, there were foreign producers who were pushing low cost rod into the U.S. market, and the panic buying took place and the inventory overhang was huge going into 2005.

MR. CORKRAN: I just have a few additional questions. One deals with internal consumption of wire rod by individual companies. To the extent that your companies do consume some of your own production internally can you tell me whether those applications differ in any marked way from the applications for which you sell the wire rod on the open market?

MR. CHEEK: We use a lot of rod internally that we manufacture at Keystone for other products and it's essentially similar to the rod product we sell to our customers.

MR. G. PORTER: Yeah. We consume 25 to 30 percent of the rod that we roll in making reinforcing products, but we also sell that same rod to the people with whom we compete in the reinforcement market.

MR. KURTZ: Our is very negligible. A very small percentage.

MR. SIMON: Yeah. We don't consume any of what we produce either.

MR. CORKRAN: Well, I'd like to thank all of you very much for your testimony today and that concludes my questions.

MR. CARPENTER: I just have a few questions and I'd like to start with a question about average unit values and maybe I'll start with you, Dr. Magrath, since you had some discussion of that in your testimony. Do you believe that a comparison of average unit values among different sources of supply is a useful tool for analysis in this particular case given the differences in product mix among suppliers?

MR. MAGRATH: It is somewhat. First of all in preparing all this this is all we have with the lost sales. The category import categories are broken down to a number of subcategories. You can examine those. I'd say it is a tool, but a second best tool. The questionnaires are going to be the best source of that data.

MR. CARPENTER: Let me follow-up on that with a little more detailed question. Looking at what's at least some preliminary unit value data that we have from the questionnaire data and it does show that there are differences in the average unit values among the three subject countries and then also in comparison to U.S. producers.

Germany typically had higher average unit values for most of the period than the other two supplying countries, but that difference seemed to narrow a bit in the more recent period and maybe I could ask any of the industry witnesses, too, if they'd like to comment.

Does anyone see a difference in the mix of products coming in from the subject countries during the period of investigation that we're looking at?

MR. KURTZ: Mr. Carpenter, from my perspective what we're seeing with the reference to Germany is that there's more low carbon coming in from the Brandenberg mill in Germany. It's a larger percentage of the material coming in from Germany into the United States and it is primarily low carbon.

MR. CARPENTER: Any other comments on that?

(No response.)

MR. CARPENTER: Another general question about the different types of wire rod. Compared to a few years ago is there any for lack of a better term type of grade creep in terms of the specifications in such a way that either U.S. producers or import suppliers are supplying a higher specification product for a use that was typically supplied by a lower specification product a few years ago?

Have you seen any of that in the market?

MR. KURTZ: If I understand your question correctly what we have seen is a shift towards more high-end 1080 and even into 1090 material within the tire industry. We are seeing tighter restrictions on some of the products that we produced below those numbers.

Whether or not that's being used for higher-end applications we don't have the data to support that or not support that, but even on some of our low carbon grades we are seeing very tight restrictions on segregation and inclusion which in turn, you know, requires us to put a lot more effort into the material that we're producing.

So as a company we don't have the data to support whether or not it's being used on the higher-end product, but they are tighter restrictions.

MR. ROSENTHAL: Mr. Carpenter, the converse is also true. At least we have anecdotal evidence that some purchasers might require for example 1080 tire bead, but they'll buy 1070 and use it for what supposedly is a 1080 application. At least that's what we've been told.

MR. CARPENTER: Have you seen any situation sort of the converse of that where a higher specification product that's imported is being used for a use that might have typically been supplied by a lower specification product but at a lower price, a price that would typically be charged for a lower specification product?

MR. KURTZ: The one instance that I'm familiar with is material at a much small diameter, below the 5.5 millimeter, coming out of Canada and being used for products that we produce at the 5.5 millimeter level and above.

MR. CARPENTER: I gather from what you're saying that there hasn't been that much of a change in the market in terms of what products are being supplied for what uses, but customers at least in some cases have been increasing the specifications that they're requiring?

MR. KURTZ: That's correct. I mean, we don't have actual data on it, but we do believe that there is some tire bead material that we are supplying the industry that could in fact be used for tire cord specifications.

MR. SIMON: The difficulty in answering the question is just what he mentioned. We also believe that, you know, we may be selling something at 1070 and it may be used for something different than that. It's very difficult for us to find that out. The same thing works in the opposite is if they're using a higher material for a lower end it's very difficult for us to know about the specifications.

MR. CARPENTER: I understand that. More appropriate question for a customer. Since the Respondents in their opening statement refer to or their argument was that the increase in the imports in 2004 was being driven by the short supply of domestic product which brought the imported product into the market Mr. Corkran had some questions about that and there was some discussion about the timing of it particularly towards the end of the year I guess capacity utilization was lower, but I was trying to reconcile that with the capacity utilization figures that, Dr. Magrath, you presented in your chart which looking at our preliminary questionnaire data it seems to be very consistent with our data.

It shows that there was something like 70 percent capacity utilization by the domestic industry in 2004 and even if you look at the first three quarters of 2004 it was just a little bit higher than that and so I was trying to reconcile the fact with if you look at the reverse of that the unused capacity was close to 30 percent, but yet there appear to be instances of tight supply and I'm wondering whether again that might be maybe just limited to certain types of wire rod as opposed to across the board or alternatively maybe is it possible that the reported capacity might be higher than what was actually available during the time?

For example there was new capacity that was brought onstream and maybe it wasn't available during the entire time period.

MR. MAGRATH: What strikes me in the explanation for that question is the ephemeral nature of the so-called tight market. These gentlemen testified that it was for brief periods, the second and third quarter 2004, and by the end of the year which is the capacity data that we use for the charts the Commission looks at that those problems had been unrattled, so it was never that big a deal.

MR. CARPENTER: Yes. I mean, it sounds like from your testimony that the short supply problems were resolved by the end of the year. In looking at the capacity utilization there seems an amount of excess capacity throughout the year.

MR. MAGRATH: Your suggestion that perhaps the tight supply situation was just for certain products, production capacity numbers are on the capability to make the entire gamut of wire rods.

So perhaps there were spot type situations on specific products, but you have heard these gentlemen by and large say that there was no tightness of supply or that they supplied their customers with the normal amount that they would get in normal times and that it was short-lived in any case.

MR. ROSENTHAL: Mr. Carpenter, I think one of the things that is interesting to look at is when you compare the Respondents' statements about tight supply and to the extent that they believe it was caused by Georgetown going out of the market for the first part of 2004 with the amount of tonnage that came in from the subject countries as is indicated in some earlier testimony the amount that Georgetown accounted for in the marketplace was dwarfed by the level of imports from the subject countries.

That's number one. Number two, there was additional domestic supply that came onstream at that time. I'm not sure if it equalled the Georgetown supply that went offline, but it was a pretty significant amount as well.

MR. LUBERDA: Mr. Carpenter, I denote also that the customers were aware of what was happening to raw material costs during 2004, too. They see one producer down, they see raw material costs going up and they also see lots of offers for low-priced imports at the same time.

So the decision to build inventory last year wasn't done in a vacuum. They saw the same factors that our producers did. They build and have access to huge amounts and very low cost wire rods, so they make the decision to build inventory both of their rod stocks and their finished products with this lower price.

So it has much more to do with knowing what market conditions look like. At least they're projecting out, seeing raw material cost increases and the availability of very low cost product, so that starts driving the engine of pushing more rod in the door for them.

MR. CARPENTER: Finally, I know that we've asked for a good bit of data in the questionnaires both from U.S. producers and from importers about their shipments of various grades of wire rod and I haven't seen a compilation of all that data, but I was just wondering whether some of the higher specification product like say the coal heading quality is increasing in terms of U.S. consumption, not just U.S. production, but consumption?

Is that becoming an increasingly popular product by customers? Is demand for that product increasing over the period or any of the other higher specification --

MR. MARTIN: Relative to the coal heading market, no, I haven't seen a significant increase. The fastener industry is, you know, subject to a lot of the same conditions that the rest of the steel consuming industry is.

Automotive build up and down, a demand for construction, but relative to our coal heading supply to our customer base we saw that in a decline this year versus last year for the same reasons that we're here today talking about imports from various countries.

MR. CARPENTER: Right. Okay. Thank you very much for those responses to our questions. Let me just check with my colleagues to see if they have any further questions.

Mr. Corkran?

MR. CORKRAN: Thank you. Just a very quick question and it's only just for a clarification of one of the live presentations.

Dr. Magrath, the U.S. producers unused capacity excluding plant closures. In general what were the adjustments that were made from that compared to the previous slide, U.S. producers unused capacity? Was that Georgetown and Beaumont?

MR. MAGRATH: Yes.

MR. CORKRAN: Thank you. No further questions.

MR. CARPENTER: Again, I want to thank this panel very much for your presentations here, your patient response to our questions. We're already close to noon and I think we have quite a way to go this afternoon, so I'm going to suggest that we take a lunch break until 1:00 p.m. if there are no objections to that.

(No response.)

MR. CARPENTER: We don't normally do that, but I think the conference is going to run for a while, so hearing no objections we will resume the conference at 1:00 p.m.

Are there any other witnesses that have to leave early?

(No audible response.)

MR. CARPENTER: Maybe what we could do is have him testify first and then we could have a separate round of questions just for him so he could leave.

All right. We'll make it 1:00 p.m. then. Thank you.

(Whereupon, at 11:55 a.m., the hearing in the above-entitled matter was recessed, to reconvene at 1:00 p.m. this same day, Thursday, December 1, 2005.)

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

(1:00 p.m.)

MR. CARPENTER: Welcome back, everyone -- Ms. Korbel, I understand you're going to start us off. Please proceed.

MS. KORBEL: I guess it's good afternoon. Everybody remember that when you do your testimony.

(Laughter.)

MS. KORBEL: My name is Kimberly Korbel, and I'm the Executive Director of the American Wire Producers Association, or the AWPA.

Access to a global supply of wire rod is the primary objective of the Association. The members of the AWPA purchase between 85 and 90 percent of the six to seven million tons of wire rods sold in the U.S. market each year. They supply wire and wire products to virtually every sector of the American economy.

The only use for wire rod is to make it into the wire. So the ability of our members and their downstream customers to remain competitive is essential for the long-term health and prosperity of the U.S. rod industry.

Over the past 15 years, we have returned repeatedly to the Commission to explain the conditions of competition in the rod market. Consistently, we have identified the inability of the domestic industry to meet demand for wire rod.

This afternoon, you will hear about the unusual circumstances that affected the U.S. rod market in 2004 and 2005. After a record steel market in 2004, this year began with unusually high rod inventories at U.S. mills and wire inventories at the factories of our customers. As these inventories declined, demand has returned to normal levels, and U.S. rod mills are again raising prices.

Today, you will hear from four members of the AWPA, who together purchase nearly two million tons of wire rod annually. At the appropriate time, we'll be pleased to answer your questions. Our first witness is the Association president, Bob Moffitt.

MR. MOFFITT: Good afternoon, my name is Bob Moffitt. I am appearing here today both in my capacity as President of the American Wire Producers Association, and as Vice President of Purchasing for Davis Wire, Davis Wire Pueblo, and National Standard; collectively, the Heico Wire Group.

The Wire Group is the largest consumer of wire rod in Western North America and one of the largest in the U.S., operating five plants in California, Washington, Colorado, Oklahoma, and

Michigan. These plants convert nearly 500,000 tons of wire rod into wire and wire products annually.

The Wire Group manufactures wire for agriculture and merchant products, industrial and specialty products, building and reinforcing products, and the automotive industry. We purchase low carbon, high carbon bead, and welded rod for these applications.

The Wire Group is a strong supporter of the U.S. rod industry. Our Kent, Washington plant is approximately 200 miles from Cascade Rolling Mills in McMinnville, Oregon. We are their largest customer. Our Colorado plant is located on the grounds of the Rocky Mountain Steel Mills facility in Pueblo. We are their largest customer.

We buy from Keystone Steel and Wire. We buy from Georgetown. We buy from Connecticut Steel. We were buying from Ameristeel's facility in Beaumont, Texas, up until their lock-out there. We would like to buy from the Perth and Amboy, New Jersey plants.

Although we prefer to buy domestically, we have learned through experience that it is essential to maintain multiple sources of wire rod. Disruptions caused by mill closures, production outages, labor disputes and even trade cases can interrupt the supply of rod and threaten our business.

As a result, we made a strategic business decision, several years ago, that Davis Wire would purchase between 25 and 30 percent of its requirements from off-shore producers, and the remaining 70 to 75 percent from domestic mills.

Our strategy of multiple sourcing was adopted to guarantee access to sufficient quantities of wire rod in order to avoid disruptions in our supply and ensure wire and wire products for our customers. In 2004, our strategy was validated when a rod shortage hit the U.S. market.

As the person responsible for all of the wire groups' rod purchases, I can tell you that during most of 2004, price was not an issue. It was all about availability.

For example, by contrast, Rocky Mountain supplies all of the rod consumed by our wire plant consumer in Pueblo, Colorado. But during 2004, we were told by Rocky Mountain that they could not supply any additional to Pueblo, because the wire group was already receiving 40 percent of the mill's production.

Rocky Mountain suggested that we buy imports to meet the shortfall. So in 2004, we bought imported rod for Pueblo, a plant which previously had used 100 percent domestic rod. During 2004, our companies developed new suppliers in Poland, Italy, Turkey, and Germany. These were mills that we had never purchased from before, but we needed the rod.

At times, the import price we paid was higher than the domestic price for rod. It didn't matter. We had to have the rod to meet the demand for our products during 2004, and we had serious concerns about the domestic mills' ability to supply us.

I know that we were not the only ones searching for available rod. We received calls from other independent U.S. wire companies who wanted to buy rod from our companies. It was a crazy time in the market.

My colleagues, Joe Downes and John T. Johnson, will address the reasons for these unusual conditions and their consequences. For the Heico wire companies, it meant having to pass up business opportunities on our products because rod supply was unable to meet demand.

Then, when the market cooled, we were sitting on three to four months of rod inventory, which has taken us nearly six months to work down to a manageable level.

As you might guess, rod availability has not been an issue this year; 2005 has been all about inventory adjustments. Now that inventories have been restored to more normal levels, we are projecting increased demand for wire rod in 2006 for our wire companies.

We have already been advised by one of our domestic suppliers that it would be difficult for them to meet our first quarter requirements, and that we should expect delays. As I speak, I am still waiting for one of the Petitioners to ship rod promised for September, and we are now in December.

The question is, will our U.S. suppliers be willing and able to supply our domestic rod requirements next year? Thank you.

MR. JOHNSON: Good afternoon, my name is John T. Johnson, Jr. I'm the owner and President of Mid-South Wire Company. Mid-South Wire was founded in 1967, and its affiliated sister company, Nashville Wire Products, are both family-owned businesses that employ approximately 1,000 people in Nashville and throughout Middle Tennessee.

Mid-South Wire produces more than 200,000 tons of wire annually for the automotive, appliance, closet shelving, material handling, lawn and garden, and other industries. We also produce galvanized wire for a variety of end uses, such as wire handles for paint cans.

We operate our own trucking company, with a fleet of approximately 75 trucks, in order to provide reliable service for our customers.

