UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
CERTAIN HOT-ROLLED FLAT-ROLLED	)	701-TA-384 and
CARBON-QUALITY STEEL PRODUCTS	)	731-TA-806-808 (Review)
FROM BRAZIL, JAPAN, AND RUSSIA	)	

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Wednesday,
March 2, 2005

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

The hearing commenced, pursuant to notice, at 9:30 a.m., before the Commissioners of the United States International Trade Commission, the Honorable DEANNA T. OKUN, Vice Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

DEANNA TANNER OKUN, VICE CHAIRMAN (Presiding)
MARCIA E. MILLER, COMMISSIONER
JENNIFER A. HILLMAN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
DANIEL R. PEARSON, COMMISSIONER

APPEARANCES: (cont'd.)

Staff:

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SHARON BELLAMY, HEARINGS AND MEETINGS ASSISTANT
DANA LOFGREN, INVESTIGATOR
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JUSTIN JEE, ACCOUNTANT/AUDITOR
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Congressional Witnesses:

THE HONORABLE ROBERT C. BYRD, United States Senator, State of West Virginia
THE HONORABLE JOHN D. ROCKEFELLER, IV, United States Senator, State of West Virginia
THE HONORABLE LINDSEY O. GRAHAM, United States Senator, State of South Carolina
THE HONORABLE MARK L. PRYOR, United States Senator, State of Arkansas
THE HONORABLE BARACK OBAMA, United States Senator, State of Illinois
THE HONORABLE ALAN B. MOLLOHAN, United States Congressman, 1st District, State of West Virginia
THE HONORABLE PETER J. VISCLOSKY, United States Congressman, 1st District, State of Indiana
THE HONORABLE BENJAMIN L. CARDIN, United States Congressman, 3rd District, State of Maryland
THE HONORABLE JAMES E. CLYBURN, United States Congressman, 6th District, State of South Carolina
THE HONORABLE JOSEPH KNOLLENBERG, United States Congressman, 9th District, State of Michigan
THE HONORABLE SHERROD BROWN, United States Congressman, 13th District, State of Ohio
THE HONORABLE PHIL ENGLISH, United States Congressman, 3rd District, State of Pennsylvania
THE HONORABLE SUE MYRICK, United States Congresswoman, 9th District, State of North Carolina
THE HONORABLE ROBERT W. NEY, United States Congressman, 18th District, State of Ohio

APPEARANCES: (Cont'd.)

Congressional Witnesses:

THE HONORABLE TED STRICKLAND, United States Congressman, 6th District, State of Ohio
THE HONORABLE STEPHANIE TUBBS JONES, United States Congresswoman, 11th District, State of Ohio
THE HONORABLE HENRY E. BROWN, JR., United States Congressman, 1st District, State of South Carolina
THE HONORABLE SHELLEY MOORE CAPITO, United States Congresswoman, 2nd District, State of West Virginia
THE HONORABLE JOE WILSON, United States Congressman, 2nd District, State of South Carolina
THE HONORABLE ARTUR DAVIS, United States Congressman, 7th District, State of Alabama

State Government Witnesses:

THE HONORABLE ANDRE BAUER, Lieutenant Governor, State of South Carolina
THE HONORABLE RAYMOND E. BASHAM, State Senator, State of Michigan

In Support of the Continuation of the Countervailing Order, Antidumping Duty Orders, and Suspension Agreement:

On behalf of United States Steel Corporation (U.S. Steel):

JOHN P. SURMA, President and Chief Executive Officer, U.S. Steel
STEPHEN SZYMANSKI, General Manager, Sales and Service, U.S. Steel
WILLIAM REDER, Manager, Automotive Sales, U.S. Steel
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ROBERT JOHNS, Vice President and Director Sheet Marketing, Nucor Corporation
RICK BLUME, National Sales and Marketing Manager, Nucor Sheet Mill Group, Nucor Corporation
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PETER MORICI, Professor, University of Maryland, College Park
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JOHN NOLAN, Vice President, Sales and Marketing, Steel Dynamics, Inc
MICHAEL KRUSE, Vice President, Marketing and Sales, Heidtman Steel Products, Inc.
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On behalf of ArvinMeritor, Inc.; Brose Chicago, Inc.; Brose Tuscaloosa, Inc.; Consuming Industries Trade Action Coalition; Continental Teves, Inc.; Dana Corporation; Dura Operating Corporation; Ford Motor Company; General Motors Corporation; Hayes Lemmerz International, Inc.; Johnson Controls, Inc.; Lear Corporation; Magna International, Inc.; Maytag Corporation; Motor and Equipment Manufacturers Association; Precision Metalformings Association; Robert Bosch Corporation; TK Holdings, Inc.; Tenneco Automotive Operating Company, Inc.; Tokico (USA), Inc.; Tower Automotive, Inc.; Visteon Corporation; Whirlpool Corporation:

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JOHN KNAPPENBERGER, Vice President, Quality and Materials, Dura Automotive Systems, Inc.
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In Support of the Continuation of the Countervailing Order, Antidumping Duty Orders, and Suspension Agreement:

On behalf of ArvinMeritor, Inc.; Brose Chicago, Inc.; Brose Tuscaloosa, Inc.; Consuming Industries Trade Action Coalition; Continental Teves, Inc.; Dana Corporation; Dura Operating Corporation; Ford Motor Company; General Motors Corporation; Hayes Lemmerz International, Inc.; Johnson Controls, Inc.; Lear Corporation; Magna International, Inc.; Maytag Corporation; Motor and Equipment Manufacturers Association; Precision Metalformings Association; Robert Bosch Corporation; TK Holdings, Inc.; Tenneco Automotive Operating Company, Inc.; Tokico (USA), Inc.; Tower Automotive, Inc.; Visteon Corporation; Whirlpool Corporation:

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On behalf of E&E Manufacturing:

WALLACE E. SMITH, President and CEO, E&E Manufacturing

I N D E X

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I N D E X (CONT'D)

I N D E X (CONT'D)

P R O C E E D I N G S

(9:30 a.m.)

VICE CHAIRMAN OKUN: Good morning. On behalf of the United States International Trade Commission, I welcome you to this hearing on Investigation No. 701-TA-384 and 731-TA-806-808 (Review), involving Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from Brazil, Japan, and Russia.

The purpose of these five-year review investigations is to determine whether the revocation of the antidumping and countervailing duty orders covering certain hot-rolled flat-rolled carbon-quality steel products from Brazil, Japan and Russia, would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

Notice of investigation for this hearing, list of witnesses and transcript order forms are available at the Secretary's desk. Transcript order forms are also located in the wall rack outside the Secretary's office.

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

As all written material will be entered in full in the record, it need not be read to us at this time. Parties are reminded to give any prepared non-confidential testimony and exhibits to the Secretary. Do not place any non-confidential testimony or exhibits directly on the public distribution table. All witnesses must be sworn in by the Secretary before presenting testimony.

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

As a preliminary matter, I note for many of you who have appeared here before that Chairman Koplan is unable to be with us today. It wasn't because he was sick of steel, but he did get sick over the weekend, and he had medical surgery yesterday, is recovering well and will be back to work, but I know he would have liked to have been here today.

He takes great interest in this, and I am sure he will be reading the transcript when we're finished and trying to figure out whether his colleagues asked all the right questions, so we will try to help him out there.

Madam Secretary, are there any other

preliminary matters?

MS. ABBOTT: No, Madam Chairman.

VICE CHAIRMAN OKUN: Very well. Will you please announce our first congressional witness?

MS. ABBOTT: The Honorable Lindsey O. Graham, United States Senator, State of South Carolina.

VICE CHAIRMAN OKUN: Welcome, Senator Graham.

SENATOR GRAHAM: Thank you. I thank all of the Commissioners for what you do for our country and being able to show up on a cold morning here to talk about important topics.

I'm going to try to set the trend -- it seems to me you're going to have the whole Congress over here before the day if over -- and try to be short and to the point.

One, I really do appreciate the opportunity to testify this morning. I'm here to speak on behalf of the American steel industry and urge you to maintain the antidumping and countervailing duty orders on hot-rolled steel from Brazil, Japan and Russia.

I'm very much afraid of what could happen if these orders are revoked. Let's look for a minute at what we're competing with. The Brazilian industry sits protected behind high tariffs in its home market, while its government provides low-cost loans to expand production, specifically for export.

The Japanese industry is heavily dependent on exports, but has lost much of its China market. Domestically, the Japanese system makes it almost impossible for foreign producers to sell in Japan.

In Russia it's worse. Although ostensibly privately owned, the Russian steel industry is in fact supervised and supported by the government. Among other things, the Russian government insures that the steel industry has access to energy at below market rates. That would be a nice thing to do for our industry, but we don't do it because it would be an inappropriate thing to do. They keep scrap prices artificially low by imposing a tax on scrap exports.

Bottom line, and I'm not going to bore you by reading my statement. I'd like to make it a part of the record. Something is going on in the world steel market that we should be resistant against and understand the national security implications if it continues.

The attacks in Iraq have been about the same or have leveled out for months now, but the casualty rate has gone done in the last couple months significantly because our vehicles have been rearmored, and they're being steel plated. This has been an adjustment that was probably long overdue, but now that it's been done it's saved some lives.

Our ability as a nation to maintain the domestic steel industry is very much at risk not because people are smarter, not because they're more ingenious, not because they work harder, but because you have governmental relationships in other nations that defy free trade practices, and you have relationships with the steel industry in other nations that we would not allow here.

You and the powers that you possess are a buffer to some of these practices. China was everybody's friend in the sense that they were buying everything that anyone could produce in 2003 and 2004. A lot of our foreign competitors, instead of dumping steel into our market, went to China.

Well, that boom is over, and China's ability to produce steel is going up dramatically, and they're becoming a net exporter of steel. The way the Chinese run a steel mill we would not tolerate for 30 seconds here. The differences I'm talking about are not innovation and better business practices. They're quite the contrary.

Along with Russia, China, Japan with a closed system, Brazil are allowing capacity to be produced beyond their domestic needs specifically for export, and the relationship between these governments and the companies are really putting us at risk to be able to defend America in terms of providing steel for our defense industries.

Globalization is a reality that we must confront, embrace and try to turn around to make it something positive. I believe the American steel industry and other industries can compete on a global basis even where there's a disparity in labor cost. I'm confident of that.

What I'm not confident of, and as a matter of fact I have a lot of concern about, is that none of our companies can compete against governmental relationships that give a huge advantage, and it's very hard for a single company to compete against a government anywhere. That's why you have the abilities that you do to basically put a surcharge, whatever technical term you would like, to counteract these forces.

I've been here three times now, and it's getting worse, not better. People are filing for bankruptcy throughout America in the steel industry, some due to lack of innovation and lack of modernization, but most because their market share is being taken away. Steel is coming into our country below production cost, and the governments that I have named -- Brazil, Japan and Russia -- all have business structures that have to be dealt with and we should be resistant to.

A country that cannot provide its defense industry with domestically produced steel at least in part is a country that will be less secure, not more secure. I do worry that as you project out over the coming decades that our ability to produce domestic steel is going to be eroded to the point that we as a nation will be dependent in every sector of our economy for the basic necessity of hot-rolled steel from sources that may one day turn to be less than friendly to the United States.

What's happening in Russia in the steel industry is being mirrored in their political system. I very much worry about that country. I very much worry about the President of Russia, Mr. Putin. He is manipulating political systems for his personal benefit.

The institutions that are the cornerstone of democracies in Russia are all being eroded, and they are having a personal stamp placed upon them that served Mr. Putin rather than the population at large. These are interconnected.

The Chinese Government routinely denies its citizens the basic rights that free people enjoy here and in other countries, and freedom of speech, freedom of religion, the idea that the government has a limited role in the rule of law as the way to limit that role is a foreign concept to the Chinese communist dictatorship that we compete against.

You have the ability -- you have exercised it in the past -- to stand up for American workers and American companies who are unfairly being pressured out of the market. I ask that you continue that on behalf of the American steel industry, specifically with Brazil, Japan and Russia, and you take a comprehensive view of the Chinese steel policy and do what you can to allow our companies and workers here to stay in business. They are going out of business for all of the wrong reasons.

God bless. Thank you for having me.

VICE CHAIRMAN OKUN: Thank you, Senator Graham. Your full written testimony will also be included in the record.

Let me just turn to my colleagues and see if there are any questions for the Senator.

(No response.)

VICE CHAIRMAN OKUN: Seeing none, we thank you.

SENATOR GRAHAM: Okay. Thank you very much.

MS. ABBOTT: The Honorable Peter J. Visclosky, United States Congressman, 1st District, State of Indiana.

VICE CHAIRMAN OKUN: Good morning, Congressman.

CONGRESSMAN VISCLOSKY: Madam Chairman, thank you very much. Members of the Commission, I appreciate being able to testify today on the sunset review of antidumping and countervailing duties on unfairly traded hot-rolled steel imports from Brazil, Japan and Russia.

I regret truly that Chairman Koplan is undergoing medical problems, but I saw a coincidence, I must tell you, since I have not testified before you since July of 2003 that the morning I show up he is indisposed, so perhaps he knew I was going to be here.

Having said that and again thanking you for all of the past courtesies you have extended to me and your deliberate attention to the facts that have been brought forward to you, I would note that the flood of hot-rolled steel from Brazil, Japan and Russia decimated the U.S. market in 1998.

U.S. producers lost market share. Domestic shipments and production declined, and thousands of individual U.S. citizens who happened at the time to be steelworkers lost their jobs at companies called Bethlehem Steel, LTV Steel and National Steel. I would note for the record none of these companies exist any longer.

It took six years for the hot-rolled industry to again return to profitability last year. As you consider the evidence in this review, I would remind you that each of the subject countries make far more hot-rolled steel than they consume. As history has demonstrated, much of this excess capacity will be absorbed by the U.S. market with devastating consequences to the domestic industry.

Indeed, during this sunset review the Department of Commerce has already found that if this relief is lifted dumping and subsidization are likely to resume at high margins.

I would ask that you maintain the relief that is in place, and I would simply close, because in the past I have quoted Carl Sandburg and would simply note that a steelworker not from my district or the State of Indiana, but from Ohio visited me last month in Washington, D.C. The gentleman's name is John Jackson.

He is no longer a steelworker, but knowing that I had quoted poetry to you the last time he asked if I ever had the opportunity to be here again if I would read a bit of his poem to you, and I would.

I am an American steel mill. I was born over 100 years ago. I am a true American. When called upon, I answered. Never stopping, never slowing down, never asking for anything in return. I have given people their way of life. Serve me as I have served you.

Again, to all of the Commission and Madam Chair, thank you very much for giving me this opportunity.

VICE CHAIRMAN OKUN: Thank you. Seeing no questions, we wish you a good day. Thanks for appearing here.

CONGRESSMAN VISCLOSKY: Thank you very much.

MS. ABBOTT: The Honorable Joseph Knollenberg, United States Congressman, 9th District, State of Michigan.

VICE CHAIRMAN OKUN: Good morning,

Congressman Knollenberg.

CONGRESSMAN KNOLLENBERG: Good morning. Thank you very much. I appreciate your allowing me some time this morning and to greet you. I appreciate having the opportunity to testify in regard to the sunset review hearing on hot-rolled steel products from Brazil, Russia and Japan.

I would request that my entire submission be included in the record.

VICE CHAIRMAN OKUN: It will be.

CONGRESSMAN KNOLLENBERG: Thank you. I'm testifying here today to urge you to lift the duties under consideration in this review.

Policy makers, whether they're elected, hired or appointed, have important responsibilities. The decisions they make can have significant consequences on our economy. In order to make sure the right decisions are made, policy makers must look at the full effects of their decisions.

Unfortunately, when it comes to decisions on imported steel at times they've been made in a vacuum. During the sunset review, it is my hope that this process will come out of the vacuum and look at the full picture.

The other point I would make is this is

particularly important because steel consuming employees outnumber steel producing employees by over 50 to one.

Steel consuming manufacturers such as auto parts suppliers face intense global competition. These manufacturers every day figure out new ways to control cost and become more efficient so they can produce their goods for the lowest price. Unfortunately, there are many costs they cannot control. One of those costs is the subject of this hearing, the excessively high steel prices.

Steel prices, as you know, are the result of a variety of factors, but I don't think we can ignore the fact that unnecessary distortion in the steel market caused by unnecessary duties is an important factor.