We, like other independent U.S. wire producers, are caught in a potentially catastrophic cost/price squeeze. We convert rod into drawn wire, which then becomes the raw material for our manufacturing customers. Therefore, our customers are caught in the same squeeze.

Increased rod prices result in increased wire prices, and manufacturers simply cannot continue to pass increasing costs onto their customers. Our customers are continually faced with the import or build decision, which is whether to import finished wire products, or to continue to purchase wire from Mid-South and manufacture their finished products here in the U.S.

Recently, one of our end customers, Charboil Barbecue Grills, announced that they will move the production of their entire product line out of the U.S. This will result in the loss of approximately 1,600 jobs in Columbus, Georgia.

Another large customer, Newell Rubbermaid, who is a major producer of wire closet shelving, has downsized their Jackson, Missouri work force as a result of outsourcing from overseas. Yet, they are still trying to maintain some production lines in the U.S., if feasible.

These are just two of many examples we have seen. Our customers continue to shut down manufacturing operations as products are forced offshore, largely due to rising rod and wire prices.

Examples are fan guards produced in Illinois, construction nails in Tennessee, Arkansas, and Mississippi; as well as pet cages in Indiana, and swing set chain in Alabama. These are all products that are now made off-shore.

Consumption of wire rod in the U.S. will no doubt decline, as more customers scale down and phase out production. Then domestic wire producers like Mid-South also will be forced to cut production, as well. Our customers demand that we be competitive, if they are to continue to buy from us and make their products in America.

The year 2004 was an exceptional year. From late 2003 through August 2004, our domestic rod suppliers told us the number of tons that would be allocated to us. When Cargill owned the Beaumont, Texas mill, we purchased wire rod in large quantities from them.

With the new owners, they opted to keep our account with their sister mill in Perth Amboy, New Jersey. The New Jersey mill, however, was unable to meet all our needs during much of 2004. Therefore, we had no choice but to rely on foreign sources.

There were times during 2004 when the prices we booked for imported wire rod were higher than prevailing domestic prices. Also during 2004, there were occasions when the prices of wire rod from domestic and foreign mills actually increased, after orders were placed and in transit. But given the circumstances, we had no other choice but to accept those increases.

As I stated earlier, the demand for wire was very strong last year. We received calls from companies looking for wire that we had never done business with before. Some of our customers were so desperate for product, that they asked us to ship any wire size close to what they needed.

During 2004, as we struggled to obtain enough wire rod for our regular customers, we missed opportunities to grow our business. We had to turn down business from sizeable accounts that produced products such as grocery carts, display fixtures, poultry cages, and other products, due to the tightness in the rod market that year.

There was a tremendous build-up inventory in late 2004, and it affected demand in 2005. Due to the shortages that we experienced in 2004, we bought rod from all available sources, domestic and foreign. As a result, when those orders arrived, we went into the first quarter of 2005 with heavy rod inventories.

Concerned about the availability of raw materials, rod for us and wire for our customers, the entire supply chain increased inventories during late 2004. It was not until May 2005 that our inventory levels started to return to normal. This was due to the draw-down of high inventories in 2005, coupled with a slow-down in our markets; and it resulted in an overall decline in wire sales.

Purchases by some of our largest customers were down by as much as 20 percent in the early part of 2005. We saw significant reductions in the automotive, shelving, and lawn and garden sectors of our business due, in large part, to continued high inventory levels.

Recently, we have experienced delays in deliveries from domestic rod mills, both Cargill, Perth Amboy, and Mittal Georgetown have been several weeks late, even though our order volumes had been at or even less than normal levels.

In the last three months, the U.S. mills have begun another round of price increases, from $25 to $40 per ton, and those increases have remained firm. When we have talked to Mittal Georgetown about low carbon tonnage, they have referred us to their Caribbean Ispat mill in Trinidad, citing that the Georgetown mill's cost structure was not set up for low carbon production.

The consolidation that we have seen recently in the domestic rod industry has resulted in a more disciplined approach to both production levels and pricing levels, which keep the supply tight and prices high.

The domestic rod industry's reliance upon trade cases to restrict our access to the global wire rod market makes us uncompetitive in the global market; thus, making it impossible for us to be a low cost producer, which forces our customers to move production and jobs overseas.

I appreciate the opportunity of speaking to you today.

MR. DOWNES: Good afternoon, my name is Joe

Downes, and I am President of the Industrial Materials Segment of Leggett & Platt, Incorporated. A group of companies within our Industrials Segments produce welded tubing, round wire, and importantly, just like the Petitioners, we also produce wire rod. I'm also the Chairman of the Government Relations Committee of the American Wire Producers Association.

As Kimberly Korbel mentioned, the members of the AWPA purchase between 85 and 90 percent of the six to seven million tons of wire rod sold in the U.S. market each year. The Leggett & Platt Wire Group produces wire for downstream customers in the automotive, agricultural, and consumer products markets.

Our plants also produce the wire used in our company's internal operations to make springs for bedding and furniture components, displays and shelving for commercial furnishings, and other similar products. We manufacture these wire products using wire that we have drawn from wire rod.

We have seven wire mills in seven states, and we employ over 900 American workers. We are one of the largest wire producers in the United States. Annually, we consume in excess of 800,000 tons of carbon and alloy steel wire rod. A portion of this is supplied by our own rod mill, Sterling Steel.

This mill, formerly Northwestern Steel and Wire, was purchased by Leggett & Platt in 2002, and I'll talk more about that a little later.

I think that in order to evaluate today's market conditions, it is important to understand what has happened since the end of 2002. For the U.S. steel industry, the past three years have been unusual ones, and that goes for the U.S. rod and wire industries.

First, 2003 was a difficult year for all of the U.S. steel industry, including the rod producers. In that year, apparent domestic consumption plummeted; and although domestically-produced rod gained a larger share of the U.S. market, there was a decline in domestic rod shipments.

During most of 2004, multiple unique circumstances led to high demand, historically high prices, and strong profitability. Late that year and into 2005, a softening in demand for wire and wire products produced an unanticipated wire rod inventory glut. The high inventories led to reduced wire rod purchases in 2005.

Now let's look at the details of the most recent two years. In October 2003, new developments further contributed to the changing U.S. rod supply and demand situation. The rod mill in Georgetown, South Carolina was shut down by its previous owners, and that decision removed several hundred thousand tons of wire rod from the market.

It was also in October of 2003 that Keystone Steel and Wire began publicly reporting financial problems. Keystone subsequently sought bankruptcy protection in February of 2004; and although they continued production, it was on a limited basis.

As the Commission knows, 2004 was an extraordinary year for the steel industry, in general. In fact, Petitioners called 2004 a rising market, and you can see that their industry was profitable that year. The U.S. economy rebounded, while demand in other markets around the globe also increased.

This was especially true in China, where internal demand for wire rod surged and the Chinese market began absorbing all available steel. This was the primary cause for a dramatic rise in world steel prices. For several months during the first half of 2004, there was essentially no Chinese material available in the U.S. market.

As a result of these developments, import prices escalated to the point that, at times, imported rod was more expensive than domestic rod. There were periods during 2004 when we and other wire producers were being quoted prices of $40, $60, and even $80 per ton higher than the prevailing domestic prices. Average rod prices from all sources, both domestic and imported, increased by more than 100 percent, from the first quarter of 2002 through the fourth quarter of 2004.

As I noted earlier, Georgetown Steel was out of the market for a large part of 2004; and early in the year, Keystone was experiencing shutdowns and other disruptions, as the company entered bankruptcy.

During the first eight months of 2004, we bought all the rod the domestic producers would supply to us. We were, in effect, on allocation from four of the Petitioners.

I think it was interesting, in the testimony this morning, the question was asked about allocation. I think there was a reference used that said we had a controlled order entry process.

If you'll forgive me a little levity here, I was always told that if it walks like a duck and looks like a duck, and quacks like a duck, it's probably a duck. Well, if it sounds like an allocation and looks like an allocation, then it's probably an allocation;

and that's where we were at that point in time.

As a result of the aforementioned unusual market conditions, when we had an opportunity in early summer 2004 to purchase rod from various import sources -- and I think that's important -- at prices close to domestic, we did so. This was not because of price, but because of availability. We believed this to be our only alternative.

I thought it was interesting, when I looked at one of the charts this morning showing the U.S. producers' unused capacity, excluding plant closures, it would appear in 2004 that there was about one and-a-half million tons. That's this right here.

I need for somebody to help me understand how, when we had a perfect storm of circumstances -- high prices, low availability -- if that excess capacity was there, then why were we not able to get the steel that we needed? Why were we forced to go off shore? I think we need to try to understand that.

At that time though, we had placed orders and expected our inventory to return to more normal levels. There were times in the early part of 2004 where our inventory levels were under two weeks. When you try to run manufacturing facilities like we do, that's extremely low. We were incurring a lot of costs, shifting material from one plant to another to take care of the outages.

But you've got to keep in mind that there's a three to four month lag between an order placement and the receipt of the import material.

So we continued, even during the third quarter, to buy all the rod the domestic mills would sell to us. I'm sorry, let me back up. You've got to fast forward a little bit here, because we've gone from the May/June timeframe of 2004 to now we're in the September/October timeframe.

The import material has now started to arrive. The Georgetown mill has now started back up production. This happened at a time when our demand for wire was dropping. So now we've gone from a limited rod supply to growing inventories. I cannot over-emphasize to you that that was growing inventories from all sources. We were over-inventoried with domestic and were over-inventoried with the imports.

By December of 2004, Leggett's wire plants were holding close to twice the normal level of rod inventory. We had to bring these inventories back in line, and as a result, there was a period of about four months this year where we didn't buy any outside rod, either domestic or import. I understand that many of the U.S. wire companies were in the same situation.

Our customers also built up their inventories of wire and wire products during 2004 in order to ensure adequate supplies of raw material for their operations. During 2005, we and our customers worked off these inventories. This resulted in a drop in the apparent demand of wire rod during the first part of this year.

However, by the fall of this year, demand had improved. The inventories had fallen, and the domestic rod mills had been able to impose price increases, in some cases, up to as much as $65 a ton.

As I mentioned earlier, Leggett made the unprecedented decision in 2002 to purchase a U.S. rod mill; and we acquired the assets of Northwestern Steel and Wire in Sterling, Illinois. Although Northwestern was in bankruptcy, we determined, during our due diligence, that the rod mill could be operated cost effectively.

In fact, the former management had stated to us at the time of the bankruptcy that the rod mill was profitable. Renamed Sterling Steel, the rod mill now supplies a significant amount of Leggett's demand for wire rod.

We have been pleased with the performance of this facility, and are currently finishing a $10 million expansion that will increase production by 20 percent. This is wire rod that I'm talking about now.

However, even with that increased capacity, Sterling will only be able to satisfy a portion of our overall rod requirements. So we will continue to source rod from outside sources, domestic and imported.

I really have mixed emotions about testifying today. If successful, this case could provide a short-term benefit for U.S. rod producers, and that includes Sterling Steel, which is my rod mill.

But in the long term, without wire demand, we don't need a rod mill. Without access to globally priced raw material sources, our wire companies and our wire customers cannot compete with foreign manufacturers of wire and wire products. Eventually, our U.S. wire businesses and customers will suffer, and so will the domestic rod industry.

Thank you for the opportunity to appear here today.

MR. DESHANE: Good afternoon, I am Michael

DeShane, Sourcing Manager for Steel and Chemicals, at the Lincoln Electric Company. I've worked at Lincoln Electric for seven years. During 2005, I visited seven steel mills, with a focus on the wire rod market.

Lincoln Electric is the world's largest designer and manufacturing of welding products. The company employs over 3,000 people in the United States.

Lincoln Electric enjoys a worldwide reputation for producing high quality state-of-the-art welding equipment and consumable welding products, including welding electrodes and wire produced from wire rod. Our welding products are used in a wide variety of construction and industrial applications, including such critical welding applications as natural gas and oil pipelines, and off-shore drilling platforms and ships, including nuclear aircraft carriers and submarines.

In virtually every case, our customers expect our welding products to meet tighter tolerances than the American Welding Society specifications. Wire rod is a critical component in the production of welding electrodes and wires.

To meet our customers' requirements, Lincoln

Electric has developed proprietary specifications for welding quality wire rod. Whenever possible, Lincoln Electric seeks to work with domestic wire rod producers, so that they are qualified to supply our needs.

Despite Lincoln's best efforts, the U.S. rod producers have determined that it's not in their interests to invest in the equipment necessary to produce a number of our special grades.

For example, most of our wire rod grades have tight tolerances for residual levels of various chemical elements. These tolerances can be achieved by controlled raw materials, ladel refinement, and/or vacuum de-gassing. None of the U.S. wire rod producers have been successful in meeting all of Lincoln's specifications for these tolerances.

We, therefore, had no choice but to purchase these grades from outside the United States. One such grade is used to produce welding wire for demanding military applications. Lincoln's only source of supply is Mittal Steel HOC build in Germany. Ironically, this facility is related to one of the Petitioners in this proceeding.

As a second example, the specifications for several grades require that wire rod be produced using titanium-keeled steel. This process uses titanium as a de-oxidizing agent, and enables Lincoln to produce running electrodes and wire with improved mechanical properties and reduced welding fumes.

Unfortunately, no U.S. producer is capable of producing titanium-keeled steel for welding quality wire rod. Lincoln, therefore, has no option but to look outside the United States to obtain this wire rod. Our only source of supply for several of these grades is Zarfstahl in Germany.

Lincoln Electric has a strong commitment to the U.S. wire rod industry. We have devoted considerable resources over the past 15 years, working to get the Georgetown facility qualified to supply Lincoln EW 2512A grade of wire rod. We even committed to provide a base of business on other grades of wire rod, to assist in the re-opening of the Georgetown facility, following its closure in late 2003.

Unfortunately, we understand that Georgetown will not be installing the wire rod cooling deck required to produce EW 2512A. Apparently, Mittal Steel would prefer that Lincoln continue to purchase this material from affiliated middle facilities in Canada and Trinidad.

While the pending anti-dumping investigation may potentially affect our sourcing decisions for this rod, the only potential beneficiaries will be foreign rod producers, not members of the U.S. Industry.

Where the U.S. wire industry is not capable of, or interested in, producing a particular grade of wire rod, there is simply no basis for finding the U.S. industry has been injured, because domestic purchasers, such as Lincoln Electric, have been forced to look overseas to meet customer needs.

Price is not the issue. It is simply the fact that for the overwhelming majority of our grades, there is no U.S. production of welding quality wire rod that meets Lincoln's specifications.

Earlier today, there were three Petitioners that stated they make welding quality wire rod. They did not say they can meet all of Lincoln's specifications.

Let me turn to wire rod grades produced in the United States. Like other wire rod purchasers, Lincoln Electric found that the market for welding quality wire rod tightened significantly in the later part of 2003 and through 2004. With the closure of the Georgetown facility, availability for a number of wire rod grades became problematic.

Efforts made to purchase wire rod from other producers in the U.S. failed to meet Lincoln Electric's specifications. At the same time, worldwide demand for welding electrodes and wire remained strong. Both Lincoln and our customers were concerned about supply disruptions, and the response was to build inventories.