The problem is because of this unnecessary distortion, domestic steel consuming companies are forced to compete in a global environment, but they are not allowed to buy steel at globally competitive prices. This puts domestic steel consumers at a huge disadvantage on the international market.

There are nearly 200 antidumping and countervailing duty orders in place on various types of steel, which is more than half of all such orders in existence. Many of these have been in place since the early 1990s. Some still serve a purpose. Others do not. Commissioners, the antidumping and countervailing duty orders that are being reviewed today are not and do not, I should say.

Hot-rolled steel is a key component for the automotive industry from the OEMs to the auto suppliers. A look at the Petitioners in support of the revocation of these orders says as much. In January 2005, the price of hot-rolled steel in the U.S. was $695 a ton. On the world spot market, it was $575 a ton. In China, it was $510 a ton.

With prices that high in the U.S. is it any wonder that the U.S. auto suppliers who have to compete globally have declared bankruptcy in recent months? I can cite five of substantial size, and I'll be glad to suggest those for the record.

I would also suggest that many small companies are also going bankrupt and out of business because of the price of steel because they can't pass the costs on to their customers.

I will not suggest that termination of these antidumping and countervailing duty orders will be a panacea to what ails the steel consuming manufacturing sector. I will not even suggest that termination will be a panacea to high steel prices in this country.

As I said, I understand that steel prices are the result of a variety of factors, but I do believe that termination will eliminate some of the distortion in the steel market that will provide steel consumers with some relief, and they need as much relief as they can get from this distorted steel market and as soon as possible.

What will happen if they do not receive relief? The trend to shifting manufacturing operations overseas is already underway and will only accelerate so long as these distortions in the U.S. steel market remain in place. That not only means lost jobs for Americans, but lost customers for the American steel industry.

Your task today is to determine whether termination of these duties would be likely to lead to continuation or reoccurrence of material injury within a reasonable foreseeable time, but you should not make this determination in a vacuum. I do believe it requires full attention, and you must look at the full picture.

While you have specific guidelines that you follow, you are not prohibited by law from considering and reporting on the impact of these antidumping and countervailing duties on steel consumers.

I recently introduced a resolution calling on the ITC and the Department of Commerce to do exactly that during the sunset reviews, and we currently have after this recent submission 17 co-sponsors. I urge you to use your authority to do so for this review. I know you can do it, and I believe you should do it.

Steel consuming manufacturers cannot compete globally with a domestic steel market that is distorted. The burden that this places on these manufacturers will ultimately decimate the steel industry's customer base, resulting in significant harm to long-term prospects.

I support both a strong domestic steel industry and a strong domestic manufacturing base because they are vital to our national defense and economic security. Removing some specific duties such as the ones we're discussing today will not harm domestic steel producers who are doing quite well. In fact, the relief provided to steel consumers may actually benefit the steel industry by strengthening their own customer base.

I urge you to consider all of these factors during this sunset review and to terminate these antidumping and countervailing duty orders, and I thank you very kindly for allowing me to testify this morning. Thank you.

VICE CHAIRMAN OKUN: Thank you for appearing here.

Let me see if my colleagues have any questions.

(No response.)

VICE CHAIRMAN OKUN: Seeing none, thank you very much.

CONGRESSMAN KNOLLENBERG: Thank you. Thank you very much.

MS. ABBOTT: The Honorable Alan B. Mollohan, United States Congressman, 1st District, State of West Virginia.

VICE CHAIRMAN OKUN: Welcome, Congressman Mollohan.

CONGRESSMAN MOLLOHAN: Thank you. Thank you, Vice Chairman Okun and members of the Commission. I appreciate the opportunity to testify here today on behalf of the hot-rolled steel industry.

As you know, I represent the 1st Congressional District of West Virginia, which is home to two major hot-rolled steel producers, ISG-Weirton and Wheeling Pittsburgh Steel. I strongly support continuation of the antidumping and countervailing duty orders against imports of hot-rolled steel from Brazil and Japan and the antidumping suspension agreement with Russia.

West Virginia knows all too well the consequences of allowing dumped and subsidized steel to flood the U.S. market unchecked. No one felt this as deeply as did our communities when both Weirton Steel and Wheeling Pitt Steel filed for bankruptcy within several years of each other, leaving thousands of steelworkers without jobs and countless retirees without health care benefits and with reduced pensions. A terrible circumstance.

Weirton and Wheeling Pitt were not alone. All told, over three dozen other companies also filed for bankruptcy between 1999 and 2003 as a result of unfair imports. This resulted in the idling of millions of tons of capacity and sent shock waves through one of our nation's strongest and most well-established industries.

Very straight remedies in place in recent years have helped curtail the hemorrhaging, giving the industry and its workers the chance to start restructuring, but there is no denying that irreparable damage has been done to hot-rolled steel producers.

The face of unfair, unbalanced, unchecked trade that allows foreign countries to dump subsidized steel into the U.S. is an ugly one. You need only look at Weirton Steel and the thousands of workers who lost their jobs following years of unfairly traded imports, or you need only look at Wheeling Pitt, forced to pursue a loan through the Emergency Steel Loan Guarantee Program, which necessitated a new labor agreement that required a reduction to the workforce.

Stories like these remind us why we are here today. Let us not forget that in 1998 hot-rolled steel imports from Brazil, Japan and Russia reached 6.9 million tons, 2.5 million tons more than imports from all other countries combined.

When orders on these imports were imposed 11 other countries flooded our market with dumped or subsidized hot-rolled steel. Further injured by more imports, the domestic hot-rolled steel industry suffered billions of dollars of losses between 1999 and 2003. With a pickup in global demand in 2004, conditions reestablished, restabilized, and the domestic industry finally returned to profitability last year.

Critics of the relief would have you believe that this is itself justification to remove orders and suspension agreements. I would argue to the contrary. Now is the time when relief is needed the most. The domestic steel industry is finally getting back on its feet and needs conditions of fair trade that do not threaten further progress.

Already through the acquisition of the assets of Weirton Steel in May of 2004, ISG, working with the Independent Steelworkers Union, has restored some of the jobs lost to years of unfair imports. Moreover, Wheeling Pitt replaced one of its blast furnaces with a new electric arc furnace with the hopes of running the new furnace at full capacity in the next year. These efforts will be jeopardized, if not reversed, should relief be removed.

We really cannot allow waves of unfair imports to further devastate and erode our domestic steel industry. Instead, we need to proceed as our law allows to continue trade remedies where injury is likely to recur if the orders are eliminated.

This is just such a case. ISG-Weirton, Wheeling Pitt and the rest of the domestic hot-rolled industry need that level playing field that these trade remedies provide. I, therefore, respectfully urge you to continue the relief in this case.

I appreciate the opportunity to testify on behalf of the steel companies, steelworkers and the steel communities in my district. Thanks again.

VICE CHAIRMAN OKUN: Thank you, Congressman.

Let me see if my colleagues have any questions. Commissioner Lane?

COMMISSIONER LANE: Congressman Mollohan, it's nice to see you.

CONGRESSMAN MOLLOHAN: Charlotte, how are you?

COMMISSIONER LANE: Thank you for coming.

CONGRESSMAN MOLLOHAN: And it's wonderful to see you, Commissioner Lane. Thank you for much for the opportunity.

VICE CHAIRMAN OKUN: Thank you.

MS. ABBOTT: The Honorable John D. Rockefeller, IV, United States Senator, State of West Virginia.

VICE CHAIRMAN OKUN: Good morning, Senator Rockefeller.

SENATOR ROCKEFELLER: Good morning. I am very honored that you would have me here, and it's nice to see you, Commissioner Lane and Commissioner Pearson and permanent members.

Ms. Chairman, I'm grateful that the

Commission will hear my testimony on the review of the order this Commission put in place five years ago on certain hot-rolled flat-rolled steel products by Brazil, Japan and Russia.

I believed then that this order was needed to help stabilize the domestic steel industry, and I believe the order is still needed today. I want to recognize that without your first affirmative ruling in this case, as well as a few subsequent cases, we might very well have seen the steel industry disappear from the Ohio Valley, never to return, so that first order was very, very crucial.

Without the appropriate legally justified and fully warranted import relief, our steel industry didn't stand a chance. You gave the American industry that chance, and I appreciate that.

When the Commission decided to impose import relief against Brazil, Japan and Russia in 1999, we were in the throes of a crisis that was beginning to decimate the American steel industry. After your imposition of duties, imports from these three countries dramatically declined from seven million tons in 1998 to 126,000 tons in 1999, which is quite extraordinary.

Unfortunately, another surge of imports of hot-rolled steel from 11 other countries followed in the wake of the case you are reviewing today and delivered yet another crushing blow to an industry that was at the time struggling to stay on its feet and still is.

In West Virginia, the impact of these surges, as West Virginia steelworkers and companies well remember, was devastating. It cost us thousands of jobs. To have an appreciation for the magnitude of the devastation, you need only look at the employment numbers at the Weirton Steel Corporation, which is now owned by the International Steel Group.

They employed back then about 15,000 workers at its peak. In 1999, that number dropped to 4,300, and by May of 2004, after a year of bankruptcy proceeding, the workforce totaled only 2,000.

All of those workers and their families have made incredible sacrifices, and some of them are here with us today, I understand, in an adjacent overflow room. I commend them for their work to make steel in Weirton a continuing reality. I have been in West Virginia for 40 years, and for 20 of those years this has been a day-by-day fight. I share with them the sacrifices they have made for that goal.

In the past year, the domestic hot-rolled steel industry has finally begun to dig itself out from years of losses from unsustainable prices and due to unfairly traded imports.

International Steel Group's acquisition of the assets of Weirton Steel in May of 2004 has helped invigorate the industry and its steelworkers. Together with the Independent Steelworkers Union, ISG has helped put steelworkers back to work and has begun funding benefits for some 8,000 retirees under the VEBA, the Voluntary Employee Beneficiary Association.

These are great accomplishments, especially in light of the afflictions of the domestic steel industry over the past decade. However great this progress is, removal of the orders and removal of the suspension agreement now will in fact reverse these efforts and completely halt needed investment in capital improvement to the U.S. steel industry.

Here are the facts that support continuation in this Senator's view of the trade remedies. Brazil, Japan and Russia are not only major producers of hot-rolled steel, but they are major exporters that have demonstrated a propensity, shall we say, for seeking out markets to unload excess capacity at dumped and subsidized prices.

That is not fair. That is their undeniable track record, and further there is not a scintilla of evidence that that pattern will not be continued. The U.S. markets remain one of the most attractive markets in the world for exports of hot-rolled steel due to its size, openness to trade and established distribution networks. Imports from these three countries have in the past and will again, if the orders are revoked, undersell domestic hot-rolled steel and depress prices.

Again, the pattern for these countries to dump their steel on the U.S. market and worry about how our trade laws may catch up with them later, that's their game. That's what they play so well. They figured out that it takes us too long to impose a penalty, and in the meantime they might be able to break another U.S. producer. Our industry is too vulnerable to take another frontal assault.

Now, critics ask how can the steel industry still need relief when the industry made a profit last year, and the answer is very simple. They made a profit last year, but that was just one year out of many years when they did not.

This year's profit is tempered by multiple years of financial losses and thousands and thousands of heartbreaking personal sacrifices borne by the steelworkers and the retirees. I know the people who have made those sacrifices, and they have given up enormously in negotiations and discussions.

Now for the steel industry to move forward in its restructuring it has to do what the steel industry has always had to do, and that is to use the profits from one year, 2004, to reinvest and upgrade their equipment.

That's the way it's always been for the steel industry. That's the way it has to work. You use the profits in the good times to make up for the losses in the rough times, and you can always count on the rough times. That's part of steel's destiny I regret to say, and that's why so many of us from the Congress come in here and lengthen your morning.

Steel is a cyclical industry, and that's not going to change. I believe the Commission has several precedents for continuation of orders or agreements for industries that have become profitable, and I urge you to turn to these precedents.

We cannot let our guard down on the basic remedy for unfair trade. It is now that the industry is finally on its way to recovery, hopefully, and able to start implementing plans and investments that have been deferred in prior years.

I've just watched it. You have a bad year. You can't do anything. You're always backing off. That has nothing to do with preparing you to be more competitive in the future. Implementing plans and investments have been deferred, and maintaining conditions of fair trade is so critical.

Five years ago I told you that the import crisis this nation faced was a national emergency. Without domestic steel, we simply cannot guarantee national security, and I reaffirm that today.

As I understand the law, you have full authority to continue this order. Indeed, if I can be presumptuous you are not to determine that there is no likelihood of continuation of the injury simply because the industry has recovered after the imposition of an order or the acceptance of a suspension agreement.

The law takes into account the fact that one would expect that an order or a suspension agreement will have a beneficial effect on the industry. In fact, an improvement in the state of the industry as a result of the order or suspension agreement suggests that the industry could deteriorate if the order is revoked or if the suspension agreement is terminated.

That's how I understand your own

administrative guidelines in consideration of this type of review, and I note that they incorporate an uncommon degree of common sense.

In closing, I urge the Commission to continue the relief. I think it's very important to do so. You have the authority to do so. It's the only fair decision to honor the courageous steelworkers and their companies who have pulled themselves out of the death spiral that I've watched very, very closely that many other industries would not have survived.

The removal of trade remedies now will indisputably result in renewed injury to the domestic hot-rolled steel industry. It may be one that we simply -- that may be the last of it if that happens. Our steel industry needs a chance to rebuild and gird itself for the future. You have the power to give them that chance.

Thank you very much.

VICE CHAIRMAN OKUN: And thank you, Senator Rockefeller.

Let me turn to see if my colleagues have any questions or comments. Commissioner Lane?

COMMISSIONER LANE: Senator Rockefeller, thank you for coming. It's nice to see you again.

SENATOR ROCKEFELLER: Thank you, Commissioner Lane.

VICE CHAIRMAN OKUN: Thank you.

MS. ABBOTT: The Honorable Benjamin L. Cardin, United States Congressman, 3rd District, State of Maryland.

VICE CHAIRMAN OKUN: Welcome, Congressman Cardin.

CONGRESSMAN CARDIN: Madam Chair, thank you very much for this opportunity to appear before the Commission. I would request that my entire statement be made a part of the record, and I will just summarize some of the points.

VICE CHAIRMAN OKUN: Without objection.

CONGRESSMAN CARDIN: Thank you. Madam Chair, as a member of Congress that supports expanding trade opportunity and as a member of Congress who represents the State of Maryland where the Port of Baltimore is extremely critical to trade and the economy of our state and our region and in my new role as the Ranking Democrat on the Trade Subcommittee of the Ways and Means Committee, I urge you to continue the orders and suspension agreement on imports from Japan, Russia and Brazil.

I need not remind this Commission how

important the steel industry is to our nation's economy, how important it is to the growth of our country, what steelworkers have meant to the strength of America and the fact that we can produce steel as cost effectively as any place in the world, given a fair market.

The steel crisis which started several years ago, particularly in the late 1990s we saw that we had a strong U.S. economy. Because of the financial crisis in Asia, because of the financial problems in Russia and Latin America, America became glut with lots of imported steel that was illegally subsidized and caused material damage to our steel industry here in the United States.

Thirty U.S. steel companies went out of business. In my own State of Maryland, we saw bankruptcies. We saw unemployed steelworkers. We saw steelworker families lose their health benefits. We saw pension benefits cut. We saw the impact on our economy.

We know the impact of having dumped steel here in the United States, what it means to our community, what it means to our economy. We've had a precarious recovery, and I want to thank the Commission for being part of vigorously enforcing our trade laws, which has helped the steel industry here in the United States.

We've seen the consolidation of many of the companies here in America, and we have some reason to be optimistic; Senator Rockefeller pointing out that we've had one year of profits. We've seen some new investment within the steel industry.

Yes, there has been some progress made, but, as he points out in this sunset review, which is an extremely important part of the process of enforcing our trade laws, we should be cautious because, as has been pointed out, this is a cyclical industry. It goes through good times and bad times. I think most economists would tell you today the steel industry is not prepared for another down cycle, that it still has a long way to go.

In my view, President Bush prematurely terminated the Section 201 relief, and what I think is very striking is during the period of time that this relief has been in effect we have not seen the international steel community deal with the overcapacity issue. In fact, we've seen an increase in capacity internationally.

According to OECD, they estimate that between 2004 and 2008 there will be 150 million tons of additional capacity. A significant part of that will be in Russia and Brazil, must of it government supported and not market driven.

We also have a new equation here. China, which has been somewhat helpful in this circumstance by importing steel, is likely to change. They are developing their own capacities. Whether it's proper or not is a matter of some debate, but it's likely that it will make the U.S. market more vulnerable because of their capacity changes.

The Department of Commerce has said quite clearly if the relief is lifted it's likely that Brazil, Japan and Russia will resume importing into the U.S. market at unfairly dumped and subsidized prices for steel.

It's clear to me that the U.S. steel industry will be materially damaged and injured if this relief is not continued. I think the key is in enforcing the global trading system that we have properly and fairly applied U.S. laws, and that is your responsibility.

I urge you in this review to continue the relief. I think it's critical for the recovery of our steel industry. I think it's important for our nation, and I would urge you to continue the relief.

VICE CHAIRMAN OKUN: Thank you very much.

Let me turn and see if my colleagues have any questions or comments.

(No response.)

VICE CHAIRMAN OKUN: Seeing none, we want to wish you a good day.

CONGRESSMAN CARDIN: Thank you.

MS. ABBOTT: The Honorable Sue Myrick, United States Congresswoman, 9th District, State of North Carolina.

VICE CHAIRMAN OKUN: Welcome, Congresswoman.

CONGRESSWOMAN MYRICK: Thank you. Thank you very much. We appreciate this opportunity to appear before you and share some comments with you on the review of the antidumping and countervailing duty orders on hot-rolled steel.

The renewal of these orders is of enormous importance to my district and to the American steel industry, and I don't mean to sound melodramatic, but literally to the future of manufacturing in the United States.

We often hear that the United States is a service economy, but manufacturing remains its backbone. I come from a district that has had a lot of job loss for various reasons and so we studied the economics of manufacturing in a lot of detail trying to figure this out and the experience of other countries as well and have reached the conclusion that it is impossible to have a strong manufacturing sector without a strong steel industry. I don't know a single country in the world that has one without the other.

These orders have played a vital role in insuring the survival of the domestic steel industry. Hot-rolled steel is indispensable in making a variety of products, as you know, from cars to appliances to buildings. In the late 1990s, the American hot-rolled steel industry was almost overwhelmed by the flood of dumped and subsidized imports. These orders gave the industry the opportunity it needed to recover, and it took it.

The industry has consolidated. It has invested millions in new technology and worker training and has made itself more efficient by reforming work rules and improving its production processes. I'm proud to say that our local steel company, Nucor, is one of the two most efficient hot-rolled producers in the world, and we're very proud of them.

I don't think there can be any doubt that the domestic industry has done everything it could to take advantage of the protection offered by these orders. The improvement in the industry doesn't mean that it has become invulnerable to unfair competition, however.

For the last two years, the industry has enjoyed higher prices, largely because China has been buying huge amounts of hot-rolled steel from all around the world, but that started to change as China has become self-sufficient in hot-rolled and has even become a net exporter.

The U.S. industry is already seeing a surge of imports from countries like Russia as they seek to replace the sales they formerly made to China. Frankly, we need to keep in mind that some of these other governments do unfairly subsidize their industries, which gives us another unfair advantage when it comes to trade.

I know that tens of millions of tons of new capacity are being added to the total industry, especially in China and Russia, over the next few years, and this means that our domestic industry must brace for even more import competition.

I think it's significant that while producers in Brazil and Russia, China, India and elsewhere are adding capacity, no existing U.S. producer has plans to build a new steel mill. This isn't surprising given that the CEO of Ispat Inland Steel recently said, and I quote:

"Prior to 2004, the industry had produced 20 years, an entire generation, of unacceptable results. One year of profits cannot erase 20 years of subpar performance. Moreover, both the industry and investors know that if these orders are not extended the American hot-rolled industry will likely be exposed to a fierce new flood of unfairly traded imports."

So despite all the efforts and sacrifices the industry and its workers have made over the past five years, the hard won prosperity in the industry could disappear overnight if unfairly traded imports can enter the U.S. market with impunity.

President Bush has made strengthening of the manufacturing sector one of his key economic objectives, and I've done everything that I can to help him accomplish this goal. With this review, you, the Commission, have the chance to make a major contribution to our efforts by keeping these orders in place.

I very much appreciate the opportunity to share with you today.

VICE CHAIRMAN OKUN: Thank you.

Let me check with my colleagues to see if anyone has any questions or comments.

(No response.)

VICE CHAIRMAN OKUN: Thank you. We wish you a good day.

CONGRESSWOMAN MYRICK: Thank you.

MS. ABBOTT: The Honorable James E. Clyburn, United States Congressman, 6th District, State of South Carolina.

VICE CHAIRMAN OKUN: Welcome, Congressman Clyburn.

CONGRESSMAN CLYBURN: Thank you very much. Madam Chair, members of the Commission, I'm Jim Clyburn from the 6th Congressional District of South Carolina.

It is a pleasure for me to appear before you today to discuss why I believe an extension of antidumping and countervailing duty orders on hot-rolled steel will be good for my district and for our country.

If you've ever visited my district, you know it's a beautiful place. You also know that it's a heavily agricultural, majority minority congressional district that contains five of the poorest counties in the state.

These demographics might make you wonder what connection the 6th District of South Carolina has with hot-rolled steel from Brazil, Japan and Russia. In fact, the connection is a direct one. While the 6th District is still agricultural, we have a growing manufacturing base that provides good paying jobs with good benefits. Among them are Nucor-Berkeley and its suppliers. We also have companies like Honda in Timmonsville and Maytag in Florence that make things out of steel.

It would be easy to assume that the interest of the steel industry and of steel consumers are different. That assumption would be wrong, as we know from recent experiences of another South Carolina steel maker, Georgetown Steel.

Several times Georgetown petitioned for relief from dumped and subsidized imports. Each time the industries using steel wire rod argued against the imposition of duties, claiming that dumping and countervailing duty orders would prevent them from being competitive. The Commission agreed and found no injury.

Georgetown was ultimately driven into

bankruptcy by import competition. The situation became so severe that the Commission later found that the steel rod industry was being injured by increasing imports under 201 and recommended relief.

This was followed by more antidumping cases against imports which were successful, but relief was too late for Georgetown. The company shut down completely, costing hundreds of South Carolinians their jobs, including many of my constituents.

The Georgetown saga looks like it's going to have a happy ending. Last year ISG bought Georgetown's assets and restarted production in August. A major factor in ISG's decision was the protection from unfairly traded imports that the existing orders on steel wire rod provide.

Georgetown's temporary closure also hurt steel rod consumers. They discovered the hard way that industries using steel can only succeed if there's a viable domestic steel industry that can provide them with steel on a day-in/day-out basis.

Everywhere in the world that you find a healthy manufacturing sector you will also find a healthy steel industry. This is true in eastern South Carolina, and it's equally true everywhere else in the United States.

Nucor-Berkeley and Honda are real success stories for the 6th Congressional District of South Carolina. I wish there were more like them. As you know though, Nucor-Berkeley was the last new hot-rolled steel mill built in the United States. Nucor decided to locate a facility in Berkeley because it realized that manufacturing in South Carolina and the rest of the southeast was expanding and would provide a great market.

Just as Nucor-Berkeley started up operation, however, dumped and subsidized imports from Brazil, Japan and Russia flooded the United States market. Nucor-Berkeley, which is by most measures the most efficient hot-rolled facility in the world, has not provided the returns that Nucor reasonably expected all because of unfairly traded imports.

I want more manufacturing in my district. I recently visited Nucor Steel and heard firsthand the difference those jobs have made in people's lives. I have also seen what happens when companies like Georgetown close because of unfair import competition.

Our people who have worked hard and done everything they're supposed to do suddenly find themselves unemployed and without health benefits for themselves and their families. Keeping these orders will save manufacturing jobs in South Carolina and help create new ones.

I thank you very much for allowing me to be here today and tell my side of the story.

VICE CHAIRMAN OKUN: Thank you very much for your testimony.

Let me check with my colleagues.

(No response.)

VICE CHAIRMAN OKUN: Seeing no questions, we want to wish you a good day.

CONGRESSMAN CLYBURN: Thank you so much.

MS. ABBOTT: The Honorable Phil English, United States Congressman, 3rd District, State of Pennsylvania.

VICE CHAIRMAN OKUN: Welcome, Congressman English.

CONGRESSMAN ENGLISH: Thank you, Madam Chairman. It is a privilege to be back today before this Commission and be given an opportunity to comment on what I think will be a very important set of decisions that this Commission will be making. It will have a huge impact on our trade policy and the perception of America's resolve on trade issues worldwide.

If I might, Madam Chair, I'd like to submit my testimony for the record and then keep my presentation comparatively short.

VICE CHAIRMAN OKUN: Without objection. We appreciate that.

CONGRESSMAN ENGLISH: Thank you, Madam Chairman. Over the past few years, the issue of the domestic steel industry utilized in trade remedy laws to level the playing field has come under increasing scrutiny both domestically and internationally.

Due to the often heated debate surrounding antidumping and countervailing duty orders placed on steel imports, the underlying problems which necessitated these actions in the first place are often lost by those outside of the industry during reviews such as this.

As chairman of the Steel Caucus, I'd like to particularly focus the Commission on some of the underlying issues that I think need to be left at the forefront of this consideration.

It is critical that the reasons that these orders were initiated remain a fundamental consideration in the review of these deliberations before you today because, unfortunately, all of those reasons still exist today.

The underlying factors which made the global steel market the most distorted in the world are not new, and the domestic steel industry is frequently reminded just how dangerous this is to a rules-based trading system, particularly if only one side is actually playing by the rules.

Foreign producers in governments did and continue to produce far more steel than the global market needs, maintain import barriers in their home market, illegally subsidize their domestic industries and dump their excess steel in the U.S. market.

U.S. steel makers have industriously restructured and reorganized, investing billions of dollars of their own capital to modernize their technology and become the cleanest and in some cases most efficient producers of steel in the world.

The industry has laid off workers, voluntarily closed down mills and cut back on production in order to reduce the excess capacity in the global market. American companies made the difficult but necessary changes in order to remain competitive, but because foreign firms and governments have failed to make similar sacrifices the cycle of illegally traded imports to the U.S. has not ceased.

As a strong believer in the antidumping and countervailing duty laws as a prerequisite to our maintaining a domestic consensus in favor of open trade, I cannot impress upon this Commission enough that the underlying factors leading to dumping and/or subsidies in Russia, Japan and Brazil have not adequately abated.

In my view, in order to avoid a recurrence of material injury to domestic steel producers, as well as further job losses, these orders need to remain in place.

Our trade remedy laws are an important tool of last resort. The cases before you today demonstrate the intended function of these laws and our domestic producers' only option.

Despite strong leadership by the domestic industry and the United States government to eradicate global steel subsidies and excess capacity, no agreement has yet been reached with other market participants. As a result, the factors that necessitated these trade remedies when first put in place continue to present a compelling case to retain them. The potential of a recurrence of injury remains unacceptably high.

Unless and until a global resolution is reached to adequately remove the distortions which make these orders necessary to level the playing field, the U.S. market, by virtue of it being the most open market in the world, will continue to be a desirable and likely sole destination for dumped and subsidized steel.

The unfair hardships placed on the domestic industry by these illegal imports will continue unless this relief is maintained. As a result, the domestic steel industry simply will not be able to continue the ongoing modernization necessary to remain globally competitive if our market is attacked by unpredictable and illegal predatory imports.

I would, in closing, like to emphasize perhaps the reverse of a point that was made by some earlier testimony. It was suggested that it was possible that by lifting these orders that it would actually strengthen the domestic industry by strengthening steel consumers.

I do not believe, Madam Chair, in pitting consumers against producers, and I think quite the contrary. If we send the wrong message by lifting these orders prematurely, I think that we are likely to see similar trade practices aimed at other parts of our manufacturing base that right now I think potentially could be open to the same kind of predatory practices as elsewhere.

I believe that what happens to steel and to other basic industries is likely to impact on the rest of our industrial base, and it is critical if we are to provide a level playing field for steel consumers we also need to provide a level playing field for the steel industry itself.

I am most grateful for the opportunity to testify, and I thank you for your deliberation.

VICE CHAIRMAN OKUN: Thank you for your testimony.

Seeing no questions or comments from my colleagues, I thank you.

CONGRESSMAN ENGLISH: Thank you.

MS. ABBOTT: The Honorable Henry E. Brown, Jr., United States Congressman, 1st District, State of South Carolina.

VICE CHAIRMAN OKUN: Welcome, Congressman Brown.

CONGRESSMAN BROWN: Thank you, Madam Vice Chairman Okun and other members of the Commission.

I am Representative Henry Brown. I have the distinct honor of representing the 1st District of South Carolina. I appreciate the chance to talk to you today about the positive effect of the antidumping and counterprevailing duty orders on hot-rolled steel from Brazil and Japan and Russia.

I have a special perspective on the American steel industry because the last greenfield hot-rolled steel mill built in the United States was built by Nucor in Berkeley County. Hundreds of my constituents worked there.

You may remember that the U.S. economy was booming in 1997 and 1998. Demands for hot-rolled steel was at an all-time high. Nucor decided to take advantage of the situation, building a brand new steel mill representing an enormous risk to any company. New steel mills, as you might know, cost upwards of $500 million apiece.

Nucor thought the demand would stay strong. They knew that the new mills they were planning in Berkeley County, South Carolina, would be one of the most efficient in the world so they took the chance and built the mill.

Nucor was right. Demand for hot-rolled steel did remain strong, and its new Berkeley mill was incredibly efficient. What Nucor could not foresee was a tide of unfairly traded imports from Brazil, Japan and Russia that swamped the domestic industry in 1998 just as the Berkeley mill was going into production.

The industry sought relief and got the order you are reviewing, only to be subjected to a second round of unfairly traded imports for different countries. This led ultimately to President Bush's decision to provide temporary relief to the industry under Section 201.

After five hard years, the American hot-rolled steel industry has finally turned a corner, at least for the time being. It has done so because it and its workers have been willing to invest, to take chances, to sacrifice and to make hard choices.

In 2004, my constituents at the Berkeley mill finally got what they deserved, a great year. The compensation of most of the workers at Berkeley is tied to production and profitability, so they benefitted directly from the industry's record setting performance in 2004. This gave the economy of Berkeley County and the whole surrounding area a tremendous boost that it badly needed.

I want you to think about this for a moment though. Berkeley is one of the two or three most efficient hot-rolled mills in the world. It has world class technology and world class management and the best production workers anywhere, and it still took Nucor and its workers six years to achieve the sort of profitability that they had planned on when the mill first opened. This explains why no American producer has built a new hot-rolled mill since Berkeley.

The reason the American steel industry cannot generate a reasonable rate of return on new investments is unfairly traded imports. The industry has already suffered twice from onslaughts of dumped and subsidized hot-rolled steel from other countries. The rest of the world, and especially Brazil, is adding hot-rolled steel capacity at a startling rate.

They may say that new capacity is intended for domestic demand, but we have seen this pattern again and again. Countries overbuild steel capacity, and when the domestic market slows down they turn to the biggest and most open steel market in the world, the United States. They dump, they subsidize and they do whatever they have to do to sell their excess production here.

Finding that revocation of these orders could lead to the continuation or resumption of injury to the domestic hot-rolled steel industry. The Commission can play a vital role in breaking this pattern and insuring the long-term health of the American steel industry.

Thank you, Madam Chair.

VICE CHAIRMAN OKUN: Thank you. If there are no questions or no comments, we want to wish you good day. Thank you for your testimony.

CONGRESSMAN BROWN: Thank you.

MS. ABBOTT: The Honorable Ted Strickland, United States Congressman, 6th District, State of Ohio.

VICE CHAIRMAN OKUN: Welcome, Congressman Strickland.

CONGRESSMAN STRICKLAND: Thank you, Ms. Vice Chair and members of the Commission. I want to thank you for this opportunity to speak on behalf of the hardworking steelworkers of Ohio and their families regarding the importance of maintaining the necessary antidumping and countervailing duty relief from unfairly traded hot-rolled steel from Brazil, Japan and Russia.

Unfortunately, I am well familiar with the trouble our steel industry is enduring because I've witnessed two major employers of my constituents, Weirton Steel and Wheeling Pittsburgh Steel Corporation, and their employees make some very tough decisions over the last few years.