As supply improved in 2005 and customer orders slowed, we began to work down inventories. This effect dampened demand for welding quality wire rod during the first half of 2005. Inventory is now at normal levels. Demand is strong, and Georgetown is having difficulty delivering wire rod on time.

Lincoln Electric anticipates continued growth and a worldwide demand for welding electrodes and wire. We look forward to this growth; and where feasible, Lincoln Electric will purchase wire rod from domestic producers. However, we ask the Commission to recognize that for a number of our welding rod grades, we have no choice but to source from outside the United States.

These foreign purchases are critical to the continuation of our U.S. operations and over 3,000 U.S. jobs. Thank you very much.

MR. HOEFERLIN: Good afternoon, I'm Jim Hoeferlin, Reinforcements Purchasing Manager for

Michelin North America. I'm responsible for steel product procurement for Michelin North America in Greenville, South Carolina. In my position, I am in charge of all steel purchasing decisions for the North American plants of Michelin and its affiliates.

I'm here today to speak to you on behalf of the tire industry members of the Rubber Manufacturers Association, including Michelin, Goodyear Tire and Rubber, and Bridgestone-Firestone. I'm accompanied by representatives from Goodyear and the RMA today.

The tire industry is appalled that the specialty wire rod products we require have been included in this case, given that in every previous case involving steel wire rod, at least a large portion of the materials we need have been excluded from coverage.

Our procurement of tire cord quality rod and tire bead quality rod should raise no issues for the domestic producers of steel wire rod. Tire companies use highly specialized steel wire rod for making tire cord and tire bead. We make some of our own tire cord from rod, and also purchase cord and bead from wire producers.

Tire cord reinforces the tread area of passenger car and truck tires. The wire rod is drawn into a fine wire, to dimensions requiring the most exacting quality specifications. The wire is then impregnated into a rubber compound and built into the tire.

Tire bead is wire that is placed in the rim of the tire, to hold it to the wheel. The wire is drawn to larger diameters, not needed for tire cord. While wire rod for bead is available from domestic sources, tire producers have not been able to obtain tire cord quality rod domestically. It must be imported.

The domestic industry cannot benefit from restrictions on imports of wire rod for tire cord. In fact, such restrictions can lead only to one result. If rod for tire cord cannot enter the country on competitive terms, then downstream products will come in, costing American jobs.

Tire bead quality wire rod, by contrast, is purchased almost entirely from domestic sources. There was one exception. In 2003, as others have told you, a major producer, Georgetown, went out of business and did not reopen until the fall of 2004.

As a result, during this period, there was a severe shortage of tire bead quality wire rod in the United States. In 2005, the situation has normalized.

Imports are simply not necessary for tire bead quality wire rod, and so they are minimal.

Thus, the tire industry requires two products: one, rod for tire cord, which requires extraordinary quality, consistency and an absence of impurities that cannot be readily accomplished by U.S. mills, due to their production processes. The other product, rod for tire bead, is fully available from domestic mills. There are essentially no imports and, therefore, there is no need for trade protection.

For years, the domestic wire rod producers have recognized that the tire industry has special needs for special products that domestic mills cannot supply. That is why they agreed to exclusions for steel rod for the tire industry on at least four previous occasions, going back to the earlier 1990s. There was then, and there is now, simply no reason to include these products in this case.

As a major purchaser and user of wire rod, I'm closely attuned to the state of the industry in the U.S. The current condition of that industry, in my judgment, is good. The domestic companies are doing well. Their order books are full, and pricing is extremely strong.

In fact, I'm aware of reports that

Georgetown has turned down orders for bead quality wire rod. This does not surprise me, based on the current state of the industry.

U.S. tire producers have tried and failed to qualify domestic rod mills for tire cord applications. This is unfortunate, because it means we must purchase imported tire cord quality rod.

German sources of tire cord quality rod, China and Turkey, are really not factors in our industry, and are priced at levels far above ordinary grades, as indicated by the import statistics for this specialty product in 2004 and 2005.

For the first nine months of 2005, for example, tire cord quality rod from Germany had an average unit value of imports of $878 per short ton; more than double the average unit value for all subject imports in that period. Subject import unit values are higher in interim 2005 than at any time in the past three years. Tire cord quality rod is not imported because of price. It is imported because the material is not available domestically.

In conclusion, the Rubber Manufacturers Association believes that tire cord and tire bead quality rod cannot have contributed to any injury the domestic wire rod industry may have experienced. The tire cord quality rod is not available domestically, while tire bead quality rod is supplied entirely by domestic producers, and faces no significant import competition.

Moreover, the domestic industry shows no sign of import injury. Imports have declined and unit values of imports are increasing in 2005 for all wire rod.

Given what we know about the market, this case simply makes no sense. We urge the Commission to reject it. I would be pleased to respond to any questions; thank you.

MR. SHOR: Good afternoon, my name is Michael Shor. I'm with the law firm of Arnold & Porter. I'm appearing here today on behalf of the Turkish producers.

I will be addressing causation and threat issues. Dan Porter will then address the condition of the domestic industry, and the absence of any injury in light of the conditions of competition in this industry.

I want to start my remarks by quoting the great anti-dumping sage, Yogi Berra. "It is deja vue all over again." The facts of this case closely parallel not the 2002 case referenced by the

Petitioners; but rather the 1997 case, in which the Commission reached a negative determination. Indeed, the domestic industry's case is only weaker now.

Then, as now, the U.S. industry was unable to meet domestic demand, so imports were necessary. You've heard from the customers how necessary. Then, as now, production outages curtailed domestic production. We'll come back to this later.

Then, as now, subject imports increased as prices rose, and fell as prices fell. The key dispositive issue, both then and now, is the complete absence of any positive correlation between subject imports and adverse trends in the domestic industry.

Allow me to highlight several key facts. First, the only year in which subject imports increased was 2004. That is also the year in which the subject imports peaked. If imports were a cause of injury, that would be the year in which one would expect to see falling profitability and falling prices. What actually happened -- prices increased and domestic producers recorded record profits. There was no correlation between imports and any adverse trends.

The increased profitability, moreover, resulted from price increases that far out-stripped increasing raw material costs. There was no cost price fees, which you heard this morning. There was price cost gouging.

Mr. Kurtz would have you believe that the domestic industry is injured because they are not making 22 percent operating profits. It is an odd case indeed in which the domestic industry appears before you, and asks to explain away record profits, record double digit profit operation margins, by arguing that profits could have been higher still.

Second, let's examine 2005. We read much in the petition about injury and imports in the first half of 2005, curiously ignoring the third quarter. Virtually all of what we heard this morning about Petitioner's injury was focused on 2005.

Mr. Porter will place the domestic industry's most recent performance in historical context. But the over-arching point here, which the Petitioners fail to mention at all in their presentation, was that subject imports declined in the full nine month interim 2005 period, and they declined substantially by 21.5 percent. There is no correlation between the adverse trends of which they complained and import behavior.

Mr. McGrath had his usual nice colorful

charts to put before you. But where was the causation chart? You've all seen it before, and Mr. McGrath has produced it before. It's the one that shows import trends increasing and prices declining, profitability declining, everything going bad because imports were going up.

He didn't have that chart today, because he can't. The lack of any causal relationship between import trends and domestic industry performance exists at both ends of the performance cycle. Subject imports were up, when prices were up, and the domestic industry was making record profits. They've receded as prices and performance declined. This is not the stuff of which injury cases are made.

There is most certainly no indication of threat, much less a reasonable indication of threat. Most importantly, subject imports declined in the nine month interim 2005 period, from 1.4 million tons to 1.1 million tons. They did not increase, and without increasing imports, there is no indication of threat, period, end of threat story.

I'm aware of no case in which the Commission reached an affirmative threat determination when imports actually declined during the interim period.

My third and final point is to explain the trend in subject imports I've described; the one in which increasing imports are correlated with record domestic industry profits. There is a supply component and a demand component, both of which the Commission will need to consider as conditions of competition in this case.

On the demand side, you heard from the purchasers how demand increased in 2004; not only because of increasing present consumption, but also because customers were increasing inventories in the face of one, increasing prices; and two, a contraction of domestic production capability.

The domestic producers' explanation of that phenomenon was what they called panic buying. That was essentially the causation story I heard this morning, panic buying. But panic buying can't be caused by low price imports. They can only be caused by the unavailability of domestic supply.

Here, it was caused by the uncertainty in domestic production, and the curtailments in domestic production at Georgetown and the problems at Keystone.

Demand softened in the first half of 2005, as customers were able to work off their inventories. Those inventories, as you heard this morning, were not simply import inventories, but they were domestic producers' inventory, as well.

Along with declining scrap steel prices, this decline in demand caused prices to soften somewhat, although they still remain at a relatively high historical level. Again, the critical point is that declining imports did not push prices down.

On the supply side, I'd like you to refer to the first page in the packet of charts I distributed. We've plotted quarterly subject import levels, and the average unit values of those imports, along with production curtailments experienced by U.S. domestic producers and other supply disruptions.

What you see is striking. First, as noted, as volumes increased, prices increased; and as prices softened in 2005, volumes declined. Second, imports increased to cushion supply curtailments in the U.S. and decline afterwards. Imports increased in 2004 after Georgetown shut down one of the largest mills in the country.

Subject imports declined over the year, prior to the shutdown, putting the light to the argument that you heard this morning, that subject imports somehow caused that mill to shut down. Look what happens after Georgetown re-opens in July 2004. Subject imports begin their decline.

Finally, we heard the domestic industry complaining this morning about how the import relief they obtained in 2002 was ineffective, because imports rushed in after the order. That is simply untrue. Imports declined in the quarters following the order, and only picked up in the fourth quarter and the first quarter of 2004.

The second chart in your packet is similar to the first, but we lagged import volumes by 90 days. This period reflects the average time between order and delivery for imported product and, thus, more accurately depicts the response of subject foreign producers to curtailment events in North America. The link between imports and supply disruptions is even more pronounced.

We will be addressing the Georgetown and other supply curtailments in detail in our post-hearing brief, with extensive evidence that all such curtailments resulted from labor disputes and other problems unrelated to subject imports.

I listened in dis-belief this morning, as I heard those closures attributable to imports. So I attached, at the back of my presentation package this morning, three charts, just detailing some of the quotations that leaders of the companies made at the time of the shut-downs, attributing the shut-downs to labor disputes, and certainly not subject to imports.

But I can make the point even more quickly with reference to my third exhibit. This chart plots subject import volumes against non-subject import volumes. The trends are broadly the same. Both subject and non-subject imports increased in late 2003 and early 2004, in response to the closure of the Georgetown mill, and both decreased after the mill re-opened.

There is nothing different about the trend for subject imports, and certainly nothing to tie the trend in subject imports to any adverse performance by the domestic industry; thank you.

MR. D. PORTER: Good afternoon, Mr. Carpenter, for the record, my name is Daniel Porter of Willkie Far & Gallagher, appearing on behalf of Chinese Respondents. With me today are my colleagues, Bill Barringer and Matt McCullough.

What I would like to do today is to focus on the central question facing the Commission. Does this industry really need relief? Are they really suffering material injury?

At the outset, I want to reiterate something that was noted today, and is quite well known to you.

The wire rod industry is no stranger to the Commission. As Kimberly Korbel lamented earlier, over the past decade, the domestic wire rod industry has repeatedly come before the Commission, seeking protection from imports. However, this fact is actually beneficial for the analysis required in this case.

First, the Commission knows and understands wire rod very well. The Commission doesn't need a year-long investigation to figure out what's going on in the industry.

Second, all of the past cases provide a very useful benchmark with which to compare the current health of the domestic wire rod producers. Now before I jump into reviewing the data, I want to take a minute to discuss which type of data is most appropriate to analyze the health of the industry.

As you know well, the statute suggests several different methods for the Commission to analyze when examining the condition of the domestic industry. There are essentially three types of health indicators: volume indicators, such as production and sales quantities; price indicators, including the ability to raise prices; and profitability.

We submit that the rather unique

circumstances that happened in this industry during the POI make the volume indicators less relevant for obtaining an accurate picture of whether the domestic industry is suffering material injury.

Specifically, as we've heard from the industry experts at this table here, during the POI, significant U.S. producers either shut down production completely, or had their production curtailed for reasons that had nothing to do with imports.

Indeed, these producers shut down or curtailed production during a period when prices were very strong. Accordingly, given that substantial production was taken out of the market for a significant time during the POI, aggregate year over year trends are simply less meaningful as accurate indication of health of the industry over the POI.

Rather, what is more appropriate is to analyze the profitability of the production that did take place. That is what I suggest; that you focus on the profitability. You can undertake a trends analysis without worrying about the distortion caused by the curtailment of production of significant producers. You are examining the profitability of the entire industry of whatever production did take place.

Now let's look at the domestic industry

profitability. I refer you to Chart 1. Chart 1 presents the average profitability of each three year period examined by the Commission in the past subsidy and dumping cases, as well as the current three year period examined in this case.

What do we see? We see that the domestic industry has done better or as well as any other three year period examined by the Commission, including the two cases in which the Commission found no injury from imports.

Now let's look at Chart 2. Chart 2 presents the industry's profitability in the last full year of each of the three year periods examined by the Commission. This chart is particularly relevant, because in every case, the Commission must examine whether the domestic industry is suffering current material injury. Therefore, the last full year of the POI is particularly important.

Again, what do we see? What we see is that the domestic industry's profitability in the most recent full year, in this case, is much higher than every other case, including the two cases in which the Commission found no injury from imports.

Now let's look at another indication of the health of the domestic industry -- the ability of the industry to increase price. Again, what the data shows is rather remarkable.

I refer you to chart 3. As can be seen in chart 3, during the POI, the domestic industry was able to raise its pricing significantly. Indeed, from the first quarter of 2002 to the first quarter of 2005, the domestic selling price increased by more than 96 percent. Even more noteworthy is the fact that these price increases occurred at a time when subject imports were increasing the most.

I refer you to chart 4. Just look at this picture. It is the complete opposite of what you would expect from a domestic industry crying about a surge in imports. Instead of the domestic selling price decreasing as more subject imports enter the country, the domestic selling price has increased significantly.

Now it is true that the domestic selling price came down a bit during the first nine months of 2005. However, this decrease had nothing to do with subject imports, given that the volume of subject imports not only decreased during this period, but also subject imports lost market share in the U.S. market.

My last point concerns the comparison of

2004 to 2005. We actually created this slide on the fly, in response to Mr. Boyland's question this morning. He asked Petitioners, you know, what about the industry profitability of 2004, specifically in relation to past years.

Well, the interesting thing is, the Commission has, through its work on past cases, seen the profitability of the industry for every single year over the past decade. The figures are before you. What you see is that in 2004, it was a most aberrational year with respect to industry profitability. They have not earned profits like that, going back decades.

Therefore, we submit that it is improper, as the Petitioners suggest, to compare 2004 as a normal benchmark to 2005. Rather, what we suggest is look at the profitability in 2005, and compare it to the historical average. I think you will see that it meets to exceeds the historical average and, therefore, the industry is doing just fine.

Mr. Carpenter, these charts provide actual data of the health of the domestic industry. The wire rod industry that has come before you today has performed better over the past three years than in any recent three year period, going back nearly 15 years.

Their ability to command significant price increases in the face of increasing subject imports demonstrates that the cry for more protection should not be heeded. This industry is not suffering material injury from subject imports; thank you.