Wheeling Pitt only recently emerged from bankruptcy in late 2003, and bankrupt Weirton was acquired as part of a broad $2 billion buyout by the International Steel Group. While the industry has taken a number of positive steps to restructure and recover, it remains vulnerable to another surge of unfair trade.

Ohio citizens have felt the brunt of the negative effects of unfairly imported steel. Five Ohio based steel companies have filed for bankruptcy since 2000, affecting more than 27,000 workers and their families.

These workers face the consequences of unfair trade every day in lost jobs, pensions and health care coverage. These workers are not the overpaid and underused workers that some would have us believe. These are hardworking, skilled Americans only asking that the government insure they have a level playing field.

Unfortunately, unfairly traded imports of hot-rolled steel have continued to plague this industry, harming steelworkers and their families. The Commerce Department recently determined that dumping will likely continue at a price significantly below fair market value.

Moreover, the import trends indicate that Brazil, Japan and Russia have essentially doubled their exports in the last year as duties near their end. Now is certainly not the time to terminate relief as the domestic hot-rolled industry has just begun to recover from repeated years of billion dollar losses and bankruptcies.

But there is a broader issue at stake. The United States' manufacturing sector is in trouble across the board. We are losing our manufacturing base and we need to take every step we can to stop this. The fight to save our manufacturing base, in my opinion, is a fight we must not lose. Our collective trade deficit with just Brazil, Japan and Russia, the countries at issue in these cases, was $97 billion this year, up 22 percent from when these cases were filed back in 1999. This trend must stop or our steel industry will disappear before our eyes.

As I stressed during your historic Section 201 safeguard investigation, we need a comprehensive manufacturing policy in this country, and this country should underscore the need to sustain a healthy domestic steel industry.

Maintaining a manufacturing base in this country is imperative. Our national security depends on it. No nation has succeeded in maintaining a successful and vibrant manufacturing sector without the ability to produce significant amounts of steel.

At a time when the U.S. military is facing challenges around the world and transforming itself into the 21st century force, it would be foolish to overlook the importance of a dependable supply of high quality steel to protect our troops and our nation.

The critical relation of steel to our national security is obvious, but steel is also of crucial importance to our economic security. Still, there are some steel consumer groups who claim that the President's steel program and the antidumping and countervailing duty orders on Brazil, Japan and Russia have caused them hardship as to create powerful incentives to move their operations overseas.

While there are many challenges facing U.S. businesses, paying a fair price for steel is not one of them. For example, a new car's steel is only 3.4 percent of total cost, and in construction it is less than one percent of cost. I certainly have sympathy for the plight of all U.S. businesses in the face of growing trade deficits, now more than $617 billion.

Allowing subsidized and dumped imports to further erode our manufacturing base is not the solution, however, but a continuation of the problem. It is true that strong worldwide demand, in particular

Chinese and Asian, have increased steel prices from their recent 20 year historic lows. However, prices in the United States for flat-rolled steel products rose at a much slower pace than comparable markets during the second half of 2004.

The bottom line is that domestically produced steel continues to be a superior value for U.S. consumers once the industry is insured a level playing field as these orders are helping to do.

I urge you not to let these lobbying interests sway you from your statutory duties. The question is a simple one. Will imports that have been determined to be unfairly traded likely injure the domestic hot-rolled steel industry? The answer is a simple yes.

I thank you for allowing me to be here to share these concerns with you. If you have questions, I'll be happy to try to answer them. Thank you.

VICE CHAIRMAN OKUN: Thank you, Congressman. Seeing no questions from my colleagues, I want to wish you a good day. Thank you for appearing.

CONGRESSMAN STRICKLAND: Thank you so much.

MS. ABBOTT: The Honorable Stephanie Tubbs Jones, United States Congresswoman, 11th District, State of Ohio.

VICE CHAIRMAN OKUN: Good morning and welcome.

CONGRESSWOMAN JONES: Madam Chairwoman, other members of the Commission, it's always good to be with you. Unfortunately, it seems that each year we're coming back to talk to you about the dilemmas we're facing in the steel industry, but it's good to be back again and have the opportunity to testify.

I'm here. My name is Stephanie Tubbs Jones. I represent the 11th Congressional District of Ohio. My constituents who live in Cleveland and its eastern suburbs have been some of the hardest hit from the surges of unfairly traded imports that have flooded the U.S. market for over two decades.

LTV Steel, a major employer of my constituents, filed for bankruptcy in December of 2000. In June of 2001, it shut down its west side operations, which primarily produced hot-rolled steel. In December of 2001, LTV ended the remaining of its steel making operation.

The shutdown resulted in the idling of over seven million tons of capacity and put some 6,000 people out of work in the greater Cleveland area. Over 12,000 LTV employees lost their jobs nationwide. Its operations remained idle until May of 2002, when

ISG restarted steel production and rehired over 2,000 steelworkers.

The hardships faced by LTV steelworkers and retirees due to unfairly traded imports have been tremendous. Unfortunately, LTV was by no means alone as Bethlehem, National, Acme, Wheeling Pittsburgh Steel were also forced to file Chapter 11 due to unfairly traded imports.

A strong domestic industry is integral to the well-being of thousands of families in my district and the State of Ohio. Many communities rely on the domestic steel industry to provide jobs for their men and women and maintain a healthy tax base.

Although the domestic steel industry has faced serious challenges in the past, considerable progress has been made. In recent years, domestic producers and steelworkers that keep the industry alive have jump started idle capacity, implemented new technologies and contributed to the medical needs of retirees.

Removal of the trade remedies at this critical juncture for our domestic hot-rolled steel industry would result in a resurgence of unfairly traded imports. Such increased imports would undermine the ability of our domestic producers to regain their financial viability, expand capital expenditures and fund the trust for retiree health benefits.

The capital intensive nature of the steel industry means that companies must stay profitable in order to rebuild balance sheets and provide the capital needed to fund the many long-deferred capital expenditures.

To the Commission I can only think about all of the problems that the City of Cleveland has faced as a result of the loss of steel jobs. We have a school system that's in deficit and debt spending. We have so many people unemployed, and those that are employed are underemployed based on the prior experience that they had.

Cleveland has been labeled the city with the highest amount of poverty in the nation. When you couple that with a lack of education and opportunity, the fact that we have this problem with imported steel has an impact that rolls over into our community and moves further along.

Then you begin to think about the next issue before us may well be pensions for steelworkers. We really need to take a strong look at this, and I encourage this Commission to hold steadfast to their prior rulings and make sure that the steel industry in this country continues or has an opportunity to come back.

I thank you for the opportunity to testify.

VICE CHAIRMAN OKUN: Thank you very much. Seeing no questions or comments, we want to wish you a good day and our thanks.

CONGRESSWOMAN JONES: Thanks.

MS. ABBOTT: The Honorable Andre Bauer, Lieutenant Governor, State of Louisiana.

VICE CHAIRMAN OKUN: Good morning and welcome.

LIEUTENANT GOVERNOR BAUER: Thank you. I'll claim the Pelican state, but I'm actually from the Palmetto state. I'm the Lieutenant Governor of South Carolina. I don't know how we got that confused.

Madam Chairwoman, members of the Commission and distinguished guests, on behalf of the State of South Carolina and its thousands of steel industry employees I want to thank you for the opportunity for allowing me just a few minutes of your time.

The South Carolina manufacturing sector is a critical contributor to our state's economy. Fifteen percent of our workforce is in the manufacturing sector, while just 10 percent is the national average.

As such, our citizens are directly impacted by the shifts in global and international trade policy towards fair and open trade.

It's important to the survival of manufacturers and our workers that we enforce every existing international trade agreement and all trade laws to their fullest. It's more urgent and more essential than ever before that our trade posture reflects a total commitment to a level playing field for every industry.

Measures such as the one before you today provide the enforcement of existing rules to insure that unfair practices such as dumping of excess steel into American markets are prevented.

South Carolina's recent experience shows us why this is so important. As recent as the year 2000, the U.S. Census reported that more than 20 percent of our state gross product came from manufacturing.

Only nine states in the country had a larger share of their state gross product from manufacturing than South Carolina, and that share has shrunk as various sectors have been overwhelmed by the flood of imports, many of which have been due to practices such as currency manipulation and subsidized dumping of manufactured products.

Since 1998, South Carolina's manufacturing has lost more than 71,000 jobs, and our unemployment has doubled. Our corporate citizens can't continue to provide stable jobs while foreign nations subsidize their industries that allow unfair and, quite frankly, illegal practices.

South Carolina can't afford to experience any losses in the durable goods sector, including steel. At the end of 2004, only two states, Michigan and Oregon, had higher unemployment than the State of South Carolina. Fourteen of our 46 counties, almost one in three, struggle with over 10 percent unemployment.

For our citizens, this is the bottom line. We cannot afford any further losses of manufacturing jobs due to unfair trade practices. With greater urgency and greater need than at any time in our history, South Carolina's people look to their federal government to enforce every trade law fully and to hold every trading partner accountable.

Almost 34,000 South Carolinians work in the primary metal and manufacturing and fabricated metals industry. Our leaders in the industry such as International Steel Group, SMI and Nucor Steel, have invested billions of dollars in our state, which is a tremendous impact, and we're very thankful for it. Nucor alone, which I've had several occasions to visit, has invested more than $1 billion in our state and employs over 1,800 people. These are good, hardworking people.

Nucor, SMI and Georgetown Steel provide salaries considerably above the manufacturing average and are second to none in terms of productivity. Continued investment of resources is only viable if we support our industry through insistence of equal treatment under our international agreements.

The South Carolina steel industry deserves the best and most thorough enforcement of every international trade agreement. For this reason, I would beg and urge you to continue the 1999 antidumping and countervailing duty orders imposed on hot-rolled steel products from Japan, Brazil and Russia.

Again, I thank you for giving me a few minutes of your time. I know you have a lengthy meeting today, but it is so vitally important to the people of South Carolina.

You all have a blessed afternoon.

VICE CHAIRMAN OKUN: Thank you, and thank you for your testimony this morning.

MS. ABBOTT: The Honorable Raymond E. Basham, State Senator, State of Michigan.

VICE CHAIRMAN OKUN: Welcome and good morning.

SENATOR BASHAM: Good morning. Members of the committee, thank you for the opportunity to appear before you today. I've traveled from Michigan to urge you to retain the critical antidumping and countervailing duty orders against hot-rolled steel products from Brazil, Japan and Russia.

This case is of vital importance to the economy, to workers and to families in my district. A large number of my constituents in Michigan's 8th Senate District either are employed by the steel industry or work for businesses that are dependent upon the industry.

U.S. Steel's Great Lakes plant in Ecourse and River Rouge is a major private sector employer in my district. I've met many of the plant's 2,500 workers, and let me tell you; they can compete with overseas products for quality, for price and for value.

These hardworking men and women expect nothing more than a fair chance to make an honest living, but when the foreign steel is sold at unfair prices the lives of those workers and their families are put at risk, which is precisely what will happen if these trade laws are revoked.

Our manufacturing facilities must not again be allowed to be victimized by unfairly traded imports. While I support free trade and strongly believe in the benefits it brings to Michigan and to the nation as a whole, I also believe the rules insuring fair competition must be enforced against those who break those rules.

If companies who receive subsidies or operate in protected home markets are allowed to use these unfair advantages to drive U.S. producers out of business, we'll lose an important section of our manufacturing base. In fact, we already have lost a significant portion of the steelmaking industry to unfairly traded imports.

United States Steelworkers of America had 36,000 members in Michigan in 1980. In 2003, that number dropped to 7,000. Using an estimated multiplier of four to five jobs created for every steel job, that means the overall employment lost in Michigan is somewhere in the 150,000 to 175,000 range, an absolutely stunning decline.

I believe that the facts in this case tell their own story. In the late 1990s, Brazilian, Japanese and Russian steel manufacturers used aggressive, unfair pricing to edge out the domestic industry. To make matters worse, they did so at a time when the domestic producers should have been able to capitalize on the U.S. economy when it was in full swing.

Given the cyclical nature of the steel market, U.S. companies must prosper when demand is strong in order to survive the downturn that will almost absolutely inevitably follow. Put very simply, unfairly traded imports caused the U.S. industry significant harm at a time when demand for steel in the United States was at its peak. As a result, numerous companies were forced to file for bankruptcy.

National Steel, which is in my district, at the time one of the nation's largest producers, was never able to recover from the repeated floods of unfairly priced imports. The only reason the former National Steel plant in my district is still operating today is because the temporary safeguards recommended by this Commission allowed the domestic steel industry enough of a breathing space to be able to restructure.

I thank you for your courage in making that difficult, but absolutely right decision. U.S. Steel purchased the former National Steel Great Lakes plant in May of 2003 and kept it running. Currently, U.S. Steel is investing tens of millions of dollars in environmental upgrades at the Great Lakes facility in order to modernize this facility for continued operations in a manner that is protective of human health and the environment.

There is a great risk that these efforts will have been wasted and these saved jobs lost if the foreign producers are yet again allowed to engage in unchecked and unfair trade.

Members of the committee, the domestic steel industry will be injured by foreign steel imports if the orders are lifted. The Commerce Department has already determined that the foreign producers would again dump their products into the U.S. market if the trade laws were revoked, and the margins would be substantial.

It is now up to you to determine whether these foreign producers will be allowed to renew their abuse of the U.S. open market. We cannot afford to lose more steel manufacturing jobs to unfair trade. I, therefore, urge you to vote in the affirmative in these proceedings so that our trade laws can continue to work and to save this industry.

One of the cities that U.S. Steel is located in, the City of Ecourse in my district, U.S. Steel pays 47.5 percent of the tax base. That's how vital this is to my district.

Thank you.

VICE CHAIRMAN OKUN: Thank you very much. Thank you for traveling to be with us today, and thank you for your patience this morning.

LIEUTENANT GOVERNOR BASHAM: Thank you.

VICE CHAIRMAN OKUN: Madam Secretary, I understand at this point that we don't have public officials waiting to testify. Is that correct?

MS. ABBOTT: That's correct, Madam Chairman.

VICE CHAIRMAN OKUN: All right. Before turning to opening statements, let me just say for the benefit of the witnesses that by my count we have heard from 13 of the 30 public officials who had requested time to testify.

We will do the best we can to try to not interrupt witness testimony and to try to keep this thing moving along, but to try to accommodate the public officials and votes on the Hill as we go through today.

With that, Madam Secretary, can we please announce the opening statements?

MS. ABBOTT: Opening remarks in support of continuation of orders will be by Terence P. Stewart, Stewart & Stewart.

VICE CHAIRMAN OKUN: Good morning, Mr. Stewart.

MR. STEWART: Good morning. The orders and suspension agreement on hot-rolled steel from Brazil, Japan and Russia before the Commission today arose during a period of strong growth in the U.S. economy when unfairly traded imports reduced the profitability of the domestic industry in the top part of a business cycle.

The injury from the two waves of unfairly traded imports during 1997 to 2000 have impeded the domestic industry's ability to make an adequate return on investment over the course of the last business cycle despite extraordinary improvements in productivity in a robust 2004.

Overall, the profit shortfall over the last cycle totaled some $5 to $6 billion, which has prevented the companies from making the billions of dollars of capital investments needed for long-term competitiveness, and the financial crisis U.S. producers suffered resulted in unprecedented bankruptcies, the loss of thousands of jobs and the forfeiture of healthcare benefits and a significant part of pension benefits for more than 100,000 retirees and their families.

The domestic hot-rolled steel industry is capital intensive, cyclical, characterized by high fixed cost and subject to extended periods of global excess capacity, all of which is situated outside of the United States.

Our industry must generate adequate profits during the upward part of business cycles to see it through the cyclical downturns. For at least the last quarter of a century, adequate profits have not been possible because of recurring surges of unfairly traded imports, a history that is chronicled in Annex E of the prehearing staff report.

Why is this history relevant to today's proceeding? Because the underlying causes of the waves of unfair trade continue to exist -- global excess capacity, high fixed costs and foreign producers who are export dependent.

Let's look at these causes in turn. First, global excess capacity. While strong demand in China in recent years has led to a temporary reduction in global excess capacity, rapid capacity expansions around the world are resulting in a return to a situation of significant excess capacity in hot-rolled steel.

China is adding steel making capacity faster than its demand is growing, thus both reducing its imports and expanding its exports of hot-rolled steel. In 2004 alone, China had a seven million ton reduction in net imports of hot-rolled steel.

Similarly, as shown by submissions of the various domestic parties and in contrast to the facially inaccurate Brazilian producer information and the lack of response from the bulk of the Japanese producers in this review, all of the countries subject to review here are expanding their capacity.

Second, all steel producers have high fixed costs and face large costs to shut down and restart hot end capacity to produce hot-rolled steel. These characteristics have repeatedly led foreign producers to slash prices, particularly for export markets, to keep their mills running at high rates.

It is this phenomenon, foreign producers slashing prices when internal demand and export sales are below their desired operating levels, that has led to repeated waves of dumped or subsidized exports in hot-rolled steel.

Third, each of the hot-rolled steel

industries under review continue to be highly dependent on exports to keep their mills running as capacity in each country greatly exceeds their home market demand. Indeed, exports of hot-rolled sheet from these three countries collectively have increased more than 22 percent between 1999 and 2003 as their export dependence has increased.

U.S. prices for hot-rolled steel are significantly higher than most or all of the Respondents' export prices to other markets. As excess capacity in these and other countries builds, removing the remedial measures currently in place here in the United States would likely result in a sharp increase in imports and a significant deterioration of prices, a fact acknowledged by a number of the purchasers in their questionnaire responses as summarized in the public staff report.

Just how rapidly imports can increase into the United States can be seen both from the period of the original investigation when imports into the U.S. from these three countries increased 5.6 billion tons in a two year time period and from the demonstrated ability of these Respondents to shift some four million tons to Korea and Malaysia alone following the investigation in the United States.

In short, history and current market conditions confirm that revocation of the orders and the termination of the suspension agreement would be likely to lead to a recurrence of material injury to the domestic industry within a reasonably foreseeable time. We ask the Commission to so find.

Thank you very much.

VICE CHAIRMAN OKUN: Thank you.

MS. ABBOTT: Opening remarks in support of revocation of orders will be by Kay C. Georgi, Coudert Brothers, and Mark S. McConnell, Hogan & Hartson.

VICE CHAIRMAN OKUN: Good morning and welcome.

MR. McCONNELL: Good morning. Thank you. Thank you for being here.

I'm Mark McConnell on behalf of the American steel consumers. Today, you're going to hear a lot of detailed arguments about prices, profitability, and so on, but before we get to that, I think it's worth taking a minute to look at the big picture.

First, look back at 1998. We had a dramatic reduction in worldwide demand as a result of the Asian currency crisis. Boat loads of steel were turning up in U.S. ports looking for buyers. Some U.S. producers were bleeding cash.

Now, look at today. You've read the briefs. We're not talking about bleeding cash; we're talking about whether prices that are the highest in years might be declining a little bit. We're not talking about boat loads at the dock. We're talking about whether there might be some scenarios in the future under which some additional steel might be shipped to the United States. We're not talking about a fragmented U.S. industry. We're talking about an industry that's dominated by just three companies, with nearly $10 billion in pension liabilities relieved by the U.S. government.

Now, look at the room. Just about everyone in here represents an American business. The Japanese and Brazilians are so busy with their other markets that they are not here. You didn't get a brief from Japan or Brazil. Instead, you got one from Ford and General Motors, Maytag, Whirlpool, Delphi, Dura, Visteon, Tenneco, Lear, Johnson Controls, Arvin Meritor, and associations representing literally hundreds of small, American steel consumers.

The American companies that are struggling in the steel market today are asking you to lift the restrictions.

As the day proceeds, I urge you to keep this big picture in mind. When someone predicts a flood of imports coming from Japan and Brazil, ask yourself, if the Japanese and Brazilians are so interested in this market, then why aren't they here? When someone worries that record prices won't last long enough to make enough money, ask yourself, how much is needed when billions of dollars of liabilities have been erased, and when operating margins are at 20 percent?

In 1998, the steel industry needed help. It's been getting that help consistently since. It's time to permit some competition back into the U.S. market, and the American steel consumers urge you to revoke the restrictions.

MS. GEORGI: Good morning. Thank you. I'm Kay Georgi from Coudert Brothers here on behalf of Russian steel producers Magnitogorsk, Novolipetsk, and Severstal. The key conditions outlined by Mr. McConnell on behalf of the U.S. purchasers have, in fact, transformed the U.S. hot-rolled steel industry, not just in 2004 but going forward for the foreseeable future.

The banner operating and returns on investments of 21.5 percent and 69.7 percent that the U.S. hot-rolled industry enjoyed in 2004 were not a one-year fluke but a sign of good things to come.

This picture will not change if the antidumping and countervailing duty measures are revoked.

Capacity utilization is at very high levels in Russia, Japan, and Brazil, and home market demand in the three countries is very strong. Indeed, as Mark mentioned, Japan and Brazil care so little that they are not here today. And as you will hear later, Russian producers are unable to increase production and are being forced to turn customers away. I would like to add here that the Russian steel industry has no plans to expand hot-rolled capacity.

It's worth emphasizing that this case is not about imports from China or India; it's about imports from Russia, Japan, and Brazil. Nevertheless, the world's biggest steel consumer, China, will continue to demand hot-rolled steel in such large quantities as to offset any increases in hot-rolled capacity, and we'll have some slides on this.

On average, Russia exports only a very small percentage of its exports, total shipments, to China. The Chinese market is simply not a vital export market, in start contrast to the Russian home market. The Russian industry sells nearly 70 percent of all hot-rolled steel at home to the vital and booming Russian market. In addition, over the last several years, the Russian industry has developed many additional export markets and does not rely on any single market for a significant share of its shipments. Countries around the world, too, have removed import restrictions, opening new export markets for Russia, Japan, and Brazil.

In short, with no chance of recurrence of the Russian and Asian crises of the 1990's, with an extremely weak dollar, and with strong home market demand and prices and high capacity utilization in the three countries, the likelihood of recurrence of the import levels seen in the original investigation is nil. This case is, or should be, a poster child for a sunset review revocation. Thank you.

VICE CHAIRMAN OKUN: Thank you very much.

Before we turn to seating our first panel, I understand we have a public official here to testify.

MS. ABBOTT: That is correct, Madam Chairman. The Honorable Sherrod Brown, United States Congressman, 13th District, State of Ohio.

VICE CHAIRMAN OKUN: Good morning, Congressman Brown.

CONGRESSMAN BROWN: Good morning. Thank you, Madam Vice Chair Okun and members of the Commission. Thank you for the opportunity to testify this morning in these proceedings involving imports of hot-rolled steel. I'm here not only because I have steel plants in my district but because I have a large manufacturing community dependent on those businesses, and I know how important our trade laws are to our manufacturing base.

When our markets are flooded with unfairly traded imports, there are real consequences to American companies, to their workers, to their families, to their communities. In Ohio, I've seen the devastation caused by dumped and subsidized imports and the impact it's had on Ohio families. These layoffs, these plant closings, these bankruptcies have catastrophic economic and social effects, as we all know.

The situation is critical for domestic companies trying to survive in the midst of import surgers, severely depressed prices, declining domestic shipments, and plummeting revenues, but the fundamental reason why domestic producers of hot-rolled steel remain at risk of material injury caused by dumped and subsidized imports is excess foreign production capacity. The worldwide steel industry has experienced market distortions that are more pervasive and extreme than in any other manufacturing sector.

Large foreign steel markets too often are closed through quotas and licensing agreements and high import tariffs. In no other industry have producers received such vast government subsidies and cartels flourished for so long and enjoyed such a widespread reach.

The effect of these market interventions has been the buildup and retention of excess global steel-making capacity of extraordinary dimensions. Since so many countries are able to produce more steel than they consume, and with so many markets restricted to imports, the destination of choice for surplus products is all too often the United States.

These market distortions have been acknowledged by the current and previous administrations. In 2000, the Department of Commerce released the analysis of the steel industry entitled Report to the President on Global Steel Trade Structural Problems and Future Solutions. This study highlighted the serious structural problems in the foreign steel industry, including foreign anticompetitive practices that stop American steel companies from gaining market access and foreign steel production overcapacity created by government subsidies and protected markets. These distortions are also the reason the administration launched its steel program in 2001 to restore market forces to world steel and to eliminate practices that too often harm our steel industry and its workers.

The structural problems of the global steel market were present during the Commission's initial investigation. They are still present today. They will continue to threaten the domestic industry well into the future. This is the reason why the U.S. market has repeatedly been flooded with dumped and subsidized imports. It's why it's imperative that trade laws are fully enforced against those who continue to trade unfairly.

The Department of Commerce has already confirmed in these proceedings that the Brazilian and Japanese and Russian exporters will again price their products below market value in the U.S. if trade law orders are revoked. We must recognize that the domestic industry faces a very real threat of renewed injury by dumped and subsidized imports from these countries if the floodgates are reopened.

The domestic steel industry, Madam Vice Chair, is going to great lengths to increase efficiency and productivity, dramatically reduce costs, and improve competitiveness. They are doing so by undertaking the most significant restructuring and consolidation in decades. Together, U.S. Steel, ISG, and Nucor have invested nearly $4 billion in acquisitions, many of which involve assets of companies that have been forced to file for bankruptcy as a result of import surges.

Continued relief from unfairly traded hot-rolled steel, one of the flat-rolled steel industry's cornerstone products, is absolutely vital so that the industry can get the needed return on investment from its current restructuring and capital investments and remain a strong, world-class competitor. At this critical time, it would be unfair to allow our domestic producers and their workers to again fall prey to import surges caused by the foreign excess capacity which so greatly distorts the worldwide steel market.

I hope you find in the affirmative in these proceedings and grant the domestic steel industry the continued relief from dumped and subsidized hot-rolled steel that it needs and it deserves. Thank you again for having me here today.

VICE CHAIRMAN OKUN: Thank you for your testimony.

Madam Secretary, are we ready to call the first panel?

MS. ABBOTT: Yes, Madam Chairman. The first panel, in support of the continuation of orders and suspension agreement, please come forward. All witnesses have been sworn.

(Pause.)

VICE CHAIRMAN OKUN: Madam Secretary, it looks like the first panel has been seated, and you may proceed when you're ready. Have all of the witnesses been sworn? Thank you.

MR. BISHOP: Yes. All witnesses have been sworn.

MR. LIGHTHIZER: Madam Chairman, members of the Commission, I'm Bob Lighthizer.

The analyses urged by the two sides before you today differ in one absolutely fundamental respect: Our opponents wish you to focus your analysis on one year's results, whereas we believe that your determination must, under the statute and common sense, be based upon the performance of this industry over the business cycle and the entire period of relief. When seen in this way, it is apparent that this industry had a negative return on sales and investment during the period of relief and is in no position to sustain any additional reduction in financial returns due to unfair trade going forward.

As shown on the first slide, we would particularly urge you to focus on three facts. First, the subject producers have flooded this market in the past, and they will do so again if you allow it. Second, the domestic industry has had only one good year during the last six and has been forced to forego billions of dollars in necessary capital expenditures. Such an industry is plainly vulnerable to material injury. And, third, the purchasers you will hear from this afternoon are here because they know revocation will result in a surge of imports that will drive down prices.

The original investigation was triggered by a massive import surge. In only two years, subject imports soared from 1.3 million tons to 7 million tons. In '98, they shipped more than 1 million tons in November alone.

The orders on Brazil and Japan have been effective at limiting unfairly traded imports from those countries. Russian producers, however, were given a suspension agreement. Through most of the period, that agreement and the 201 relief severely curtailed their shipments, but as soon as they had a chance, they came roaring back into this market.

Russian producers not only used their entire quota for '04; they actually borrowed against the '05 quota to ship even more hot-rolled steel.

Upon revocation, global pressures will force the subject producers to ship large volumes here. The biggest pressure comes from a new steel capacity around the world. By one estimate, announced new global capacity over the next few years is expected to substantially exceed consumption growth.

To understand what has been happening in this market and globally over the last few years and what enormous changes are on the horizon, it is critical to understand China. As you can see here, China was importing huge volumes of hot-rolled steel during '03 and the first part of '04. This helps to explain why prices rose so quickly in the U.S. market last year.

In the two most recent quarters, however, China has been a significant net exporter of hot-rolled steel. Here, you see the China effect on subject producers. Not so long ago, all three countries were shipping large volumes of hot-rolled steel to China, but in the last two quarters those shipments have plunged, and these trends will only get worse.

Here, we see China's capacity and consumption of what World Steel Dynamics calls "hot-rolled, band equivalent products," which is essentially everything that passes through a hot strip mill. Between '02 and '06, China will add 80 million metric tons of new capacity, a figure larger than the total hot-rolled band capacity of Japan or the United States. By this estimate, China will be a major net exporter of most flat products by next year.

Now that the subject producers are being forced out of China, it is obvious they will want to ship to this market even more. We are the only major net importer of hot-rolled steel left. Prices here are relatively good compared to the other markets, and the subject producers already have contacts and channels of distribution here.

Now, on to the price effect. Here, we see what subject imports did to domestic prices during the original investigation. Although '98 saw a record demand, unfairly traded imports essentially ruined this market. Prices recovered only after we obtained preliminary relief. These facts from the original investigation are strong evidence of likely price effect and volume of subject imports.

If you want to see even more powerful

evidence, look at what the purchasers have said on their own questionnaires. When they appear here this afternoon, I hope you think about why they are here. They are here because they know that revocation will lead to increased imports and lower prices.

On to the likely impact. Look at what happened after subject imports flooded this market. In only two years, the performance of the domestic industry simply collapsed. With relief in place, the industry had once again become profitable by the first quarter of 2000, but then it was hit by a second wave of dumped and subsidized imports. In the first quarter of '01, operating losses totaled almost $1 billion, showing how quickly this market can turn around. Where you see such large losses, bankruptcies are inevitable. Ten domestic, hot-rolled producers declared bankruptcy during the period of relief, including several of our largest producers. This is plain evidence of vulnerability.

Raw material costs have also soared and remain well above historic norms. In fact, on an indexed basis, costs have risen more than prices for hot rolled. Prices that would have yielded a healthy return a few years ago would generate only losses in today's market.

The best evidence of the industry's vulnerability, however, is its recent financial performance. This chart shows the industry's operating income on a cumulative basis, year to year, over the period of review. As you can see, for almost the entire period, the domestic industry was being forced deeper and deeper into a hole. Even after a positive year in '04, this industry had a negative return for the six years.

Think about what that means. It means you are dealing with an industry that suffered material injury in '98 and has not generated profits over the whole period since then. These facts compel a finding of vulnerability.

Under these circumstances, it is no wonder capital expenditures have plummeted and have never returned to the '97 level. Even last year, they barely reached half that level.

On this slide, we have combined the cumulative losses suffered by the industry with foregone capital expenditures. We conservatively estimated foregone investment as the difference between '97 level and what was actually spent each year. As you can see, even using '97 as the base, the industry has a huge backlog of needed investment and is in a very deep hole.

This conclusion is confirmed by the economic study included in the briefs on the industry's performance over the cycle and as compared to benchmark returns needed to attract capital. These benchmark returns, based upon so-called "weighted average cost of capital" and long-term borrowing rates for the industries, are, frankly, not controversial numbers.

These are the types of thresholds that are used by Wall Street every single day and are calculated based on publicly available information, and they show that since '98, the start of the last cycle, as identified by the study, the industry came up at least $5 billion short of profits it needed to earn its cost of capital and to attract future funds for investment.

An industry cannot lose money forever if it hopes to survive. The industry before you today needs and deserves the chance to earn a reasonable return on investment going forward in a market not polluted by unfair trade, and we urge you to give it that chance. Thank you. John?

MR. SURMA: Good morning. I'm John Surma, president and chief executive officer of United States

Steel Corporation, and I appreciate the opportunity to appear before you today.

This is a time of momentous change and of significant achievements in our industry. Coming off the most severe crisis in our history, the steel industry has, with remarkable speed and commitment, cut costs, modernized work rules, improved productivity, and pursued value-creating consolidation. While there is still much to do, the industry is more productive, more efficient, and more cost competitive than ever before, something that will inure to the long-term benefits of our economy, our industry, and our customers. We are doing the right things, as we said we would, and we are proving our critics wrong.

I would be remiss not to mention the important role played by agencies like this one. Your commitment to fairly enforce our trade laws and to challenge the industry to adjust and restructure has helped create the conditions where this industry can succeed.