MR. BLAKESLEE: Good afternoon, my name is Merritt Blakeslee, DeKieffer & Horgan, and I'm here on behalf of Saarstahl AG, the general producer of steel wire rod and Saarstahl, Inc., which is the U.S. producer of Saarstahl's products. You've already heard the compelling reasons why the domestic industry has not been materially injured by subject imports. I'd like to point to one additional reason that relates specifically to subject imports from Germany.

You have heard this morning and you'll hear this afternoon from the Respondents a great deal about what was called a tiny group of products. In fact, a very significant portion of German subject imports, 30 percent for the POI, is comprised of highly-specialized wire rod products that are not available from U.S. producers. Nearly all of these Germany subject imports are the specialty products manufactured by my client, Saarstahl. These are the products discussed by the industry witnesses, from Rubber Manufacturers Association and Lincoln Electric, Tire cord quality wire rod and certain proprietary grades of welding wire rod. And as you've heard from these witnesses, the U.S. mills have for decades been unwilling or unable to produce these products. Thus, as you consider the issues of material injury and threat with respect to Germany, I would ask you to keep in mind that some 30 percent of German subject imports do not compete with any products supplied by the domestic industry, thereby further attenuating any causal nexus that might exist, and I believe that none does exist, between German subject imports and any injury experienced by or threatened to the domestic industry. Thank you.

MR. MCGRATH: Good afternoon. I guess we save the best for last. My name is Matt McGrath of Barnes Richardson & Colburn. I'm here representing Mittal Hochfeld and Mittal Hamburg, the company that appeared before you in previous investigations as ISPAD. Mittal, in Germany, is a producer of high-quality special application wire rod for U.S. and global markets and German imports, as you've just heard, have traditionally been a small part of the market, focused at high average unit value uses and special category and as you've also heard from purchasers here today.

Hochfeld sells two in particular that I did want to mention, that have been looked at in the past and should be looked at as being characteristic of what comes from Germany. One is customized alloy safety critical welding wire rod for special applications. You heard from Lincoln today that Hochfeld is the only producer in the world that can provide it. The other is super clean cold-headed valve spring wire rod that's used for automotive applications. Once again, very few companies in the world are qualified by the automotive manufacturers and the engine manufacturers to supply it.

These are examples of items that should not be covered by the investigation and are indicative of the nature of German production and participation in this market for the past several years. We think, if you take a close look, you'll find the data in the petition is thus unfortunately inflated somewhat by including these special products here, which simply aren't made and can't be made by domestic producers.

And we finally wish to endorse the comments that have been offered here today and that you heard today from customers here and other Respondents. And I think since I'm the last to testify, we're all available now for your questions and invite them.

MR. CARPENTER: Thank you, very much, panel for your presentation. As a housekeeping matter, we will accept the two sets of charts provided by the Respondents, as exhibits to the transcript. We'll begin the questions with Mr. Szustakowski.

MR. SZUSTAKOWSKI: Hi. Thanks for being here. Let me just organize my thoughts for a second here. Mr. DeShane was saying earlier that inventories are now at normal levels. Is this generally the case now for these domestic consumers of the wire rod, that inventories -- that this buildup in inventory has abated and that inventory levels are absolutely normal now?

MR. DOWNES: For our case, they will be by the end of December. We are still taking some working capital out of the business and will continue to do so until the end of the year and then we should be at the level that we would expect to maintain. So as we go forward, the wire we produce will require wire rod purchases.

MR. JOHNSON: Our inventories are in good shape and have been for several months probably.

MR. MOFFITT: And at the Davis and National Standard facilities, we have a couple of facilities that are actually a little bit low on inventory right now and we have other facilities that are -- what we would consider manageable levels. I'd also like to point out, too, is one of the things that Mr. Martin said earlier today was very true, that at a meeting this past February, we did think that we would have our inventories in line perhaps in March of April, but what we had not anticipated was our customers having inventory. So, unfortunately, we lost a little business. So, it took us a little bit longer to get it actually down.

MR. HOEFERLIN: Michael, I can respond to it. From the perspective of Michelin, we're basically at normal levels now in the product that we buy that's related to this discussion.

MR. SZUSTAKOWSKI: So, now that the Georgetown facility is up and running, what would initiate another round of panic buying? Is this something that is probable to happen again? Is panic buying an accurate way to describe what happened in 2004?

MR. DOWNES: Michael, I don't think I would refer to it as panic buying. I know some of the others in this morning's testimony did that, but I don't think anyone here referred to it as panic buying. I think, as I tried to testify, our inventories dropped to lower levels and we were not panic buying; we were just buying material just to get back to what we would have considered a normal inventory level. We were at a two-week inventory. Normally, we would consider a five-week inventory. And in our case, an extra three weeks of inventory is 45,000 to 50,000 tons.

MR. SIMON: I'm Roland Simon, The Goodyear Tire and Rubber Company. I'm sorry, I don't have a name plate. But one thing I would suggest that a comment was also made earlier this morning was about some of the rod customers buying longer-term further forward. And one of the reasons that we do that is for purposes of stability. One of the things that we're all longing for, what you could hear from people, is stability in the supply. We want to know that it's there. We want to be sure that we're not going to run short.

And to answer the question, what's the most likely scenario to cause some type of panic buying, even if it hasn't taken place yet, it's more than likely it would come from the rod manufacturers, themselves. Should they start to force non-competitive pricing once again, that forces buyers to start looking forward and buy forward and want to put stability in their forecast. That's one of the things that we get measured on.

MR. SZUSTAKOWSKI: Is that why the subject countries' share of shipments now in 2004 -- it's about 22 percent -- is about double of what was in 2003, and those levels have been maintained throughout 2005, is pretty consistent? So, is this now going to be the current state where a tab of stable steady supply, everyone just now are going to source now more from these subject countries?

MR. SIMON: I can speak on behalf of ourselves and I would echo with some of what the others said, is that we would search out to provide stability and we would balance our sources. It's a normal rational behavior to mitigate your risk by having a balance of sources from different places. And you can see that what we're importing is at a certain level and that's what we would try to maintain for the purposes of mitigating risk. Should another hurricane hit, should the Mississippi get clogged up and the rod doesn't come back up, you know, what do you do? It's part of normal behavior. So, we would be looking to balance our supply bases, normal rational procurement behavior.

MR. SHOR: I think one thing that's

important to keep in mind, and I haven't been involved in a lot of steel cases, but at the steel cases I have been involved in, there's always a seat at the table where there's a steel worker's union representative. It's always the same guy. He's here in Washington and he's very good, because he's here so often. But, he's not here today and he's not here today, because this part of the industry has the deepest seated, longest running disputes with their workers of any part of the steel union. And that's part of the problem. That was part of the problem in 1997, that's part of the problem now. It's not just that Georgetown was down on one day and up again in October. It's that you don't know when they're going to be down. They don't announce to their customers six months in advance that we're going to be shutting. I think when Georgetown shut down, they told their workers the day before the shutdown.

It's the tremendous supply uncertainty in this industry and their inability to meet domestic demand. And I think their capacity numbers are suspect, because when you have customers on controlled order entry, the euphemism they like to use, you're using all of your practical capacity. So, they were at 100 percent, for all practical purposes, in 2004.

And from the customer's perspective, if you're looking at a domestic industry that you don't really know from one day to the next which company is going to be producing or not producing because of labor disputes, then you have to have alternative sources of supply. And that's why imports, as they were in 1997, are necessary in this industry.

MR. SZUSTAKOWSKI: I don't know if anybody has comments on that.

(No response.)

MR. SZUSTAKOWSKI: Mr. DeShane was also talking about propriety specifications. What sort of certification process is there for producers? How long does it take this to happen? Are you more inclined to use domestic suppliers? Is it more difficult to have to look for oversea suppliers with these certifications?

MR. DESHANE: The approval process for a new source for a specific grade does take time. So, it can take six months to longer, to complete that process. The ability for someone to meet those requirements is based upon their complete offering of the process from steelmaking to rolling and wire rod. And what we find with our proprietary specifications is that the whole package needs to be there to be successful on the most difficult specifications. If certain pieces are missing, which is common with all of the Petitioners, we don't achieve the quality that we're looking for.

The other point I would make, too, regarding what we prefer or is it easier to qualify domestic sources, the simple answer is, yes, and we prefer that, because we have to send our people, our technical people into the mills to help them meet our specifications. And we would much rather do that here in the United States, than have them to travel overseas to do that.

MR. SZUSTAKOWSKI: Have you had domestic suppliers that met these specifications, then fell out of favor or no longer met them or just opted out of producing these items?

MR. DESHANE: We've had domestic producers fail to meet our specifications, yes. We've invested a great amount of time to try to get them to where they need to be and, in the end, it didn't meet our needs and meet our customer's needs.

MR. SZUSTAKOWSKI: Anyone else?

MR. HOEFERLIN: I can echo a similar situation for the tire industry and especially for Michelin. We have a similar process for approving new products. It takes a while to do. And the specifications for our most stringent product, which is tire cord, does require that the steel companies be able to do a lot of things in their operation very, very good, and we could get into a lot of technical detail on that, to be able to meet that specification. And it's -- there are other industries that require this absolute top level of quality, based on fundamentally the end use of the product. So --

MR. SIMON: I can add something -- sorry, Jim.

MR. HOEFERLIN: Go ahead.

MR. SIMON: I can add to that, as well. There are two different aspects of the approval process, which I think are important. There's a lab approval or a technical approval, as well as a processing approval. And I can use Georgetown as an example. When Mr. Kurtz says that he can produce tire cord grade rod, technically, that's a true statement; practically, it's not. Technically, he can produce a rod that's in a lab is a 1080 carbon rod, high carbon rod, that could be used to produce tire cord. I can tell you that at Goodyear, we have tried and failed, many, many times, to processes material through our plant, because it doesn't have the processability that we require to run our plant efficiency levels that we require to keep our cost based under control. Quite frankly, the best prices I have on the table today for tire cord rod were from Georgetown, but I can't use it. I have to import it.

MS. KORBEL: I think you'll find, going back to the record in the early 1990s, that we've told this story over and over again, that there are segments of the market that have this qualification process and continual efforts by members of the U.S. wire industry to qualify domestic producers, because they would most assuredly prefer to have domestic producers, is not something that they even give up on. They keep working at it over and over again, to continue to work with domestic suppliers to be able to make these high-end products.

MR. SZUSTAKOWSKI: Would any of the subject countries consider the U.S. a principal export market? It seems like, so far, according to questionnaire responses, that principal export markets are more regional. How does the U.S. fall into it, compared to the other export markets?

MR. MOFFITT: Actually, I perhaps have some information that we would be able to provide you, that actually breaks down world steel rod consumption by region. And I think it's interesting to note that while China, perhaps, certainly produces a lot of wire rod, 40 some mills that they've found, in 2004, the 106 million tons of wire rod that were consumed in the world, 56.369 million tons were consumed in China, which represents 52 percent of the world market. And in the first three quarters of this year, 71 percent of the world market is consumed in China on wire rod.

MR. SHOR: I think for Turkey, I was trying to add up the questionnaire numbers in my head, as I was thumbing through the pages. The U.S. is by far not the most significant market for Turkey. Turkey's home market is very important and growing for the producers there and the largest market by far would be the EU.

MR. D. PORTER: With respect to China, again, I was trying to get the data. You have the data with respect to the exporters are from China and I just note that I believe you have close to 100 percent coverage of the Chinese exporters. So, you have sort of a complete universe of the Chinese exporters -- sorry, the print is too small and I'm not quick enough to do the math -- but, I do know that the domestic market is by far the much more important market in China. The domestic market in China over the last few years has grown, I think, close to double digits in their consumption of wire rod. So, the domestic market is large and growing in China.

MR. BARRINGER: Can I just make a comment, because the whole issue of China comes up every time China walks in this room? Apparently, it comes up every time China doesn't walk into this room and there's a steel case. To say that any segment of the Chinese steel industry is export oriented is a total absurdity. China, up until last year, was a net importer of steel and very substantial quantities. It has become a small net exporter of steel at the present time. But, you have to realize that steel consumption and steel production and steel capacity don't always move in exactly the same manner. You can go back to 2003, 2004, and the reason the prices ran up all over the world, including the United States, was because of consumption in China. They not only didn't have enough steel to meet their domestic market, they had to import huge quantities, which ran up the prices.

So, you know, I think it's a mistake for you to look at a small snapshot of China and say, oh my God, they're going to flood the world market, because tomorrow, their economy can start growing at one percent faster and they may suck in all of that steel. So, China is not export oriented. Their steel industry certainly is not export oriented. But, they will be in foreign markets from time to time.

MR. CARPENTER: For those of you, who have been quoting various figures for consumption of wire rod in different world markets, if you could provide that information in your post-conference brief, I would appreciate it.

MR. SZUSTAKOWSKI: I was going to ask something similar to that. If you have any information about whether they are actually net importers or not of wire rod, that would -- if you have any material on that, that would be helpful.

Mr. Downes, if you could provide us with some material on what Leggett & Platt's decision was to purchase the Sterling facility when it did, not necessarily right now, but I'm just interested in contrasting that with -- or comparing that with Mittal's decision with the Georgetown facility. It seems like we have these two purchases recently and it would be helpful, if you could show us any sort of presentations or internal documents about what that decision-making process was like.

That pretty much wraps up by questions.

Thank you.

MR. CARPENTER: Ms. Brown?

MS. BROWN: Mr. Hoeferlin, you commented that we should exclude tire cord and tire bead from the case. I'm just not clear what you're asking the Commission to do, in that regard, or is it Commerce, you're asking for that?

MR. HOEFERLIN: Yes, thank you. I can explain that. The way we view the two products is one, which is not made in the United States and can't be made readily in the United States, so should be excluded on those grounds. It has to be imported. That's the rod for tire cord, the more stringent specification.

The rod for tire bead is, for the most part, all produced in the United States and purchased by the companies at this table domestically. There really is no incentive to import that product. There is no need to import that product. The product can be made by a number of the Petitioners in this room with the quality we need. So, that product really doesn't fit any kind of an argument that says that we need some sort of protection, because we're buying it domestically already and there's no injury. So, that's our point on the two products.

MS. BROWN: Okay.

MR. LEIBOWITZ: If I may add just briefly. I think with respect to tire cord, the product that does have to be imported entirely, there is certainly an attenuated relationship between imports of that product and imports of other wire rod that's subject to this investigation, very attenuated, and I think the Commission should definitely take that issue into account.

Secondly, I think this and some of the other products you've heard about, especially from Lincoln Electric, raise that issue to new levels, maybe almost unprecedented levels. And the entire structure and fabric of the Petitioners' case is rendered, in my mind, very dubious, because the market, first of all, is segmented into very, very highly specified products that they don't make, but claim they can. What else about their case, you know, cries out for some hard analysis? I think that's the other point. So, it's attenuated competition and really a failure of the Petitioners to really make a coherent case.

MS. BROWN: I guess what I'm asking is how do we exclude them? On a like product basis? I'm not sure what you're --

MR. LEIBOWITZ: Well, at this point, while certainly Michelin and anybody else, I suppose, can reserve the right to make a like product argument, we're not making one here, at this hearing.

MS. BROWN: Okay, thank you.