The issue before the Commission is, at least, from our standpoint, quite simple: Will you give this industry the opportunity to solidify and build upon the progress it has made, or will you put this progress in jeopardy and force us, once again, to compete in a market distorted by unfair trade?

U.S. producers and purchasers essentially agree as to what will happen if these orders are revoked. Dumped and subsidized imports from Japan, Russia, and Brazil will enter this market and drive prices down. The other side suggests, however, that the industry is now profitable and no longer needs relief. In response, I can only shake my head in wonder at how quickly we forget.

There is no question that last year was an excellent year for the industry, but to view that year out of context and in isolation is not only distortive; it ignores the facts that should be most critical to this Commission's analysis.

Let us be very clear. This industry did not even come close to earning its cost of capital in any year of relief before 2004. Even taking last year's profits into account, the industry, for its overall hot-rolled operations, failed to break even on an operating basis over the period, much less earn a return that would allow it to maintain and invest in its plants and equipment, to do the things necessary to survive and compete successfully over the long run.

Let's not forget that the bankruptcies of

Bethlehem and National and others occurred while this relief was in place. Indeed, 54 percent of the hot-rolled industry declared bankruptcy in this time period -- 54 percent, an astonishing figure.

The Commission knows this history well. There was a second wave of unfair trade from third countries, another injury determination in 2001, and the president's decision to impose safeguard relief based on serious injury in 2002. Whereas trade relief is supposed to ensure a market characterized by fair trade, this industry was denied that outcome for much of the period. As a result, we suffered further massive losses, foregone investments, and bankruptcies. Only now, at the very end of the period, have we returned to profitability.

The years of hemorrhaging prevented us from making necessary capital expenditures. Indeed, there has not been one year of the relief, including 2004, in which the industry has been able to fund capital projects on the basis needed to sustain our plant and equipment. When you are literally forced to consume your own productive assets year after year because of low prices, a single good year will not be enough to make you whole.

I'm sure we're not alone in having many

needed investment projects deferred because of cash constraint. I can tell you that the investments made in this industry are individually very, very substantial, and they stay made for a long time. If we are to justify these kinds of projects going forward, we need confidence in a bottom line not tainted by unfair trade.

To state the obvious, an industry that fails to earn its cost of capital over time is not long for this world. For too many years, this industry has been forced to effectively eat our seed corn. The fact that we had one strong year is great. The fact that we are lowering costs and becoming more competitive is grounds for optimism. But make no mistake: We have a long way to go to restore the fundamental health of this industry, and we will need sustained profitability to do so.

I can tell you, this is a very competitive market, with more than a dozen domestic producers and a very significant import presence. We spend all day every day trying to figure out how we can turn a profit to secure new customers and grow our business.

We relish this competition. We have absolutely no problem with imports. What we do ask, and what this industry needs, is the assurance that this competition will be on fair terms with producers that are similarly constrained to earn a profit in a market environment in order to stay in business. There is no question in my mind that we can compete and win if given that chance.

We're prepared to compete with foreign companies. We don't think we should have to compete with foreign countries.

What would be the result of revoking this relief? Again, I think the answer is clear: It will lower prices and profitability below what market forces and market-based competition would otherwise dictate. For an industry with an enormous backlog of important capital projects, one that has lost money since these orders were put in place, such an outcome would constitute very substantial injury.

I'm very proud to be in a position of leadership in this industry and proud to carry on the traditions of United States Steel Corporation. Very few companies can say that they have been in the same business for over 100 years. Very few companies can say that they are in an exciting, high-tech field that requires them to remain on the cutting edge. We can say both.

Last year, we showed what we can do in a healthy market. If you keep this relief in place, we will build on that success. I urge you to give us that chance. Thank you.

VICE CHAIRMAN OKUN: Thank you.

MR. LIGHTHIZER: Mr. Dan DiMicco.

MR. DiMICCO: I apologize ahead of time for the quality of my voice here this morning.

VICE CHAIRMAN OKUN: Pull your microphone close, then, so we can hear you.

MR. DiMICCO: Thank you, Vice Chair Okun and members of the Commission. I am Dan DiMicco, president and CEO of Nucor. I appreciate the opportunity to discuss with you today the condition and prospects of the U.S. hot-rolled steel industry. I would also like to personally thank Commissioner Pearson and the Commission staff who visited our plant in Crawfordsville, Indiana.

We are here today to make sure that history does not repeat itself. Unfortunately, it will if those countries who have dumped and destabilized our market in the past are given a pass by revoking the orders currently in place.

We had a great year in 2004. I wish Nucor could take credit for all of the improvement, but we can't. The important thing this Commission should understand is that this market can turn on a dime, and it has in the past. It has had more down years than up years. This is because overcapacity comes in fixed increments, and steel mills need to run at high output levels in order to cover their high fixed costs.

On average, the global industry suffers from excess capacity. As a result, injurious subsidies and dumping are the norm. That is why these orders are critical to the U.S. industry's recovery and continued health.

Why was 2004 a great year? While there were efficiency gains from investment and consolidation, most of the industry's profits were the result of its increased metal margins: the spread between raw material costs and prices. Those increases occurred largely because of China.

In 2003 and 2004, China was temporarily unable to meet its skyrocketing demand for hot-rolled steel using its domestic production. During this time, China absorbed much of the world's excess capacity. China, however, is changing. It has added enormous capacity in the last two years, and it became an exporter of hot-rolled steel late last year, and China and other countries are bringing on even more new government-subsidized and government-owned capacity in 2005 and 2006, increases nearly as large as the entire U.S. hot-rolled industry.

A second reason for the price hike was panic buying. Customers saw raw material costs and steel prices rising and rising fast, and they tried to beat the price increases. As a result, they built record inventories. Today, those inventories, while being reduced, are still overhanging the market.

A third reason was the large amount of U.S. capacity temporarily taken off stream due to the devastating impact of earlier imports. Much of that domestic capacity reduction is now back, replaced with more efficient operations.

So what's going to happen to steel from Brazil, Japan, Russia if these dumping orders are removed, especially now that these countries can't export to China anymore? Well, that one, I can tell you because it's happening already. A million tons of Russian hot-rolled steel rapidly entered the U.S. market in the second half of 2004. Russian imports would have been even higher, but they hit their quota limit.

As the imports entered, a price decline began. U.S. spot prices have fallen more than $150 a ton from their highs last year. Our customers claim that the U.S. industry has market power now, but if that is true, why did spot prices fall $150 a ton? Despite the U.S. industry's improved health, we have little control over the overwhelming effects imports have here in our marketplace.

The global steel industry is still highly fragmented, with much of it owned by governments, as in China and India, or heavily subsidized, as in Russia and Brazil. Even with our recent price declines, we expect 2005 to be a good year if the dumping orders stay in place, and supply doesn't overwhelm demand to the point of repetitive dumping. But if these orders are lifted, the producers from the subject countries will shift their exports rapidly to the United States, and the down portion of the cycle will accelerate as it has in the past.

Here are some things you should keep in mind, please. Brazil, Japan, and Russia are already big exporters, and they continue to add capacity. Two, they compete from protected home markets and produce far more than they need domestically. The basic problem that existed five years ago still exists today: government-sponsored overcapacity.

These countries will sell here because China and India have built and are building substantial capacity and do not need to rely on imports any longer to the same extent as previously and because sales to Europe have been severely restricted by quotas and other distribution barriers.

Their operations and their government mentality is not profit oriented. It is volume and employment oriented. They want to keep their government-subsidized mills running, and they will send their overwhelming excess product here.

Based on Nucor's experience, it will not take a large surge of dumped imports from Japan, Brazil, and Russia to destabilize prices. When import offers start picking up, we will have to cut our prices in order to keep the business, given the industry's high fixed costs. Historically, high steel prices and raw material costs do not prevent harm due to dumped imports. In fact, high prices attract imports to our market, and high raw material costs just make the industry more vulnerable to import pressures when we have to lower prices to fight off imports as we have been forced to do time and time again.

Metal margins can go down as fast as they went up if the order is revoked. At Nucor, we place a priority on our customers. We treat them as we would want to be treated. In that connection, Dr. Peter Morici has done a study on our customers which finds that they have done better than us, and are doing better than us, in manufacturing as a whole.

Steel is not the problem. An undervalued Chinese currency is the problem.

With regard to automotive, let me say this. They are a very important customer of the industry and ours, and in 2004, Nucor offered the Big Three producers and Tier 1 suppliers a million tons of steel that they did not take. Why? Because they didn't need it. They didn't want to pay for it, and, in particular, they didn't want to pay a raw material surcharge, even when scrap prices had doubled and tripled, both in the United States and globally.

My sales director, Rick Blume, is here today and can answer any questions you have on this.

As for our auto parts customers, they also could have locked in pricing with us and others, but they chose to speculate on the spot market, and they got burned by the spot market. There are even programs in place called "resale programs" that the automobile companies and top-tier auto parts suppliers offer to the smaller companies to participate in-contractual buys that they chose not to participate in and, again, to rely on the spot market because of what had happened in the past with dumped steel and the driving down of prices.

Let me emphasize that there are numerous areas where we are working with our customers to help support manufacturing in this country, whether it be on the Chinese currency issue and the Emergency Scrap Coalition, as well as other NAM priorities of tort reform, energy policy, health care costs, and other noncompetitive forces in our economy. But this issue is not one where we will be working with them.

The steel industry is entering a period of strategic competition where companies are either acquiring or being acquired. In this kind of environment, dumping in the U.S. by Japanese, Brazilian, and Russian producers can be expected when we can't retaliate in their markets due to trade barriers. This would weaken U.S. competitors, turning them into potential targets that can be bought cheaply and closed. This loss of domestic capacity as a result of dumping, like in 2001, is what our customers should really be concerned about.

The U.S. steel industry faces a challenging environment. We at Nucor have learned that the key to survival is to have a cost model that is extremely low, where productivity, technology, and efficiency keep us competitive. But even this model does not always work with unfairly traded imports. Domestic consolidation alone cannot insulate Nucor from dumped and subsidized imports.

Today, we are optimistic in many ways about the future, but we are also realistic, and the reality here is that material injury is likely to occur in the reasonably foreseeable future if these orders are lifted. Thank you very much.

VICE CHAIRMAN OKUN: Thank you.

MR. DAILY: Good morning, Madam Vice Chair and members of the Commission. For the record, my name is Don Daily, and I'm president of Gallatin Steel, located in Gent, Kentucky. My predecessor, John Haldige, testified in the original investigation, as did Ed Voight, our former chief financial officer.

The only structural change we've made at Gallatin Steel during this time has been the purchase of a cut-to-length plate facility, which was located just adjacent to our mill. This facility gives us the ability to sell cut-to-length plate as well as hot-rolled steel coils. However, all of the products that we produce and sell are still considered commodity products, just like the hot-rolled steel that the

Russians, the Japanese, and the Brazilians will also sell in the United States.

At Gallatin, we've dramatically increased our productivity over the last five years, and we now operate what is widely considered to be the most productive, thin-slab casting machine anywhere in the world. These increases in productivity have gone a long way toward further reducing our already low labor costs and conversion costs on a ton-of-hot-rolled product's basis. We have, of course, also experienced significant increases in raw materials costs and energy costs. Compared to six years ago, our average costs of raw materials has almost tripled, and our cost of energy has more than doubled.

As a company focused primarily on selling in the spot market, with very few contractual commitments longer than three months, we can be the first to benefit from either stronger demand for hot-rolled steel or tighter supply and the consequent upward pressure this puts on steel prices. However, we are also the first to suffer from weaker demand or more supply and the resulting weakness in prices.

Steel is definitely a business in which things can and do change very rapidly. For example, our lead time for delivery, which is the time between an order is placed and when it can be delivered, increased from approximately one week in the middle of 2003 to over eight weeks by the beginning of 2004. That lead time could have been twice that long by the beginning of the second quarter of 2004 had our sales force not done an exceptional job controlling the rate at which we accepted orders. We maintained the lead time at that eight-week level until about the end of the third quarter and saw it shrink to no more than one week by the end of 2004. We remain only very slightly above that level right now.

Everyone in this industry knows that prices follow lead times, and our prices obviously increased very rapidly through the third quarter of 2004. However, they fell by more than $150 a ton between the end of the third quarter and the beginning of the first quarter of 2005. I know that many of the companies sitting here today announced price increases at various times during the first quarter, whether it was January 1st, February 1st, or March 1st. However, based on everything we know about the market, we don't believe that any of those announced price increases were realized on spot market sales during the quarter. If anything, there has been further deterioration of about $40 a ton, or about as much as $40 a ton.

Why did our lead time shrink and our prices fall? First, there were additional imports supplied from Russia and from other countries during the fourth quarter. Second, customers try to build inventory ahead of price increases, and whenever the market mentality anticipates prices going up, they will do so. Conversely, as soon as the market believes prices are going down, many of your customers want to decrease inventory, and this is what we are currently experiencing.

We are now clearly in a situation in which available current domestic and import supply is more than enough to satisfy U.S. demand, and this will likely encourage further inventory reductions and continued weakness in pricing. There most certainly won't be any shortage of steel, and if any of the consumer witnesses testify this afternoon about current difficulty obtaining steel, I ask that you please have them contact me or any of my steel-producer colleagues.

At Gallatin, we run a very modern mill and a very efficient operation with production costs that can compete with anyone in the world. While we thoroughly enjoyed what happened in 2004, we can still survive with the status quo, but I'm here today because I know that we have a real fight on our hands to maintain that status quo.

We are absolutely certain that if you sun set these orders, the resulting surge in imports will create a significant oversupply situation in the domestic market, and this will cause companies like ours to resort to past practices of severe price cutting in order to scratch out enough orders to keep our plant operating at some reasonable level of efficiency. This is not something we want to see happen, and it is why I respectfully request that this Commission keep these dumping orders in place for an additional five years. Thank you.

VICE CHAIRMAN OKUN: Thank you.

MR. NELSON: Commissioners, good morning. My name is Jerry Nelson. I am vice president in charge of sales and marketing for International Steel Group. I have held this position since April 2002, when ISG was formed by acquiring the assets of LTV. I have approximately 20 years of experience in the steel industry, having previously worked for Jones & Laughlin, which later became LTV; Bethlehem, Nucor, and, finally, Birmingham Steel.

As ISG's vice president of sales and marketing, I have responsibility for overseeing sales activity for all of the products produced by ISG, including hot-rolled, cold-rolled, galvanized, and tin-mill sheet products; plate, wire, rod, rails, and more.

Our prehearing brief addresses all of the factors you must consider in a sunset review, so I will focus my comments on issues with which I have the most familiarity in my capacity as vice president of marketing and sales.

First, I'll address the issue of interchangeability among hot-rolled steel from various countries, including the countries under review -- Brazil, Japan, and Russia -- and U.S.-produced, hot-rolled steel, and the importance of price in purchasing decisions. As the Commission is aware from past investigations, hot-rolled sheet is the basic building block for all flat-rolled products. Hot-rolled sheet is produced to published specifications. Most, if not all, steel producers in this country and around the world, including in Brazil, Japan, and Russia, are capable of producing hot-rolled steel for most applications. In short, quality is assumed.

In that regard, I understand that during the original investigation, hot-rolled steel from Russia, as compared to Japan and Brazil, was viewed as interchangeable, even though there were some quality issues. Russian hot-rolled steel quality is even more interchangeable today since several of the big producers in Russia have made significant investments to improve product quality. The hot rolled that they are producing today is very comparable with the hot rolled that the U.S. producers manufacture, as well as those of other countries subject to review.

As a result, the products are highly interchangeable from supplier to supplier. That makes the domestic and the Brazilian, Japanese, and Russian hot-rolled product interchangeable for a very large part of the product moving into both the service center and the tubular converter markets.

It's very easy for customers to change suppliers when it comes to hot-rolled steel. Because the products are so comparable in terms of quality, price becomes a major factor in the decision process and outweighs other factors, such as on-time delivery. So hot-rolled steel from Brazil, Japan, Russia, and the United States is highly interchangeable, and price is by far the biggest factor in the decision to make a hot-rolled purchase, from the buyer's standpoint.

As the Commission is aware from past investigations, spot prices for steel are highly volatile. Spot prices can swing quickly and significantly up or down in response to even relatively small changes in supply. For example, in the second half of 2004, spot prices for hot-rolled steel peaked around August and then dropped more than $100 per ton by year's end. According to Commerce Department monitoring statistics, hot-rolled steel imports in the second half of 2004 were 790,000 tons higher than in the first half of 2004. Because much of these imports are believed to be sold in the spot market, volume movement of this magnitude can, and does, have significant effects on market prices.

While the adverse effects of increasing imports will be felt most rapidly in the spot market, they also will have an impact on contract prices. As the public staff report notes, most producers' long-term contracts have a duration of one year. In my experience, negotiations to renew those contracts begin about 90 days before expiration. When spot prices are higher than contract prices, and the spread narrows because of a decline in the spot price, customers will expect the contract price for the following year to be adjusted downward as well.

A $100 decline in spot prices would likely be of sufficient magnitude that most customers would demand a significant downward adjustment in their contract price going forward.

U.S. steel prices have been depressed for an extended period of time. As the public prehearing report makes clear at page I-6, U.S. producers' prices for hot-rolled steel were too low to generate even a small profit during the period, 1999 to 2003. Low prices deprive the industry of desperately needed capital for necessary investments in equipment, people, and process improvements.

We at ISG are, of course, very pleased that we were able to generate positive returns for our shareholders in 2004, but the industry is highly cyclical and thus much generate strong returns during the upturn in the cycle. Demand for steel can, and does, change quickly.

As the public staff report shows, apparent consumption of hot-rolled steel in this country fell more than 17 percent from 2000 to 2001. The effects of the decline on the domestic industry were disastrous. Although we had a year of strong demand in 2004, we have already begun to see some softening in demand for 2005. At pages 42 through 44 in the confidential version of our prehearing brief, we provide specific evidence of what we at ISG are seeing in the market.

We also know that the rapid buildup of capacity in China is causing that country to significantly reduce its imports of hot-rolled steel and increase its exports. Consequently, export-dependent producers in other countries who were exporting to China must find new markets for their product. Russian producers, for example, shifted hundreds of thousands of tons of hot-rolled steel exports from China to this country in the space of less than a year. Only the suspension agreement prevented them from shifting even more exports to this market or selling at much lower prices.

During the original investigation, the prices at which Brazilian, Japanese, and Russian producers were exporting hot-rolled steel to the United States were either comparable to or lower than their export prices to other countries. If you compare U.S. spot prices with the prices that Brazilian, Japanese, and Russian producers were selling hot-rolled steel to most other export markets in 2004, including China, you'll see that the U.S. spot prices were higher.

We believe that continues to be the case in 2005. If the orders are revoked and the suspension agreement terminated, there is every reason to believe that Respondent producers will shift exports to this market at reduced prices. The return of dumped and subsidized imports from Brazil, Japan, and Russia would quickly cause market conditions to deteriorate as prices fall and unfair imports capture market share from the U.S. industry.

Keeping the orders in place is vital if the industry's recovery is to continue. Thank you.

VICE CHAIRMAN OKUN: Thank you.

MR. SZYMANSKI: Good morning. I'm Steve Szymanski, general manager of sales and service to service centers for United States Steel Corporation. I would like to focus my testimony today on one critical point, namely, the dramatic difference we are seeing in the current market conditions as compared to those that existed in much of 2004, particularly in the first half of the year.

The sharp increase in steel prices in 2004 resulted from a number of factors, most of which were not anticipated by anyone in the market. First and foremost was the exceptionally strong demand seen in China, along with solid demand in the United States and elsewhere. Raw material costs were also rising substantially in this period, and inventories for steel were generally low. As prices started to rise, many customers bought steel for their inventories, anticipating higher prices and tightened supply conditions. This was a formula for higher prices, and that is what exactly occurred.

The market conditions today are very different. As China has ramped up production along with planned capacity, it has gone from a major net importer of hot-rolled steel to net exporter in recent months, forcing producers in other countries, including subject producers, to seek new markets.

Perhaps not surprising, U.S. imports of hot-rolled steel soared by almost 90 percent from 2003 to 2004. According to industry trade associations for service centers, sheet inventories have reached their highest level in my memory, at 10 million tons. This is an increase from January 2004 of almost 2 million tons.

I can tell you from firsthand experience that competing against inventory is not an easy task. Under these conditions, it's hardly surprising that spot prices for hot rolled have fallen over $100 a ton since last summer. As a result, the psychology of the market has changed from last year. No one wants to buy steel today if prices will be lower tomorrow.

Meanwhile, imported hot rolled ordered months ago continues to pour into this market, which is so crowded that many new imports are going straight into inventory. On a recent visit to Houston, I saw large volumes of hot-rolled imports still at the docks because there is literally no room at the customers' warehouses.

I remain hopeful that we can work through this high inventory level without a major crisis, but to do so, we need this relief. The big service centers, like all sophisticated customers, track the market carefully. I can tell you that the people in the market are aware of what's going on in Russian imports and, specifically, how they not only filled their hot-rolled import quotas for 2004 but borrowed against this year's quotas to bring in even more imports.

There is a clear understanding that Brazilian and Japanese producers have extensive contacts in the market and are already shipping in large volumes cold-rolled steel. Purchasers expect a new surge of dumped and subsidized steel that will come from these countries if these orders are revoked. They expect that surge to drive prices down, and they are correct. I urge you to prevent this result by keeping this relief in place. Thank you.

VICE CHAIRMAN OKUN: Thank you.

MR. PLATZ: Commissioners, good morning. My name is Roy Platz, and I am the director of marketing for the Flat Products Division of Ispat Inland.

I have worked for the company for more than 35 years, starting out as a chemist before shifting to the sales and marketing of flat products to the automotive and appliance sectors. During my career, I have experienced firsthand the ups and downs of the domestic hot-rolled industry. Believe me when I say that the industry right now is still vulnerable to unfairly traded, hot-rolled imports from Brazil, Japan, and Russia.

One year of solid profitability is simply not enough. Like any healthy industry, we should be able to expect a reasonable rate of return across the business cycle in order to succeed and grow. After suffering losses for most of the cycle, our industry needs more time to recover before it can confidently resume long-term capital investment.

I will not provide a history lesson today, even though I could. This review alone provides enough examples of how a period of recovery and profitability can be wiped out in a matter of months by surges of low-price, hot-rolled imports. It happened in 1998 with imports from these countries. It happened again in 2000 with imports from 11 other countries, and now, after the shortened Section 201 program helped to create stable market conditions, it is happening again with hot rolled from Russia.

It seems every time our industry begins to recover from plummeting prices, it gets knocked down by a low-priced import surge. It's hard to plan for the future when you don't know if you're going to survive the next unexpected surge.

Sadly, during the period of this review, many U.S. steel companies producing hot rolled did not survive. All we are requesting now is a fighting chance to invest long term before the next surge hits. If you revoke now, we will not have that chance.

As a marketing director of flat products, I certainly hear customer complaints about hot-rolled prices, and this year more than usual. For many of these customers, steel is an essential and critical input. Although I do not question their sincere belief that steel input costs have burdened them this past year, I believe that other costs unrelated to steel have been contributing to their problems as well, and those costs should be acknowledged and addressed here today by these companies.

Simply put, these consumers have not been ravaged by high steel input prices. Steel is not the source of their problems. In contrast, our industry, because of its high fixed costs, lives or dies on the price of steel. Our very survival depends on a reasonable market price.

My customers are fully aware of the difficulties that the domestic hot-rolled industry has faced over the period of this review. They have seen other domestic suppliers declare bankruptcy or sell their assets. Many of these customers, recognizing our industry's plight, have agreed to surcharges and variable pricing provisions to ensure that the hot-rolled industry does not suffer from its own input cost increases.

These customers know that if they want reliable domestic suppliers to survive, they must accept hot rolled at a price that will allow the industry to achieve a reasonable rate of return and resume long-term capital investment.

Ultimately, a stable and efficient, domestic hot-rolled industry benefits all of our customers.

In the end, both the industry and its customers want to thrive and grow. I want my customers to do well so my company can do well. In 2004, the hot-rolled industry and my company finally turned a solid profit after years of losses and uncertainty. While the hot-rolled industry may not be able to expect every year to be like 2004, it should be able to expect what all healthy industries expect: a fairly priced market environment that is not subject to price volatility and that encourages long-term capital investment.

If the surge of Russian hot rolled in the last half of 2004 is any indication, revoking this trade relief will cause prices to plunge, which would likely reverse any gains made from last year's profitability and, in turn, extinguish any plans for long-term capital expenditures.

Our industry needs more time to recover. Continuing these orders and suspension agreement will provide us the necessary buffer to do so. Thank you for your attention, and I welcome your questions.

VICE CHAIRMAN OKUN: Thank you.

MR. NOLAN: Good morning, Madam Vice Chair and members of the Commission. For the record, my name is John Nolan, and I am vice president of sales and marketing for Steel Dynamics, Inc., of Fort Wayne, Indiana.

I've been with the company since its start-up in 1994. Our company has lessened its dependence on the sales of flat-rolled steel and, specifically, hot-rolled sheet since we testified as petitioners in the original investigation five and one-half years ago. We have not invested in further hot-rolled capacity, despite the facts that, one, we are among the lowest-cost producers in the world; and, two, hot-rolled sheet is arguably the most important product in terms of steel consumption in the U.S. market.

Instead, we have invested in a greenfield plant for the production of long products, principally, wide-flange beams and rails. In addition, we purchased a long products facility in Pittsborough, Indiana, built and formerly operated by a company known as Qualitech, out of bankruptcy. We also bought a galvanizing facility in Jeffersonville, Indiana, that comprised most of the assets of a company called Galvpro, again, out of bankruptcy.

As one of the four top executives of my company, who, at the approval of its board of directors, plan our major capital expenditures, I can explain to you why we have invested nearly three-quarters of a billion dollars over the past five years in everything but our hot-rolled business. In simple terms, it is so we can sleep at night. We have fewer nightmares today about value-added, flat-rolled products. We have few, if any, nightmares today about millions of tons of painted flat-rolled products or large-diameter, special-quality, bar products or 240-foot-long rails imported at dumped prices from Russia, from Brazil, or from Japan. But we still have many sleepless nights worrying about our hot-rolled business.

I firmly believe that if you end these orders and the suspension agreements, hot-rolled imports will flood back to an already weakening U.S. market in just a matter of months. I completely agree with Don Daily's comments on the current trends in the hot-rolled sheet market. I do not see these trends improving anytime soon.

Now, my last comments concern export markets for hot-rolled sheet, either as a solution for U.S. producers, should you let foreign producers once again dump into the U.S. market, or as an outlet for foreign producers' excess capacity. From late 2003 to mid-2004, I handled dozens of requests from trading companies for hot-rolled sheet exports, shipping not only to China but to other Asian markets. We did, in fact, export some of our products to China in 2003.

But export inquiries dried up more than six months ago, and it came as no surprise to me that these export inquiries dried up at about the same time Russian producers began shifting large quantities of hot rolled from Asian markets to the U.S. market.

As Jerry Nelson said moments ago, we would have seen more if not for quota-suspension agreements. In my opinion, it is unlikely that China, with its now-estimated 340 million metric tons of capacity, will ever again be a major export opportunity for U.S. hot-rolled sheet producers.

Now, I visited China six months ago to see the new Chinese steel industry for myself. It is unbelievable how much new melting and hot-rolling capacity has come on line and how much has yet to come on line in China. China will not need hot-rolled imports for years to come, and as Dan DiMicco just remarked, China is becoming a major steel exporter. If the Russians or the Brazilians or the Japanese tell you this afternoon that growth in China will preclude an increase in their shipments of hot rolled to the United States, I ask that you sharpen your scalpels and cut hard for the truth.

Indeed, these countries will be competing against the Chinese in multiple-export markets.

Now, in conclusion, I don't want you to mistake my point about our company's investment decisions. I don't want you to prove us right about our diminished investments in hot-rolled capacity by letting foreign producers ruin the U.S. market again as they did in 1998 and 1999. I would rather have you do the right thing and continue these orders so that all of us can resume making investments in the hot-rolled business with confidence. Thank you very much.

MR. CONWAY: Good morning, members of the Commission. My name is Tom Conway. I'm the international vice president of the Steelworkers Union. At the outset, I want to convey greetings from our president, Leo Girard, who very much wanted to be here today but had other crucial union business that prevents him from being here.

Secondly, I want to extend my personal appreciation and best wishes to the dozens of Steelworker members who are in the audience today. They have driven several hours from as far as Indiana to show their support for the continuation of the antidumping, the countervailing duty, and suspension agreement on the hot rolled from Brazil, Japan, and Russia.

On their behalf, I want to thank the

Commission and your staff for making arrangements to accommodate them so they could be a witness to this important hearing, and I also want to thank the leaders of the Independent Steelworkers Union, who represent the workers at ISG's Weirton facility, for being here today as well.

You've heard from some of the country's largest and most important steel companies about what the orders mean to them. I'm here to talk to you about the sacrifices made by thousands of our members, our workers, and our retirees that make possible the globally competitive steel industry we have today and what those orders mean to our members.

Since 1999, when this latest steel crisis in the United States began, the union and its members have worked closely with the domestic steel companies to help to save the U.S. steel industry and, consequently, 70,000 basic steel jobs, as well as the benefits of approximately 250,000 steel retirees throughout the United States. This has taken a great deal of sacrifice on the part of these retirees and our active union members.

The industry's health has been aided by the restructuring which the union and its members and retirees made possible. Specifically, we agreed to the consolidation of steel companies, a major reduction of the workforce, and various changes in work practices to help increase productivity. At the same time, our active members and retirees suffered losses in company-provided pensions and health care due to the massive bankruptcies of many of our leading producers over the past 10 years. Approximately half of the steel retirees now receive reduced pensions through the PBGC.

In our ongoing effort to ensure that our industry can survive and prosper under fair trade conditions, we have agreed to further cuts in the workforce, cuts of up to 20 percent of the production and maintenance employees and 40 percent for management employees to facility the industry's continued leading productivity.

The public record shows that between 1996 and 2004, hot-rolled productivity improved by 59.5 percent. One short ton of hot-rolled steel is now produced with every 45 minutes of labor.

The union, its workers, and our retirees have done all they can to ensure the viability of this industry. Much of the personal damage to our retirees and workers would not have happened under conditions of fair trade, but we've fought on to give our remaining workers a chance and to secure some benefits for our many retirees who were so cruelly harmed by the loss of benefits over a lifetime of hard work in a challenging environment.

Thus, at the union's insistence, the basic steel companies are putting a significant portion of their newfound profits into voluntary employee beneficiary associations, or VEBA, funds. These funds will guarantee health care, prescription drug benefit, and supplemental Medicare for current and future retirees.

In the past year, U.S. Steel has placed approximately $160 million of its profits into a number of VEBA plans designed to deal with retiree health care, including those employees who previously worked at National Steel. ISG has placed $100 million into its plan, which covers the former Bethlehem, Acme, and others. At Wheeling Pitt, we have placed corporate stock currently worth $126 million into its VEBA plan.

This is a good start, but it's only a start, considering the billions of dollars in benefits that have been lost. Our workers and retirees need conditions of fair trade to continue for the foreseeable future to ensure that they can obtain the basic medical benefits that the waves of unfairly traded practices have cut off by bankrupting so many of these companies. The union is working to ensure the continued existence of the steel industry and, consequently, thousands of jobs that keep countless communities functioning across the country.

At a time when our nation is worried about how to ensure the maintenance of Medicare and Social Security benefits for future retirees, we're doing our part to ensure that the hundreds of thousands of current and future retirees we represent are supported into the future.

In short, the union, in cooperation with the steel companies, is doing our part to guarantee the very health of the country, its citizens, and the communities in which we work and live. However, to secure our workers' rights and futures, we need the continued assistance that our trade remedy laws provide to protect our industry, our workers, and our retirees.

The waves of the unfairly traded imports that have been documented over the last quarter-century will come without this continued relief. The U.S. law provides for continuation of relief where injury is likely to continue or recur within the reasonably foreseeable future. If our hot-rolled and other flat-rolled producers do not meet this test, it's hard to know what industry might.

The industry has filed 71 petitions on hot-rolled steel since 1980, as reviewed in the public staff report. The steel industry's gains this past year are important but fragile. As steel imports increased in late 2004, spot market prices for hot-rolled steel dropped by over $100 a ton.