MR. LEIBOWITZ: I think that the point is, when you look at all the facts, in our judgment, the best way to deal with this case is to make a negative determination in the preliminary injury phase.

MR. MCGRATH: Could I just add one point to that. In addition to what Mr. Leibowitz was saying, the reason why I think, at least those of us representing products from Germany think that this is important is that, as you recall, the last case you looked at, the German product -- the numbers were close enough to the line that Germany was dropped out on negligibility. When you start looking at the mix of what's in this product and what the volumes are, I think, as Mr. Leibowitz said, this poses some fundamental questions about the case and what's included in those figures. I think probably the best you can do, at this stage, is to take a close look at attenuated competition. I don't think we're prepared or able to present you with a full blown case to argue like products. I think we may want to do that later on. But, this is the unique situation where I think you probably have to take a closer look at that, because the numbers have a history of being very close to that line.

MR. GRACE: If I may just add, David Grace from Covington & Burling. Lincoln Electric plans to supply data in the post-conference brief for their purchases of German product that will supply total quantities purchased from Germany and then the subset, that is purchases of product that are propriety grades today can only obtain in Germany, that they can not obtain in the United States. We, like others, are reserving like product argument. But, we think a case has been made and there's a very strong case for taking into account that that volume of proprietary grades that can only be obtained from Germany cannot possibly be a source of injury to the domestic producers.

MS. BROWN: Mr. Blakeslee, I believe you said that 30 percent of German product is highly specialized. Is that your -- is that the company you represent or are you talking about all --

MR. BLAKESLEE: That's the company I represent and it's my understanding that that is not all -- virtually all of German specialized product that we're talking about. Mr. McGrath's clients bring in small quantities of these specialized products, as well, as you've heard. But my understanding is that relevant to what Saarstahl brings in, they're quite small.

MS. BROWN: Thank you. We received data from the foreign producers on the different types of products that they produce. So, we can see the proportions. But, that's not what they -- as I understand, that's not what's coming into the United States. Do those proportions generally correspond to what the imports are?

MR. D. PORTER: If I may, Ms. Brown. You can get a glimpse of the 30 percent number from the HTS, itself. If you take the nine HTS, as I've done here, and then just have the import statistics, you'll see that 70 percent from Germany is in this sort of common HTS, where sort of everyone else is. But, then 30 percent are other specialty products, which are very, very tiny quantities, compared to the total wire rod coming in. So, in a way, the HTS supports the 30 percent number that Mr. Blakeslee was talking about.

MS. BROWN: But, I'm talking about the numbers we got from the foreign producers. Are you familiar with those numbers?

MR. D. PORTER: I'm not familiar with the foreign producers from Germany and Turkey. And I'm not -- were they broken out by U.S. exports or production?

MS. BROWN: They're broken out by the foreign producers' production and it shows the proportions of what they're making. I guess my question is, is that also -- are the proportions of what's coming into the United States roughly the same?

MR. BLAKESLEE: Perhaps, I can clarify. We're in a unique position, because we have a dedicated importer, Saarsteel. And so, rather than focus on Saarstahl's production figures, if you look at Saarsteel's import figures, you'll see the percentages that I'm talking about are reflected there and they're reflected very accurately, because Saarsteel is the only importer of record for Saarstahl's products.

MS. BROWN: Okay, thank you.

MR. MCGRATH: And if you look at the figures that we've submitted for the two German facilities, the imports in the United States are not reflected in a relative fashion vis-a-vis what the different products were that were made by those facilities. The main markets for most of the wire rod that's produced by Mittal in Germany is throughout Europe and Asia, and the U.S. market represents a very small portion. It's primarily those specialized products that I mentioned. But, it's a very small part of their overall production.

MS. BROWN: Thank you.

MR. SHOR: If I can answer or try to answer the question for Turkey. I think the one producer in Turkey that has a significant mix provided a breakdown separately by home market, U.S., and other third countries. So, you should have that data.

MS. BROWN: Thank you. If the Commission were considering threat of injury, could you please address cumulation for threat purposes?

MR. SHOR: As your question anticipates for threat purposes, cumulation is not mandatory. So, it's a different issue. Quite honestly, we explored for Turkey the issue of whether we have a reasonable decumulation argument and I think we've concluded that since we're primarily in the low end of the market, the low carbon steel, it comes in at all ports, so we don't have a good argument. But, we don't even need to get to that issue for threat, because with declining imports, there's no threat.

MS. BROWN: Anybody else want to comment on that? China? Germany?

MR. BARRINGER: We'll be happy to comment in the brief, if you don't mind. It's a rather complicated statistical question, I think, rather than one that can be answered real simply.

MR. MCGRATH: And I think from our standpoint, Germany, as we've said, we have a different kind of a product mix. But I like the answer Mr. Shor gave, there's really no need to get to threat.

MS. BROWN: I think I have one more question. Mr. Porter, you commented that the volume data was less significant in this case. What about the fact that there was -- I think as we explored this morning, there was some available capacity for the U.S. producers in 2004 and there was a loss of market share in 2004.

MR. D. PORTER: Yes. I think Mr. Shor just sort of muttered under his breath the answer and that is, I believe at Mr. Carpenter very diplomatically, though, questioned the capacity figures this morning and I believe today, you heard -- actually, this afternoon, you heard testimony that also questioned how there could be a million-and-a-half tons of extra capacity, yet these very same producers, who supposedly have this excess capacity, are telling the customers to buy imports. Something is not right with that picture. And I would submit that what you heard today was actually going on in the market. So what that means is that there is something a little bit amiss with the data that you're looking at and it could be that the data is done on a weighted capacity, not a practical capacity. I mean, there are a variety of issues. But, I think the idea of so much excess capacity when the very same producers are telling their customers they're on allocation and to go buy imports, I think that's a more compelling story.

MR. SHOR: If I could just follow up on that. I think when the question was asked this morning, every single domestic producer said that during some part of 2004, they had their customers on controlled order entry, allocation, my favorite line was, we told our customers that they could have their normal supply. That's not what they ordered. That's not what they wanted. But, it's the producer telling their customers what they could have. That tells you that they are producing at capacity, right. They can't give their customers -- prices are rising, they're making profits, and they're not meeting their orders. If that's not 100 percent capacity utilization, I don't know what is.

MS. BROWN: Thank you.

MR. DOWNES: During one of the earlier -- I'm sorry, I was just going to say, during one of the earlier hearings, one of the previous cases, there was some discussion about capacities and I remember the answer to one of the questions was, that's a theoretical capacity. And once again, I'm not trying to be humorous here, but the facts are we cannot produce wire from theoretical rod. We've got to have rod. And if that capacity was there, we would have received rod. And I think as I, also, testified, we bought the initial import material in late spring or very early summer of 2004. The import material we bought was at the domestic price. It wasn't a price decision. It was an availability decision.

MS. BROWN: Thank you.

MR. CARPENTER: Ms. Preece?

MS. PREECE: Let me first go to Ms. Korbel. The U.S. producers said that they thought the consumption of somewhat the specialty products was about 10 percent. Would you agree with that number?

MS. KORBEL: We would have to reserve that answer for the post-hearing brief to do some calculations. But, I would rely on the industry producers to provide that information.

MR. BARRINGER: Excuse me. I thought that was Buy American, they said it was 10 percent and not specialty products, at least that's how I --

MS. PREECE: You're right. I'm sorry. There was a Buy American that was 10 percent, but I, also, thought there was a specialty product that was around 10 percent. But, maybe I'm mistaken. I do remember the Buy American, as well, and you may be the one, who is right.

MR. HOEFERLIN: Ms. Preece, I can say one quick item on that concerning the tire industry. We feel that the products that go into our product, which is considered specialty, are about seven percent. So --

MS. PREECE: Seven percent of U.S. consumption of --

MR. HOEFERLIN: Of U.S. consumption of rod.

MS. PREECE: -- rod would be in tire --

MR. HOEFERLIN: Would be --

MS. PREECE: -- bead and cord?

MR. HOEFERLIN: -- bead and cord. Now, the other specialty things that around the table here would be on top of that and I don't know what they would be. So, I'm only speaking for the product that goes into tires.

MS. PREECE: That's very helpful. Thank you.

What about the foreign producers? Now, we've had some discussion about Germany, that 30 percent of Saarstahl was specialty product. And then, Mr. McGrath was -- and I wasn't clear, would that be representative of Germany overall or would it be some other number?

MR. BLAKESLEE: Ninety-five percent of Saarstahl's products in interim 2005 and about 85 percent over the POI were the specialty products. It's 30 percent of total German production over the POI, which is not just specialty products, but specialty products that are not produced in the United States. And there is a difference.

MS. PREECE: Thank you. That was very helpful. And --

MR. MCGRATH: And that's basically -- that covers our answer, as well. Our product mix is a little different, but it's about the 70-30, I think, from recent numbers that we have.

MS. PREECE: So, 30 percent would be sort of the run of the mill wire rod product and 70 percent, whatever -- the other way.

MR. MCGRATH: Yes, I think the other way.

MS. PREECE: Well, but --

MR. MCGRATH: That's during the recent period of time. I mean, there are changes in product mix, depending on what the companies in Germany are supplying. I think they all have the capability of producing more standard commodity grades. It depends on whether they are selling to the U.S. or not and whether they're focusing more on specialty grades. But from the numbers that we've seen, I think that was the -- for the most recent period, that was the right ratio.

MS. PREECE: And Turkey and China?

MR. SHOR: I think if you asked a producer which of their products were special, they're tell you, they're all special. But, from the discussion today, if we define special as the tire cord, the tire bead, the welding quality, and the CHQ, I think for Turkey, it's zero. We don't produce that.

MR. D. PORTER: Again, right now, I'm just looking at sort of the import statistics, because those so-called specialty products do come under a different HTS number. So, if you're sort of looking at that, China is somewhere around the three-four percent range.

MS. PREECE: Three or four percent range?

MR. D. PORTER: Three to four percent of their exports to the United States would fall into what you've defined as specialty products.

MS. PREECE: Thank you. I don't think I've clearly defined specialty products, but it's been bandied about. Thank you.

What is the -- how or where are your firms of the fluctuations in this price of scrap and the other raw materials and how have they played out in your prices that you're facing or, in the case of the importers, the prices that you are providing?

MR. DESHANE: I'll go ahead and answer that first. One of the unique natures of the welding quality wire rods is that scrap-based steel-making just doesn't work. And so, scrap, as an actual raw material that goes into the rod that Lincoln Electric purchases, is really not a factor. Direct-reduced iron is a iron-ore technology that works well and, also, BOS steel basic oxygen furnace steel-making works very well for wire rod. And the electric arc furn is scrap-based steel that the Petitioners utilize doesn't work very well for us.

MR. SIMON: I'd like to add a comment to that, is that the U.S. steel industry, including these guys here today as Petitioners, made strategic decisions not too long ago to embark in a process, which is very scrap dependent, in comparison to foreign manufacturers. It was their decision to do so. Now, there are very subject volatility in the scrap market. The Chinese and I believe also the Turkish industry are producing with blast furnace. If they want, they can run zero scrap. These guys have to run with scrap. And that was a strategic decision that they made.

MR. BARRINGER: I'm not exactly sure where the question goes, but if you look at the price of wire rod and the price of scrap, which is -- the green is the price of wire rod, the second line down is the price of scrap and you can see that wire rod prices track scrap very, very closely and have throughout the period of investigation.

As to the Chinese, we have to look at what the breakdown is between scrap-based and pig iron BOF-based production. But, I think it's primarily BOF- and iron-ore-based, not scrap-based.

MR. CARPENTER: Excuse me, Mr. Barringer, could you provide a copy of that chart in your brief, please?

MR. BARRINGER: Certainly.

MS. PREECE: Any other purchasers want to put in their two-cents worth about how much they're aware of the price of scrap?

MR. MOFFITT: Well, obviously, it generally does track rod prices and so we do follow it very, very closely. I have data going back to 1981 from American Metal Market for both shredded and number one heavy metal, which are the scrap that we understand to impact our pricing. One thing that I would like to point out, as you heard this morning, not all of the Petitioners are charging surcharges. This was also true last year, 2004. And one of the difficulties that we have at our wire mill in Pueblo, Colorado, is we're getting 100 percent of our product from a mill that chose to take the low road, I think, or they might think the high road, I don't know. But last year in August, when they took a surcharge to $125 per ton, and that meant we had to pay $125 a ton beyond an agreed-upon price. And none of our competition, domestic wire mills, was having to pay 100 percent of $125 on their material. And so that put us in a very, very negative position. And what I found of interest was when I queried them on where the $125 came from, because I couldn't really identify it in any of the American Metal Market scrap charts, and I was told that it was not just scrap, but it was also alloys, it was labor, it was energy, and it was demand, actually. So, not only were we paying a scrap surcharge and an alloy surcharge and a labor surcharge and an energy surcharge, we were also paying a demand surcharge.

MR. DOWNES: Well, having a steel mill, we track the market pretty closely, because we have to buy scrap every month. But, historically, before we made a decision to invest in the steel mill, we tracked the metal spread, if you will, which is the difference between scrap price and the sales price of the finished product, for about 25 years, and we did find that historically, over that period of time, that that margin stayed fairly constant. It doesn't mean that there were not peaks and valleys in it. But, if you look to the trend line over a long period of time, it was a fairly constant trend line.

MR. JOHNSON: True, scrap has always been a good indices to follow historically and we have conditioned our customers the same way; that as scrap goes, as your profit usually go. But, as Bob alluded to, there were times in 2004 where even if scrap came down to a certain extent, the domestic price didn't necessarily follow it. It was more demand driven.

MR. DOWNES: One more thing I'd like to add here, too, and that is -- and I really haven't heard it mentioned, and that is during 2004, as the price of scrap was going up, demand for steel, let's say steel, we're talking wire rod particularly here, there were -- and I think the public companies, if you look at their reportings, you'll see it -- there was significant LIFO income in 2004, because whereas maybe in a more competitive historical trend market, your forward prices may be based on your current inventory, it was more of what the technical business school would tell you is that you have to price your product based on the replacement value of your raw material. And in 2004, there was a significant amount of LIFO income.

Now, our company does not separate it by segment, so I won't do that here. But, I can tell you just in our corporation, we had a $75 million LIFO reserve to income in 2004. And I mentioned the companies that are involved in the segment that I oversee and that consumes somewhere in the neighborhood of a million-and-a-half tons. That's hot-rolled rod, flat-rolled cold, all of these types of steel products. And everybody in the steel industry experienced quite a bit of LIFO income. And I don't know, I won't try to go into those details, but that could also be something that's reflecting some of the fall in income in 2005.

MS. PREECE: In consumption, how much do grades overlap. How much of the time can you use one grade and also another grade in consumption? I know that perhaps down at that end, they can't, but for the rest of you?

MS. KORBEL: We heard a lot this morning about wire rod being, and having lots of cases -- the guys always laugh about fungible rod -- but, you buy a rod to make garment hangars. You buy a different kind of rod to make fasteners. You buy a different kind of rod to do wire rope and a different kind of rod to do bed spring. And it's not that they can't be made -- the commercial grades can't be made by the domestic rod producers. It's that there are no distribution centers for wire rod, because they make wire rod to specification for the customer, depending on the end product use. So, yes, they can all make a good portion of the rod products that we need, but you can't sell a garment hangar wire rod to a guy that's making wire rope.

MS. PREECE: I think we talked about qualification for tires and the welding rod. Other uses, would somebody tell about qualifications for those uses?

MR. MOFFITT: Well, we're sort of on the low end of the food chain here at Davis. I mean, we do do some bead rod, but no cord or anything like that. And I think you'll find that the substitutability broadens as the application becomes less critical. What I mean by that is that we might buy, for example, a particular grade of steel, and we actually buy by tensile; we don't buy by chemistry, because we find that one mill's 1018 is maybe like somebody else's 1015. It has a lot to do with the scrap and the ore base that's used to make the steel. But, we find that, for example, if we're buying something for -- not nails that you bang in with a hammer, but collated nail type nail wire, that we look for a specific grade of steel that we have to use to meet certain tensile requirements. Well, if it doesn't really work, then we have the opportunity to throw it off in the mesh, obviously something that sells at a retail at a much lower number. But, there is a broader range of rod that can be used for something like that.

On the high carbon side, we have specific tensile requirements, for example, that we require to make the bed spring wire, something like that. Every customer wants something a little bit different. And if it doesn't work, then we have the opportunity maybe to use it in something like vineyard wire, where it's not critical. And so, we can use a broader range of grades of steel. When I say "grades," I'm not talking about the way you folks have necessarily categorized it into this low, medium, high weld and specialty. We buy 55,000 PSI rod or 60 or 70, 75, 80, and each one of them has a different end use. And there are opportunities where we can use a broader range of grade. But, generally, it's very specific to the end use that we have intended it for.

MR. JOHNSON: We would -- we buy certain grades for some applications. In our galvanizing operation, we have a max of a chemistry in our silicon and in our lower grade -- our drawing grades, copper is a big element. So, the chemistry elements determine what grade we're able to use for what application.

MR. MCGRATH: If I could just add to that, as well. I'm certainly not an authority on qualification for automotive applications. I'll provide that in our post-hearing brief. But in addition to the ones you mentioned, I think a lot of the qualification process was described by Mr. DeShane. Also, for the one product that we think is highly specialized that Mittal Germany is supplying, it goes through the process of qualification to the automotive manufacturer working with each level, the assembler, the engine manufacturer, the valve manufacturer, the valve wire spring manufacturer, onto the wire rod producer, and each of those levels have to be qualified. So, I'll provide more detail in our post-hearing.

MR. BLAKESLEE: One major specialty product for which there is no industry witness here today is cold-heading quality. So, I will address your question on qualifications with respect to cold-heading quality in my brief.

MS. PREECE: I have no further questions.

MR. CARPENTER: Mr. Boyland?

MR. BOYLAND: Good afternoon. Thank you for your testimony. Mr. Downes, with respect to the purchase of Northwestern Steel, that took place in 2002?

MR. DOWNES: We signed the papers and bought the assets in May -- I think it was May 20, 2002. But, then, we went for about seven months cleaning up and getting the operation ready to go, some major capital expenditures. And we had our first melt in January, 2003. We had about a six-month ramp-up. So, we hit full production somewhere late second quarter of 2003.

MR. BOYLAND: You anticipated my next question. Prior to the signing, was the facility idle? Had it been moth balled?

MR. DOWNES: Yes. Once again, I can talk about some things that were part of our -- we are a public company, so we had some public releases about this. We had previously been the major buyer of wire rod from the former GSI plant in Kansas City and from Northwestern Steel and Wire. And our purchases, the last year that those two operations were in business, which would have been 2001, I believe, from those two companies totaled about 400,000 tons. So, when we restarted this mill, they started back at about a 450,000 ton capacity. So, in effect, what we did was we were replacing the material that we had bought from the now shuttered mills prior to that time.

MR. BOYLAND: Okay. We seem to be coming across LIFO quite a bit lately and just so we're clear, you refer to LIFO income. And I would interpret that to mean the difference or the change in your LIFO reserve.

MR. DOWNES: Well --

MR. BOYLAND: How do you define that?

MR. DOWNES: I'm a peddler or a salesman, not an accountant. So, I'll have to try to talk about this. It's gotten where in our corporate meeting, we have significant variance. We used to blame it on product mix, but now we blame it on LIFO, because nobody knows what that means.

(Laughter.)

MR. DOWNES: I believe some of the numbers today, and I guess people at the table will correct me if I'm wrong here, but I think we have been talking about some operating profits, not necessarily net profits or not necessarily EBIT. In our particular case, we have our operating income and we do not take our LIFO reserve or LIFO income until we get below the operating profit line. And once again, this is reported in our public documents. So, in 2004, we had LIFO income at the operating income level, because, in effect, we were pricing that product based on replacement value and we were using this lower-priced inventory to make it.

Now, we took the LIFO -- we had LIFO income at the operating income level. We took the charge above net income. And so, in that year, we had income, although we had an offsetting LIFO charge below the line. This year, in fact, we've been picking up some LIFO income below the line, because our cost basis for the LIFO inventory has been changing this year.

MR. BOYLAND: Now, with respect to LIFO, you haven't gone into like your LIFO layers and --

MR. DOWNES: Mr. Boyland, I better not try to answer that question.

MR. BOYLAND: Okay.

MR. DOWNES: I would be more than happy to at least try to give you the answer to that. But, that's product mix.

(Laughter.)

MR. BOYLAND: And I think you sort of already answered this question, as well. You buy scrap, which means, you're an integrated producer. Okay.

I think that was it. Thank you for your responses.

MR. CARPENTER: Mr. Lenchitz?

MR. LENCHITZ: My first question concerns channels of distribution. I believe someone characterized earlier the time lag between order and delivery for imports, implying that this was something -- was somewhat long. I'd like to know how it compares similarly for domestic sources.

MR. DOWNES: I think I referenced the three-month lag time, myself. I think we have to look at what period of time we're talking about here. At the period of time in early 2004, you know, we were having January domestic orders that were being delivered in late February and March. So, you can look at that and say, well, it may have been a eight- or ten-week lead time. But, in normal times, you're looking at maybe a two- to six-week lead time for domestic steel and three- to four-month lead time when you buy the import material.

MR. LENCHITZ: Is that industry-wide?

MR. MOFFITT: In our case, I think because we do buy heavily from two particular domestic mills, they know about as much as I know about what we're going to require, I think. And so, they have a pretty good idea -- they know they're going to get tons from us. And I will admit, that we are a little slow sometimes in actually getting the final breakdown, because it's -- I mean, our December we were changing yesterday. But, they have an understanding that we buy quarterly and we generally try to give them the requirements perhaps six weeks ahead of time. We're a little bit slow, unfortunately, with Rocky Mountain right now. But, they will get them. But, I would say that a six-week lead time is sort of a general rule.

MR. LENCHITZ: Okay. And similarly, with your channels of distribution, this morning, we heard about the concept of wire rod on consignment and you pay when you use it. Is this common and if so, what's the status?

MR. DOWNES: I'm going to investigate that with our suppliers after this session, because we don't do that. We don't have it offered to us.

MR. MOFFITT: We actually do with one supplier at two of our facilities.

MR. LENCHITZ: I just have one more question concerning the -- well, it actually involves cost structure, to begin with, in that we heard during the opening remarks, that, in some cases, a firm's viability was dependent on access to wire rod, certainly understood. But, we've also heard about some -- at least some firms here that are, in some cases, producing maintenance and even OEM materials for military procurement. And I want to know, first off, does Buy American figure at all into your product mix and, if so, does the cost of the materials influence that? Or are we talking about your costs being other than materials and how does that factor in?

MR. DESHANE: Well, certainly, Lincoln's

position is that we want to buy American as much as possible. And I believe when we're working with our customers, we help them specify what they need in a welding application. And so at that point in time, we have the opportunity, based upon our experience with the different steel producers, to let them know if the material is available in the United States or not.

MR. MOFFITT: I believe you're asking about some of the requirements that our customers place upon us. Yes, particularly --

MR. LENCHITZ: Federal government requirements.

MR. MOFFITT: -- we buy sufficient quantities of domestic rod, that we don't have to worry about it. I mean, we always have material in our inventory that will meet those requirements.

MR. JOHNSON: We're the same. Some of our road contract customers, we have to certify that it's a U.S.-made product.

MR. LENCHITZ: And does that extend to some of the specialty items that are in the room?

MR. HOEFERLIN: What I can add to that, in Michelin's case and the other tire companies are similar, but not exactly the same. A lot of what we buy is a downstream product, which is the wire -- the actual steel wire that goes into tires, the tire cord, which some of the people supply here. And I can tell you that a vast majority of the wire that we buy, the tire cord we buy, the downstream product here comes from U.S. suppliers. The rod may come from overseas; but, virtually, all of the downstream high valued-added product comes from U.S. suppliers. It's not necessarily a Buy American rule we have; it's the way it works, because of the nature of the business.

MR. LENCHITZ: Okay, thank you.

MR. DESHANE: I just wanted to clarify that our customers are not putting Buy American restrictions on our manufacturing process or our materials.

MR. LENCHITZ: And would that apply -- since you mentioned it, would that apply to some of the rods that you make specifically for defense use?

MR. DESHANE: I'm sorry, for what use?

MR. LENCHITZ: I know there are some grades that you make that are used for aerospace and defense. Are there no Buy American requirements there?

MR. DESHANE: No.

MR. LEIBOWITZ: With respect to tires, some tires are supplied to the military, as well. The Buy American requirements are extremely complex. I think it would be best to leave those for the post-conference, to see if there's any requirements with respect to wire rod that becomes tire cord, that becomes part of the tire, that goes on a jet airplane that's sold to the government.

MR. LENCHITZ: That's a very twisting road.

MR. LEIBOWITZ: Yes, it is.

MR. LENCHITZ: I have no further questions.

MR. CARPENTER: Mr. Engler, did you have any questions?

MR. ENGLER: I had two questions, both of which went to Chinese production, for the most part. The first goes more to the domestic industry, which is if you would comment, please, on the interchangeability of the Chinese product with other imports and the domestic product, and the significance that you -- the presence of the Chinese of merchandise in the U.S. market, particularly in 2005, in terms of availability and quality, those general types of questions.

MR. DESHANE: I'll answer first. Lincoln Electric has some experience in buying materials for welding quality wire rod in China and our process there has been specifically geared towards the grades that cannot be produced in the U.S. And so, our choice has been to work with suppliers in China that do have the equipment necessary to meet those specifications. And only in those areas have we worked with China.

MR. ENGLER: That's interesting. I understand you to say that there are Chinese suppliers, who have been able to meet your certification requirements?

MR. DESHANE: That is correct. You know, part of my experience in China is that because much of the manufacturing there is new, they are utilizing the latest technologies and the news equipment and, therefore, that does give them the ability to produce products that can't be produced in the U.S.

MR. ENGLER: Thank you.

MR. MOFFITT: We are also a large buyer of rods from China and we found that -- we recognize that there are certain areas where the product works very, very well and others, perhaps not. And we've had a great deal of luck with their low carbon rod; the high carbon rod, not quite so much. And that's not so much they're able to produce the material; it's just that our requirements -- we have very tight tensile requirements and we ask for what we call a plus or minus 3,000 pound per square inch range on the tensiles. And that's not something that they can meet. They're more likely to sell their grades. And so what we do is we look at their grades, we look at the meg capacity also they're able to meet and then we try to fit it in with ours. It's a lot like moving blocks around.

But one of the things that we do like to do and we keep talking about the commodity the rod seems to be, and I accept that rods that we do buy perhaps are commodity type rod products. However, every mill steel is a little bit different. And I'm not talking about that from a quality perspective, but merely one that -- you know, our union workers are incentified and we find that if you take one particular mill's product and you put it on a drawing frame, you have die practices and things to set up, because you have finished tensile that you have to hit. And we learned what that particular mill's rod will do and we can turn the machine on and run it forever. And so when we buy domestically, offshore, wherever, we try to stay with the same mills as much as we can, so we can get that consistency. And if we are required to move from one source to another, then we go through a learning process until we get that down. But, we actually find the material from Shogun Steel in China to work adequately for our products.

MR. JOHNSON: In our Chinese experiences, we have gone through that trial and error, as well, the mills that work well and the mills that don't and there are several factors that play into that. It can be tensile. It can be scale. It can be the drawability and the chemistries that I mentioned earlier, when we go into our galvanizing project. But, in most cases, if we know where we're going to put it, it is usable.

MR. ENGLER: Anyone on the tire side?

MR. HOEFERLIN: From a China perspective, there's no product that I know of right now that works in tire cord in the United States.

MR. SIMON: I would corroborate what he just said.

MR. ENGLER: Thank you. And my second question has more to do with just quantity presence in the market, again, focus particularly on 2005. Perhaps, that's a question for Mr. Porter or Mr. Shor. Chinese and Turkish shipments in the U.S. appear to be heading in opposite directions in 2005, in terms of volume trends and absolute volumes. I wondered if you could comment on why, with respect to those countries, the trends appear to be going the way that they do and why, if you can comment, they diverge? And, perhaps -- I don't know, perhaps the consumers have some comment on that.

MR. SHOR: Well, I know for Turkey, one of the issues mentioned in I think our questionnaire response is a growing domestic market and also growing markets in Asia, which are best served from Turkey. So, there may be some differences in alternative markets between the two countries.

MR. D. PORTER: Why questions are very hard. We will investigate that, but I think if you look, sort of by definition, if you have sort of Chinese increasing and non-subject decreasing, you have import substitution and so you really don't have much harm to the domestic industry. So, I think that's what the data suggests.

MR. SIMON: For tire grade rod in China, the pricing of those are actually higher than in western Europe and North America. They fetch a premium in China. Most -- China is importing a large quantity of their tire quality rod, themselves, because they can't produce it domestically. Now, that's changing. Their local supply is developing that capability and maybe that's having some influence on that; I'm not sure. But, they fetch a premium in China. Why would they --

they've got no incentive to send it out.

MR. ENGLER: Thank you, very much.

MR. CARPENTER: Mr. Corkran?

MR. CORKRAN: Thank you all, very much, for coming here. This has been very helpful testimony. As with this morning's panel, and I'll apologize in advance, because my questions were probably bounced around a little bit, but let me start with demand and recent events in demand in the year 2005: very severe weather patterns, the hurricanes that struck, Katrina and Rita, and unrelated to weather, but they are most -- mostly unrelated to weather, but the highway spending bill, as well. I asked this morning if domestic producers were in a position to determine what those events impact might be on demand. I'd like to put the same question to the panel today, this afternoon, here, what impact do you see those events having on demand and is it a long- or a short-term event?

MR. SIMON: I can answer that one real quick. At Goodyear, we had some significant impact. We have a lot going on in the Gulf. And we had reduced production outputs for a period of probably four to six weeks. It was in the press. We announced that publicly. We will, by the end of December, have made up all of that gap. So, by the end of the year, we would have mitigated any impact on demand. I don't know if that's the same for everybody else.

MR. DESHANE: Many of our customers are on the Gulf Coast and our company saw an immediate need to support customers with new welding equipment after the hurricanes. And that has caused additional business, specifically on the equipment side. The increase in business on electrodes and welding wire has followed that and has been a factor here in the fourth quarter; probably not as dramatic as we saw in the equipment side, but will continue as rebuilding efforts continue.

MS. KORBEL: I had a brief conversation with one of the members prior to the conference, who indicated that because of their geographic location in the southeast, that they saw some opportunity in some of their markets in construction and agriculture, et cetera, as a result of the hurricanes, but that it was difficult, at this point, to quantify and time those particular demand requirements, but they were looking at that as additional demand opportunities that they expect to come forward.

MR. DOWNES: We don't produce any -- or very many products that's used heavily in construction. We are heavily in the products for home furnishings. And at this point in time, we see the news reports, there hasn't been a lot of rebuilding and people moving back in. So, we don't know what the full effect will be. We do think there will be some positive effect, but it will probably be short term. If you look at the U.S. market for mattresses, it's about a 20 or 22 million piece a year market. So, if there's a half a million more of them in there, yes, there could be, at some period of time, maybe a two percent growth for a spurt, but that would be about it.

MR. MOFFITT: I would agree with Joe. We do a lot of automotive parts and OEM parts for dishwashers and ovens and we're certainly hoping or anticipating some uptick in demand due to the rebuild of those type products. It depends on how many cars get scrapped and we have to replace household-wise. So, we're hoping for some uptick from it for sure. And we've actually already started seeing some business -- we have a wholly-owned company called National Strand. They make stranded products. And we've noticed a huge uptick there in our stranded products and ACS wire. And, in fact, we're waiting for Georgetown. We're running about two weeks late right now and Rocky Mountain is supplying that product for us right now.

MR. CORKRAN: Moving from the demand issues to supply issues, a question I put to the panel this morning, what was the impact of the U.S. safeguard measure on steel wire rod and the subsequent antidumping and countervailing duty orders that were entered on steel wire rod from certain countries? In particular, in discussing the safeguard measure, I would prefer if you would focus on events as they were in 2002 and then when the safeguard measure was lifted after the first quarter of 2003, how did that change your sourcing decisions? Similarly, the same sort of issue would be antidumping and countervailing duty orders, what impact, if any, did that have on your sourcing decisions?

MS. KORBEL: Before the industry witnesses talk about their specific issues, the Section 201 remedy, because of its artificial nature and particularly because of the quarterly quota requirements, we tracked a lot of that information on behalf of the industry. And as you might imagine, all of the imports that were available came in, in the first month, whether they needed them in the first month of that particular quarter or not, for risk sake. If you might need that material by the end of the quarter, you had to have it at the beginning of the quarter or you wouldn't get it. And so, you will see in the import statistics artificial peaks and valleys based on the remedy that was assigned in the 201 case.

MR. APPLEBAUM: For the tire industry, the 201 proceeding and the current antidumping, countervailing duty orders have had no effect, because the 201 had total exclusions for all tire cord quality, wire rod, and bead rod. And while it's not total in the current antidumping and countervailing orders as an exclusion for 1080, again, tire cord quality, wire rod, and bead road, as Mr. Hoeferlin testified, we don't understand why there aren't exclusions and we wouldn't have had to come here for this proceeding.

MR. DESHANE: I can just add that because our purchasing activity of rod is specification driven and capabilities of meeting the specifications, it hasn't had an impact on our decision process.

MR. DOWNES: From our perspective, it really has not had an effect, because as those duties were kicking in, in 2003, as I said earlier, that's when we were bringing up the production of our own rod mill. So, our buying pattern, as far as where we went to, really became more domestic, because it was our own rod mill then.

MR. CORKRAN: I very much appreciate that, although I -- let me check some of the import data here. Okay. One of the other questions that I had was from hearing testimony this afternoon, it appears that a very similar phenomenon was happening to companies that were purchasing industrial quality wire rod, welding quality wire rod, to wire rod used in tire applications. The testimony seems to be fairly uniform in terms of shortage of supplies, followed by increased imports, and then a tipping point, and at some point in the third quarter, leading to an inventory overhang. It was characterized as panic buying this morning. And although that term is not favored here, it does sound at least like, I'm going to say, and I don't mean this in a pejorative since, but group think, herd mentality, everybody does seem to be doing the same thing at the same time. And I just wondered if I could get some comment on why that would be. In totally different applications, you're seeing the same phenomenon for supply.

MR. JOHNSON: I can address that to a certain extent. From our standpoint, instead of using panic buying, I think we would more have said anticipating or precautionary buying. As things did settle down in late 2004, there was still a lot of talk or hope that 2005 could be just as strong as 2004. And when you're turning customers away because you don't have product to be able to sell them, you've got to make hay when the sun shines. And if you don't have wire rod on hand, you can't do that. And so, we didn't want to get caught in a situation where we had to turn people away like we did in 2004. And so, you know, was it a mistake? Hell, yes, it was mistake. We should have been a little more disciplined maybe. But, we felt like if we didn't put that inventory on the ground, we were going to be the same position in 2005 that we were in 2004. Because to us, there was nothing that told us 2004 was going to be what it was. So, there was nothing to tell us in 2005 whether it was going to be just as good, if not better.

MR. SIMON: To answer the question why it seems to impact the different types of rod in the same way, because in a lot of cases, the different grades of rod are being produced out of the same mills. It's simply a mix issue. It's not a huge -- not a massive job for the rod mill to go from a higher carbon to a lower carbon to a different like or alloy. It's a change, but it's not that difficult. They can mix it up and mix it down relatively readily. So, that's why pretty much everybody was getting impacted, because they were trying to play the mix game, as well.

MR. MOFFITT: We're on the -- most of our requirements are from the west coast, and so one might ask, well, Georgetown, how did that impact you, and they were shut down. Well, it's a trickle effect. We found that the mills -- and it was a high carbon problem, for the most part for us, in 2004. And so, there was generally import material available perhaps in the low carbon area, but we found that we were hurt badly in the high carbon. So, we were trying to secure that. And so what we did was we were buying our requirements. We weren't trying to build inventory or anything like that. But what happened was, we have to remember, 2004 was not a U.S. problem. It's a global problem.

And so what happened was if there were late deliveries from domestic sources, there were also late deliveries from offshore sources. And what will happen, with offshore, you're not buying a railcar or a truckload. You're buying a boatload. And what we try to do when we do buy a shipment is we try to -- we don't suddenly cut off domestic mills, because we had 25,000 tons show up. The intention is that we would use that material over a period of time, so we can continue to support the domestic industry. However, if you have a ship that you expect to come in, in June, as we did, and I might point out, from Indonesia, a company under a duty order, I mean, we had no option. We had to get the material from them and at a substantially higher price, I might add, also. And, unfortunately, that ship showed up on two ships two months late.

Well, we had a two-month hole that we had to fill and we're out there borrowing from our plants, from moving material, from our Kent plant to Los Angeles and to all the different facilities and whatnot. And we weren't panic buying. We were buying what we required. But, if you get a -- 25,000 tons show up two months late, that is certainly going to impact where you are. And, unfortunately, it shows up when the material that you had quoted elsewhere showing up, as well. And that leads to a inventory build.

MR. BARRINGER: Can I just make a comment? This was not a phenomenon, which is limited to the wire rod industry. I mean, if you flip through the last 12 months of American Metal Market, you'll see that this happened virtually across the entire range of steel products. I think it's important to look at this in two senses. One is -- and particularly with respect to wire rod, you already have an availability problem, which you're nervous about. Are you going to continue to be able to get the wire rod?

And then you have a phenomenon going on, which I don't think any of you gentlemen is older than I am, but maybe they are, but at least going back in my memory, and I've been working on steel for 30 years, I've never seen prices go up the way they've gone up over the last 18 months. So, you have people nervous about whether they can get product and they're also seeing prices just going through the roof. And I wouldn't necessarily call it panic, but people were scrambling to get feedstock, to continue in business, to continue their businesses. And that phenomenon was, I think, then exacerbated in this industry simply by shutdowns and other events, which makes supply even less certain than it was normally in this industry.

MR. DOWNES: I'd like to think we have a little more discipline than a herd mentality, but I think that's -- I can't see where that's the appearance, but as I had testified earlier, our inventories were down to a two-week inventory. I wish I could tell you that we could operate our businesses efficiently and effectively with a two-week inventory. We could take a lot of work and capital out of the business. But we can't.

And so when the opportunity -- and I suspect most of my counterparts around the table and within the industry were in the same situation, so when there was an opportunity to buy something that would help you get your inventories back to a more workable level, I wasn't buying betting on the come, I was buying just to try to get the business back to where we felt like it should be to efficiently and effectively run the business.

So, when the opportunity presented itself to buy it and we didn't have the opportunity, we'd gone for four months trying to get the steel and we couldn't get it, that we made the decision to buy the product, and once again, I keep repeating at very close to the domestic price, so it wasn't a price issue when we bought that product.

Now it's unfortunate, but it is a fact of life that when you buy offshore material and it starts and that boat is on its way, the opportunity of getting the Coast Guard to intercept it if you don't need it is very remote.

I think it's -- also though I want to

emphasize that in our company's case, even when we knew those boats were coming, it would be very rare for me to find a circumstance where we cancel any of the domestic orders that we had.

We left those orders on. We lived up to our commitments and brought the steel in that we had committed, whether it was import or domestic, and it put the inventories in a position that they were just far, far, far too high. We could have canceled domestic orders. We could have stopped it, but we didn't do it.

MR. HOEFERLIN: And from the tire side, I think everybody acted the same way, because if there is a fear that there is going to be a shortage continuing for months and months and for years, you've got to react in order to be able to secure supply. One little difference in the tire side is because all of the tire cord quality product is imported, we didn't see quite the issue on that side because those orders were booked well in advance and were not affected by some of the things that were happening domestically.

On the bead side, we were in the same boat absolutely as everybody else. It was whether it was directly or indirectly. Mostly for us it's indirectly, but the folks here who supply bead wire to us, trying to secure rod, we were very much affected by that.

MR. DeSHANE: Two points I wanted to make to this issue, and one was, you know, Mr. Barringer had described the metal market or the steel market in general in 2004. Those are our customers.

Our customers for welding wire and electrodes are putting metal together, so as the rest of the steel industry had increased demand, our situation was very much customer-driven. Our customers were buying. So on one side we've got the demand going up, and then we have late deliveries from the domestic steel producers.

Our inventory position was most dramatic for the grades that we purchase in the United States. The specialty grades that we purchase outside of the United States were less of a part of our inventory position.

MR. CORKRAN: Thank you. I'd also like to follow up on a question asked this morning regarding apparent consumption in the United States and in the world, because one of the discussions or one of the points that has been made is the large increase in imports into the United States in 2004.

At least one published source suggests that apparent U.S. consumption in the United States increased quite dramatically in 2004 whereas globally it was a far more moderate figure or a positive increase but nowhere near the order of magnitude of growth in the United States.

From your experience domestically and internationally if applicable, does that square with your own experience in the year 2004?

MR. DOWNES: Something I think we have to consider is in order to think about 2004, we also have to take a look at 2003 and understand that we were coming to the end of the 201, and that shifted a lot of purchases into 2003, right, for the first quarter, so there was some inventory lag at the end of '03.

It disappeared in the first quarter and then it built back through the cases we've been talking about today in '04. So there was some inventory lag that caused '03's consumption to be down some.

MR. HOEFERLIN: Just a quick comment in response. I know in '04, the biggest focus in our business was the growth in China, 12 to 15 percent growth in a lot of their basic industries.

So I don't know if you were splitting that out, but certainly that one region or that one country of the world was certainly growing at many times the rate of any other region that I'm aware of in 2004, including North America and Europe.

MS. KORBEL: I don't know if I can compare global demand to what was happening in the United States, but, you know, to put a face on it after 9/11, the United States went into recession and basic industry had a tough time. By the end of 2003, we're looking at China, who's all of a sudden got an enormous need for steel, and they're taking steel from the global marketplace.

And all of a sudden, in that same timeframe, Georgetown Steel is gone. Keystone is in bankruptcy, and nobody knows for sure what is going to happen. There wasn't an apparent buyer for Georgetown for a long time in the early part of 2004, so there's a lack of supply not only globally but here in our own market that you can see next door. You don't know where the next ton of steel might come from. That isn't panic buying. You've got to buy steel for a mill that doesn't have any steel.

We'll provide some information from one of the purchasers who isn't here today about actually having to close down their facility. A large customer of Georgetown had to close down their facilities because there was no rod available for them to continue operations. That's not panic, gentlemen. That's you've got to make product, you've got to have raw material to do that.

MR. CORKRAN: Well, again, thank you all very much for your testimony. It's been very helpful, and I have no further questions.

MR. CARPENTER: I have just a few followup questions. First of all, a question on cumulation for present injury purposes. Are any of the parties here arguing against cumulation for present injury, or is that something you'd like to save for your briefs?

MR. LEIBOWITZ: I would like to save it for the briefs.

MR. CARPENTER: Okay. Fair enough. In doing so, could you address the factors that the Commission normally looks at in analyzing cumulation?

MR. LEIBOWITZ: Of course.

MR. CARPENTER: Mr. Blakeslee and also Mr. McGrath, but first Mr. Blakeslee. When you were saying that 85 percent of Saarstahl's imports over the PLI were products not produced domestically, could you identify in general terms what some of those products are, not the exact specifications but just what general categories they might fall into.

MR. BLAKESLEE: Yes. Quite specifically,

they're tire cord quality wire rod and certain of the welding wire rod that we supply to Lincoln Electric.

MR. CARPENTER: Okay.

MR. BLAKESLEE: Okay. To a lesser extent, there is some cool head and quality wire rod in there as well, but I think the situation there is slightly different. Customers come to Saarstahl for grades of CHQ that are produced in the United States but not produced at the same quality level as they're produced by Saarstahl, so that's a somewhat different situation.

MR. CARPENTER: Mm-hmm. Are you --

MR. BLAKESLEE: And I did not include CHQ in that 85 percent figure.

MR. CARPENTER: Okay. Are you arguing that the domestic industry is not capable of producing those products or simply that they have not produced them in recent periods?

MR. BLAKESLEE: Not just in recent periods. They haven't produced them, although their domestic customers have worked with them to try to get them to do that, and for whatever reason, they have been either unable or unwilling to do that.

MR. CARPENTER: All right. So there have been attempts to qualify those producers to produce the product, but they haven't met the qualification requirements.

MR. BLAKESLEE: I think that's what both Mr. DeShane and Mr. Hoeferlin have testified to.

MR. DeSHANE: Yes. I can certainly add that as we were supporting starting up of the Georgetown facility, there was a review of all of our specifications to determine what was possible and what was not, and there was a great amount of detailed effort that was put into that, and there was a very good list of specifications that were determined not possible to be made at the Georgetown, though.

MR. CARPENTER: Mm-hmm. Okay. If you have any further documentation you'd like to provide in your brief as far as what efforts have been made to qualify the U.S. producers and indications that they have not been able to meet those requirements --

MR. HOEFERLIN: We'll submit a copy and hand them out.

MR. CARPENTER: Okay. Thank you.

Mr. Moffitt, just a followup question for you. In your testimony, you indicated that your Colorado plant had purchased 100 percent from Rocky Mountain and at one point, they were told -- or you were told by Rocky Mountain that you may want to pursue imports, buying imports.

My question is, when you were purchasing from Rocky Mountain up to that point, did you have -- were you buying more or less a set quantity of product from them say on a monthly basis and you were asking for additional quantities above that figure, or were they unable to meet your normal purchasing requirements?

MR. MOFFITT: Actually, I would say it's a combination of both. I mean, we had additional business that we were getting because of the shortage in wire rod, so we would like to have fulfilled some of that, but also, and I am sure that they would point this out, what they had given us was their total production by month, and then we were given 40 percent of that for three of our facilities -- two of our facilities primarily, and I don't recall what it is.

But they had I believe, and I'm sure that they would answer this in fact right now -- and I don't recall whether there was some kind of a mill problem that they addressed where their monthly production was -- now they have told us this in advance, so what we would do is we'd take 40 percent of this number and the next month this number, and then it was back to normal after perhaps two or three months. I don't recall exactly how long this was.

But we brought material in from Poland and from Italy into Pueblo, discovered unfortunately then that there were no rail cars to get it from Houston to Pueblo, which was another problem, but it was just that there was some timing in there and we did have some additional requirements that obviously fell off after that, but we've been buying fairly consistently at a certain number of tons per month, and we're working through those things right now.

MR. CARPENTER: I see. That's very helpful. Thank you.

Also, just as a general request, if any of the parties here would like to make like product arguments, if you could just go through the six traditional like product factors, I'd appreciate that.

Are there any other questions from staff?

(No response.)

MR. CARPENTER: Okay. Again, thank you very much for your testimony. We appreciate it.

At this point, we will take about a 10-minute break to allow parties to prepare their closing and rebuttal, statements, and we'll begin with the Petitioners.

(Whereupon, a brief recess was taken.)

MR. CARPENTER: Take a seat, please, and we'll continue.

Whenever you're ready, Mr. Rosenthal.

MR. ROSENTHAL: Thank you. In the 10 minutes I have to sum up I want to just clear away at the beginning a little of the distridous that was left by the Respondents and make a couple of points, but I'm not going to get into rebuttals of customers here.

The last time I did that in 2001 and I called one of our customers a liar. For some reason it wasn't good for relations, so I'm not going to do that in this hearing.

We will supply a great deal of information in our postconference brief which really rebuts a lot of the claims about what people were told, and when, and whether the companies we represent in the domestic wire rod industry can supply the product, what they can qualify, what they've tried to qualify. All the stuff you heard about today we will provide a great deal of information in our postconference brief.

MR. CARPENTER: I would appreciate that. We were going to ask you to do that.

MR. ROSENTHAL: Well, it's very difficult for members of the industry and myself to sit still and to hear some of the stuff which is in the nicest way possible misrepresenting some of the facts that we know. I was glad to see the longer the hearing went on the closer to the truth a lot of the statements got, and so I was happy that we did have the lunch break and people had enough sustenance to continue.

I also want to talk about this whole issue of the so-called specialty products. As I mentioned at the outset all those products you're talking about, the tire products, the coal heading quality, the welding rod, all that is a small fraction of the market.

I don't believe by the way it accounts for the numbers that the Respondents talked about, but even if it does the amount that is not supplied by the domestic industry, which the domestic industry is not capable of supplying, is even a smaller amount. We're talking about tiny amounts.

For better or worse, you know, we spent a fair amount of the hearing talking about that, but it was more like looking at the tire hole rather than the tire. With all due respect I understand why the Respondents want to talk about it, they care about it. That's really not the heart of this case.

I don't think you will get any like product arguments on that and if you did I don't think the

Commission will want to make any different determinations than they've made in the past.

Quickly with respect to the German producers what you had here was representatives of two producers not Brandenburg and I don't believe you got a questionnaire response from Brandenburg because we haven't seen it yet. That is a major competitor in this market.

Their product mix as we understand it is much different than what you've heard described here, so we urge you to make sure you get that information from Brandenburg before you reach any conclusions about the German supply.

Also, with respect to the references, the quotes made by Mittal, and Keystone and Gerdau as to increased costs as a source of the problem that does not show that imports are not to blame for industry problems. If the U.S. producers could increase their prices sufficiently to cover their increased costs and then make a reasonable profit then the increased costs wouldn't matter.

It's because the U.S. producers could not do that that we're here today. Now, I want to get really to the heart of the case which was -- and I was fascinated by the last 20 minutes or half hour of discussion on this. Whether you call it panic buying or some other phrase really doesn't matter to us.

What you heard here were a couple of contradictory statements, but ultimately the truth has come out. On one hand Mr. Downes said we were not panic buying we were buying for normal inventory levels and then later on he said well, it's going to take us a number of months to have our inventories worked in and in fact we underestimated.

He didn't say that, that was another person who said that, but we made a mistake in how much we needed for our inventories and in fact they ended up buying much more than they ever needed. In fact you can't reconcile the statements that you've heard from Respondents today.

While disclaiming panic buying and disclaiming buying more than they needed or disclaiming that they were using the imports in some manner to leverage the domestic industry's pricing in fact that's exactly what they were doing.

The representative from Goodyear here said exactly that. He provided an explanation for what went on and he said essentially that as the raw material costs were going up and everyone said wire rod scrap cost, as raw material costs were going up and all the other costs are going up the customers were saying we don't want to take "noncompetitor pricing by domestic companies."

Then he said that's what caused the panic buying. I hope the transcript will say exactly that. I thought I wrote it down verbatim. In other words when prices started to go up in the U.S. as a result of the higher costs the customers used imports in order to keep the prices under control.

Take a look at the transcript. I'm pretty sure that's what the representative from Goodyear said. So if it wasn't panic buying, it was in his words, and ultimately admitted by the other witnesses here, too, that it was calculated purchases that they bought for "stability of supply".

Later on Mr. Downes admitted making a mistake in the amount of inventory that they built. They saw prices going up, they saw some tightness and then they went out and they purchased a great deal of imports that they had to work down.

Now, when costs and prices are doubling and the purchasers react by buying lower-priced imports to keep prices down that makes perfect sense. That's perfectly rational. We certainly understand that, but that doesn't mean it's not injurious to the domestic industry. In fact everybody in the industry in 2004 knew the same thing.

Everyone was facing unprecedented cost increases and those cost increases were going to be long-term. What they did was they took 1.8 million new subject imports at prices well below the domestic industry's. The prices vary, but invariably they were below the domestic industry's prices.

What the importers told you, what the customers told you was that they crave stability and they need competitive prices so they bought as much rod as they could at the lowest prices they could and that injury by the way was manifested in 2004 and it is manifested in 2005.

By the way regarding deliveries this notion that they couldn't get deliveries from the U.S. supplier, the U.S. wire rod producer they had to go to the imports, well, in many instances the converse was true. What would happen is that the customer would go to the imports and if there was a delay in shipments they would rush to the domestic mills and say can we have that product, we need it now.

In many instances the domestic mills helped out the customer and said yeah, we'll do what we can to help you here, but in essence the domestic mills were filling in the gaps that were created when the import supply, which is the first choice of a lot of these customers, were unable to come through on a timely basis.

Now, you have to remember that the imports have both volume and price affects and the Respondents have essentially argued that when supplied are tight the increased import volumes don't hurt the domestic industry.

Even if you assume that the domestic industry was operating at full capacity, which it wasn't, import pricing still suppressed the prices that the domestic industry was able to obtain for the tonnage that it was selling. The ability of customers that used imports to keep prices lower than they otherwise would be or should have been given the rising costs is an important part of this injury case.

I want to go back to the question that I responded to by Ms. Brown earlier. You can have injury with declining imports as long as the volumes are significant, as long as you have price underselling which you will have here and as long as you have significant market share which you have here. On the question of profitability Mr. Porter's chart was interesting to put it mildly.

He obviously conveniently forgot 2005 in terms of his chart on profitability and that obviously shows current injury, but he also showed in his chart going back 10 years from 1994 to 2004 what we've always said in this industry which is there's been a persistent pattern of import injury coming up from a variety of sources.

This industry has not had the profits over a long period of time in order to be truly healthy and I would include 2004 in that statement. Let me add one other thing. Some of these niche products we've spent a lot of time talking about today the industry can make and they can make better and the industry would be even willing to invest some more to make some of the very few things they can't make.

They need to have sustained profits over a longer period of time to justify those investments. You can't get that (1) with the profits that the industry's had; (2) you can't get it if you continually exempt some of those products from the relief so that the customers have no incentive to buy those products or work with you going forward.

Last on China, staff asked why China would keep building production of excess capacity and Mr. Barringer actually helped answer that question. He said that the Chinese are building for years in the future and frankly they can't digest all their capacity now.

What's happened instead is they built all this capacity and now they're injuring us while their demand can catch up to their supply. One last point.

On the email that Mr. Simon just got *American Metal Market* I believe it's today came out with an article mentioning that -- there's a report that says that China will have 116.5 million metric tons of excess supply in 2006 which is more than a doubling of their excess supply in 2005.

Now, I know that's more than just wire rod, but since Mr. Barringer was talking about the steel industry in general and there was a lot of conversation about the steel industry in general I urge you to take a look at that report. I see my time is expired, and I thank you for your attention.

MR. CARPENTER: Thank you, Mr. Rosenthal.

Mr. Porter or Mr. Shor?

MR. D. PORTER: I'll be brief. What I want to address is the Chinese boogeyman argument that Petitioners put forward this morning and then Mr. Rosenthal did just now. It's very important for the Commission to separate out argument by implication and hard fact.

What Mr. Rosenthal would like you to believe is there are all these wire rod mills in China just pointed toward the United States, but let's look at the facts. Yes, there is about 40 producers in China. However, the consumption in China is a magnitude of 20, 30 times what they export to the United States. Fact 1.

Fact 2. Although there are 40 producers only five companies really export to the United States. That's borne out by your questionnaire responses which has about 100 percent coverage of the exports to the United States over the POI. If you look at that you'll see that five companies which account for about 85, 90 percent of those exports exported every single year during the POI.

Now, what's interesting is Mr. Magrath, you know, again with this argument by implication and this boogeyman argument said we searched long and hard and then we found another Chinese wire rod mill in the service list because we entered an appearance on behalf of all the exporters.

He said this Tangshan is another out there. Well, let's look at Tangshan. They exported 1,000 tons in 2004. Not a ton before, not a ton since.

Proves our point, okay? When 2004 there was shortage to the United States and the customers were scrambling to get supply a couple of other Chinese mills stepped in to help out.

They then stopped when the shortage abated. So it's very important to separate argument by implication and hard fact. There is no Chinese boogeyman. The wire rod industry in China is very consumed with the demand in China. Thank you.

MR. SHOR: Thank you, Mr. Carpenter. This is one of those rare cases that should be dismissed at the preliminary stage. The Commission knows the industry having visited it many times. The Commission has a complete record, full questionnaire responses from most parties in the case.

There simply is no case here. This is an industry that experienced record profits in 2004 followed by declining imports in 2005. It's that simple. Let's start with the statutory standard. Statutory standard is whether there was a reasonable indication of material injury.

I would submit that all the domestic industry has shown here is an unreasonable propensity to continually complain. Let's start with the conditions of competition. There was a lot of confusion I think in the afternoon about why all the discussion of specialty products and how that fit in.

Let me put it in context for you. It's one of the conditions of competition for this industry. There is a significant segment of the market in which imports and domestic products simply do not compete. Second important condition of competition in this industry is the unavailability of domestic supply.

Every one of the domestic producers told you that at some point in 2004 they placed their customers on controlled order entry. They didn't have supply available. They were at 100 percent capacity no matter what their numbers show you. It's more important than that. It's just not the unavailability of supply, it's the instability of supply that's critical for their customers.

It's not that Georgetown was shut down for this many months or that Keystone was in bankruptcy. The point is that when you're a customer and your major supplier enters in bankruptcy you don't know what that means for your supply. When Georgetown shut its doors you don't know when they're going to open again.

It's not the case that when a mill comes back online their customers welcome them back with open arms. They're hesitant because they've been burned before. So you have a domestic industry -- and this was the same in 1997. The Commission specifically pointed to this, that the production curtailments and the instability of supply was an important condition of competition for the industry.

Let's next move to the condition of the domestic industry. No matter how much they tried to disguise the fact with charts about other industries and relative profits 2004 was a record year for this industry. Record profits that they hadn't experienced for 10 years.

I think we had a meeting last night and there was a gentleman that used to work for the domestic industry and somebody asked when did the domestic industry last have profits of this level and somebody mentioned a number in the 1970s, but look at other indicators of the domestic industry.

Look at investment and somebody ask this industry. First I don't think it was discussed today at all, but capital expenditures in the domestic industry increased over the period. You normally don't see that in an industry that's being materially injured. They're not reinvesting, they don't have confidence in their business prospects in the future, but there are three other things to focus on.

Two domestic mills were purchased during this period, the Mittal mill and the mill bought by Leggett & Platt. They talk about due diligence. Nobody buys a mill unless they think that they're going to make money from it in the reasonably foreseeable future.

So there is investment, there's turnover of mills and Gerdau recently announced within the last few weeks that they were going to restart their mill shortly. Why is there a material injury? If they can't make money why are they opening that mill? They clearly think that there is a future for that mill in the short-term.

Finally let's go to causation. I was a little hurt by Mr. Rosenthal's closing remarks. I had spent time and care in my presentation, I try and put in some jokes, I had charts, I focused on causation. He attacked everybody but me. I feel left out. I sit here now and I can't tell you what the domestic industry's theory of causation is.

They have no coherent theory of causation because they can't deal with the obvious problem that if imports rose prices rose, as imports declined prices declined. Imports were highest when the domestic industry's profitability was highest and as soon as that Georgetown mill reopened imports declined.

Now, there was a lot of discussion about panic buying and whether to call it panic buying or whether to call it something else, but that's a sideshow because whatever it is it's got nothing to do with imports. Imports did not cause panic buying, they didn't cause something like panic buying.

That was caused by the domestic industry's inability to supply, and instability of supply and it can't be blamed on imports. If anything the declining prices in 2005 was blamed on what everybody here today told you, the drop in demand. So it shouldn't be surprising that as demand drops prices drops.

Finally I'll turn to threat. It's the easiest part of this case. Subject imports declined by 21 and a half percent in interim 2005. There can't be any threat case. That concludes our presentation. The hour is late, so we do all adjourn.

MR. CARPENTER: Thank you, Mr. Porter and Mr. Shor.

Once again I want to particularly thank our witnesses for coming here today to help us develop the record in this investigation. We appreciate it. Let me mention a few dates to keep in mind. The deadline for both the submission of corrections to the transcript and for briefing investigation is Tuesday, December 6.

You're free to contain business proprietary information. The public version is due on December 7. The Commission has scheduled its vote on the investigation for December 23 at 11:00 a.m. and it will report its determinations to the Secretary of Commerce on December 27.

The Commissioner's opinions will be transmitted to Commerce on January 4. Thank you for coming. This conference is adjourned.

(Whereupon, at 3:57 p.m., the conference in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Carbon and Certain Alloy Steel Wire Rod

INVESTIGATION NO.: 731-TA-1099-1101

HEARING DATE: December 1, 2005

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary Conference

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

DATE: December 1, 2005

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

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

SIGNED: Bernadette Herboso
Signature of Court Reporter