We understand that large capacity additions in China mean that China is importing less hot-rolled steel and exporting more. In 2004 alone, there was a swing in net volumes entering China of some 7 million short tons of hot-rolled steel. Just last Friday, the Steel Business Briefing reported that China continued to be a net exporter of steel in January and that its exports of finished steel in 2004 increased 156 percent over 2003.

Major steel exporters, like Japan, Russia, and Brazil, will need other outlets for their excess production. Without the trade remedies in place here, much of their hot-rolled steel will come here with the inevitable consequence that prices will be driven down, profits eroded, funds to invest in these crucial VEBA accounts will be reduced, and long-term capital expenditures canceled or further postponed.

Put simply, the domestic hot-rolled industry is only now getting back on its feet after years and years of being battered by unfair imports. Now is not the time to jeopardize that recovery by revoking these orders. Thank you.

VICE CHAIRMAN OKUN: Thank you.

MR. KRUSE: Good afternoon, Madam Vice Chair and members of the Commission. For the record, my name is Michael Kruse, and I am vice president of marketing and sales for Heidtman Steel Products. Today, I am substituting for John Bates, who could not attend because of illness. I have been with the company for 34 years.

We're one of the largest service center chains for processing of hot-rolled sheet in the United States. We own 11 service centers, including one in the Baltimore area, and participate in two joint ventures. We believe that we are the largest independent pickler in the United States, and we also cut, blank, slit, and further process hot-rolled sheet.

We purchase approximately 1 million tons of hot-rolled sheet annually. About one-third of those purchases are made under a long-term contract with

Steel Dynamics. We have a small ownership interest in SDI.

I wish to make three factual points in today's hearing and would then be happy to answer any questions afterwards.

First, the spot market price for hot-rolled sheet that we purchase has fallen roughly $150 per ton from its high point last September. This was due more to supply in the market, much of which were imports from Russia.

Second, as a service center, when we see our inventory values declining, our goal is to reduce inventory, thus reducing apparent demand.

Third, the last thing this market needs is for you to open the floodgates for more unfairly traded import supply. It will cause prices to plummet, thereby inducing further inventory destocking and reducing apparent demand as service centers further cut their inventory. Thank you.

VICE CHAIRMAN OKUN: Thank you.

MR. CALANDRA: Good afternoon. I am Frank Calandra, Jr., CEO and owner of Jennmar Corporation in Pittsburgh. For 35 years, we have worked to enhance the safety of the mining and tunnel industries by providing state-of-the-art, underground roof-support products and services.

Jennmar has eight manufacturing locations worldwide, including the United States, Australia, and China. We are the largest manufacturer of roof-support products in the United States. We purchase about 200,000 tons of flat products per year. We also own a steel service center in South Carolina where we slit and process hot-rolled steel. I buy from six or seven different domestic mills.

In my view, the antidumping orders are important because they prevent dumping from injuring our steel industry. Brazil, Japan, and Russia are among the most aggressive countries out there. They rely on exports, and they don't hesitate to dump here. I can tell you that their import offers have picked up significantly in the last three months. Today, I'm getting offers that are up to $75 a ton below domestic price levels. If these dumping orders go away, domestic pricing will quickly erode, and we will be back to where we were a few years ago.

My business is growing, and the domestic steel industry has been able to meet all my supply needs. Last year, Jennmar, like other customers in this room, faced some delays in getting the steel we ordered. Our delays were minor, only about a week or so. We were also limited to the same amounts we bought historically, but we always got the steel we needed. This period of tightness in the market ended six months ago. Today, plenty of domestic steel is available at declining prices.

Why did this happen last year? I think it's simple, because the domestic steel industry lost so much capacity due to the dumping of imports, which forced many of my suppliers into bankruptcy. It took time for that capacity to come back onstream. That's why these dumping orders are so important, because they keep a strong domestic capacity base from being injured by imports. Without these orders, steel producers would go out of business, and customers like me will suffer as well. Thank you.

VICE CHAIRMAN OKUN: Thank you. The red light has come on, so I assume that completes testimony for this panel.

Before we begin our questioning, let me take this opportunity to welcome all of the witnesses for being here today -- we very much appreciate you taking the time out of your business to come and tell us about your business -- and also to welcome representatives from labor and for the steelworkers who have traveled here from Indiana, and I hope that they enjoy being here and listening to the proceedings, and we always appreciate their participation.

A couple of other just housekeeping items. There's a lot of you on this panel, so when we have a question, if you can just, in responding, please state your name and your affiliation. It helps us, and it helps our court reporter make an accurate transcript. And then, finally, if anyone still has a phone on, if you can turn it on silent so that it doesn't interrupt our witnesses.

I anticipate that we may have further congressional witnesses. Again, I will try to not interrupt my colleagues and their line of questioning but to try to accommodate them as well.

And with that, Commissioner Miller will begin our questioning this afternoon.

COMMISSIONER MILLER: Thank you, Madam Chairman, and let me join in welcoming back many of these witnesses and welcome those who are here for the first time. We appreciate your being here and helping us understand where the industry stands today.

I have to say, as I look at this record, and I think about 1999, and I think about 2000 and 2001, the idea that we would be sitting here today -- Mr.

DiMicco, I believe it's Nucor's brief that has this dramatic drop in hot-rolled spot prices down to $640 a ton -- I think if anybody back in any of the earlier hearings had talked about a drop to $640 a ton, they probably would have been laughed out of the room. It's pretty astounding.

There have been a lot of changes, obviously, in the industry and in the global market, and my objective today is to basically try to learn as much as I can about those changes and also whether they are likely to continue the current conditions.

You have addressed a number of the issues that are obviously sort of front and center, what's going on in terms of world demand, and I'm going to ask more questions about them, and I'm going to ask questions about what's happened here with the U.S. industry because it seems as though there have been a lot of changes in the U.S. industry as well, and I haven't heard -- I'm going to start there because I really haven't heard as much about that in your testimony as I've heard about conditions in the global market and changes in China.

If I could, let me start with asking some of the witnesses to speak about the effect of the consolidations that have occurred in the U.S. industry over the last five years or so because, obviously, there have been a lot. We're looking at a different -- many similar names, but there are different constructions of these companies. So let me ask about the effect of that consolidation and what it's meant for the industry.

Mr. Surma, you're nodding your head, and, obviously, U.S. Steel has had a lot to do with this, and then perhaps Mr. Nelson or someone from ISG could comment on it and Mr. DiMicco as well.

MR. SURMA: Thank you, Commissioner. I'll make my comments brief.

When last we were involved in these conversations, my predecessor would have described our company as about a 12-million-ton-per-year company in the U.S. In May of 2003, after a long, difficult process, worked through with the courageous leadership of the Steelworkers, including Mr. Conway, who is here, we acquired National Steel Corporation, or the assets of National Steel, out of bankruptcy. We added six, almost 7 million tons of capacity to our U.S. capacity.

On that day, May 20, 2003, we employed, after the acquisition, 26,500 people. Following the process Mr. Conway described of job combinations, a reduction of force, increased productivity, we are today making in North America the same amount of steel with 20,100 people, over 5,000 less employees, on both hourly and administrative forces, by unleashing the productivity we knew our employees had but really hadn't gotten around to allowing them to demonstrate through a series of work rules that developed over the years.

We were able to incorporate those assets into our system through an extensive planning process and with the involvement of our employees. In a very seamless way, we presented one face to the customer from the very first day, lots of synergies and savings opportunities in terms of freight and operations and loading equipment. It was a process which was long delayed for many, many reasons, legacy costs among them, but once unleashed, I think, has really remade our industry into one that is far more competitive and far more able and willing to compete against fairly traded imports but not against government-run plants that are trading unfairly.

So an extraordinary change in our company's history. I would describe it as a company-changing event, the consolidation activities we undertook in 2003.

COMMISSIONER MILLER: Mr. DiMicco?

MR. DiMICCO: Dan DiMicco, CEO of Nucor. I might also add, Commissioner Miller, that nobody anticipated scrap to be $400 a ton either, so there were a few changes that took place since 2001 that were rather dramatic and rather startling.

One of the things that we did was to consolidate a number of different segments of the industry, particularly long products -- we did participate in that -- and the bar products. There is some capacity that has not come back, roughly 2 million tons of long products. The one flat-rolled opportunity that we did take advantage of throughout this period was the acquisition of the former Trico Steel in Decatur, Alabama, a new facility that we were able to pick up during that time period that is producing roughly 2 million tons of flat-rolled sheet today.

There is no doubt that the consolidation here in North America, in the United States, has made us a stronger player in the marketplace, but the consolidation has also taken place globally, and it has enhanced the competitive position of a number of global players. This is not a phenomenon unique to the United States, North America, but it is something that has taken place globally. So where we have improved and gotten some better efficiency, so has our competition.

There is no amount of consolidation which will prevent us from being impacted by a flood of illegally traded imports. That has been proven time and time again, that the flood of imports into the United States at dumped prices can dramatically turn the fortunes of the industry, and whether you're 20 companies or 14 companies, the same holds true.

COMMISSIONER MILLER: Mr. Nelson?

MR. NELSON: Yes. Thanks, Commissioner Miller. Jerry Nelson, vice president of sales for ISG International Steel Group.

I failed to forecast anything correctly last year, as my boss reminds me on a regular basis, but be that as it may, it was an interesting year. You mentioned you may not recognize the International Steel Group name. It's the first time we've been here, but we do represent the former LTV, Bethlehem Steel, Acme Steel, Georgetown Steel, and Weirton Steel, names that are probably familiar to you.

I'm proud to say that we are running those facilities with the help of the United Steelworkers and the Independent Steelworkers Union. We're able to run them far more efficiently than previously. We're running them with about 60 percent of the hourly workforce that the predecessor companies had and less than 50 percent of the salaried workforce. So there has been a major restructuring, again, with the help of our union partners.

I think it's too early to tell exactly what the total effect of the consolidation will be. Next month, we'll celebrate our third anniversary as a company, so we're relatively new, and we've been changing the company all along the way. So we have to see what happens, but I think it's critically important to point out again that one year doesn't make a successful steel industry or steel company; it is important that we made adequate returns over the cycle so that we can continue to reinvest in our facilities.

One of the key benefits I see in the consolidation will be, in ISG's case, the ability to balance maintenance outages that are required at steel companies to better serve our customers. If we have multiple facilities, and we can rotate maintenance outages, we're able to plan those hopefully a little bit better in coordination with peaks in demand from our customers and avoid some of these spikes that we've seen.

So I see that as a key benefit moving forward, but, again, we need a little bit more time to digest everything we've got.

COMMISSIONER MILLER: Mr. Conway, both Mr. Nelson and Mr. Surma just particularly referenced the role of the unions in this, and I have to say, when I look at our record on some of the employment-related indicators and some of which you cited in your testimony, it is amazing. It is amazing to see the increase in productivity that has occurred over the last, whether it's five years or ten years or whatever. Our numbers show the significant decline in the number of production workers --

MR. CONWAY: Right.

COMMISSIONER MILLER: -- but this big jump in productivity, and, interestingly enough, hourly wages appear in our numbers to have increased as well. It's quite a picture, and I just wanted to invite you to comment any further. How did this happen?

MR. CONWAY: This has really been, in some ways, exciting, I guess, for some people, the last four or five years, but it has been a particularly brutal process in some ways. The union, during these bankruptcies, finds itself in the unique position, through the reorganization plans and through our series of corporate protections that we have in successor language, and we can essentially, in a sense, at least withhold the company from one who is looking to acquire.

So we strategically thought about how could we build companies that we thought could do well going forward, and we did it really in a very open mind in anticipation of being told by the government, you have this time to get yourself healed. You have this window of opportunity to fix things in the industry, and we set about doing it. That was a very tough political thing that we had to do within our union, and we essentially went to the plants, and we told people we're going to have to do a lot more with a lot less. We've got to do it in a safe way. We founded a program we call the Transition Assistance Payment.

We went essentially to our older, more senior workforce and helped them find a softer, gentler landing and get out, and with these reconstructed companies, did our best to put together a health care package for those who were leaving. Many of them were bankrupt companies. And that health care package is profit contingent. Not in many cases did we up-front fund it, and we did it, and we banked on the fact that the profits would be there going forward. We would take tough steps, do this reconstruction, and have a time period in which we could be able to put together enough funds.

Now, we've been successful this year. We've got a couple of hundred million dollars in this vast number of funds, but it's not nearly what we need. As I look at what our actuaries tell us and the rate that these steelworkers who are out there, I need more time in this sort of market, maybe not like '04 but certainly in a reasonable one, to put enough funds together to meet that obligation.

The steelworkers are stepping up to it at the plant level, and our retirees have borne a tremendous amount of pain. I have a lot of people out there that don't know where their wives' next chemotherapy shot is coming from. It has not been easy.

COMMISSIONER MILLER: I appreciate that, and I know a number of them are here today and following the proceedings. We appreciate their involvement and their interest. Thank you.

VICE CHAIRMAN OKUN: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, Madam Chairman, and I, too, would join my colleagues in welcoming all of you here. I recall very clearly that the petition in this original case was filed about a month after I arrived here at the Commission.

I remember sitting at one of the hearings and just thinking, there is something wrong with this world when you can buy a ton of premium-grade, hot-rolled sheet steel for less than the price of the shoes I happened to have been wearing at that hearing. I would note that I do not purchase expensive Italian shoes. Clearly, at the price of hot rolled today, I ought to go back out and buy a new pair of shoes, but in any event, I would say also, as a native of South Bend, Indiana, I have made the drive from Indiana to Washington on a number of occasions, so I would extend a special welcome to all of the steelworkers that have traveled here from my home state, as well as the rest of the steelworkers that have joined us from the Midwest and other places -- a special welcome to all of you as well.

I would like to follow up a little bit on the question that Commissioner Miller was just focusing on because I think we are all really stunned, in looking at the numbers, at the changes in productivity that we are seeing in our data, going from somewhere around 900 tons produced per hour, a thousand hours of work, to a number over 1,300 in 2004.

Besides labor, what have been the other drivers of these changes in productivity, and are they sustainable? I see these huge changes in the numbers and try to think, okay, that's a lot of what's changed some of the profitability picture. Can you keep doing it? What would you say the future looks like on these issues of productivity gains? Mr. Surma?

MR. SURMA: John Surma from U.S. Steel. Commissioner, we did have extraordinary increases in productivity in this last 18-month period that would have taken us 20 years to do probably the old-fashioned way, a few jobs at a time.

Aside from the groundbreaking, historic labor approach that we worked out with our colleagues at the union, having a few larger companies, in our case, also gave us opportunities to run our plants much more efficiently now. We can now schedule more of a certain type of production run on a certain type of facility, get much more efficient throughputs, serve our customers much better, better quality, and I think our customers supported us in a lot of these acquisition efforts as well.

I think, in our case, a consolidated, larger company just runs better and allows us to operate more efficiently and get more tons through our plants and across the mill in addition to what we accomplished with the labor situation.

I know that the overall productivity gains that we've made in the last 18 months aren't likely to be duplicated in the next 18, quite frankly. I think, from a labor standpoint and equipment-throughput standpoint, those kinds of leapfrog changes aren't likely to be duplicated in the next several years.

We do have a number of pent-up capital projects, in our company's case -- I expect my distinguished colleagues here on the panel do as well -- that have a lot of productivity in them. We haven't had the capital generated in the last four or five years to be able to portray most of those and complete most of those projects in areas like our blast furnaces and our steel shops and our casters where we can probably increase our productivity and increase our throughput to some degree. But, again, those would be fairly marginal, historical increases. I wouldn't expect to see these giant leapfrog changes we had in the last 18 months duplicated soon.

COMMISSIONER HILLMAN: Anyone else? Mr. DiMicco?

MR. DiMICCO: Yes. As you well know, the productivity figures for companies like Nucor and Steel Dynamics have been quite outstanding for not just the last year but for a number of years, and we are running somewhere between 2,500 and 3,000 tons per employee to produce a ton of hot band. We're somewhere around 0.4 man hours per ton. This has been something that has been inherent in our technology and inherent in our operations and our company culture throughout this time period which has not allowed us to be immune to the flood of illegal imports into the United States.

One of the things that we're working on, with our own money, I might add, not state aid, is development of new technologies, like Castrip, which directly result in the sheet casting of steel from the liquid state, which offers the potential to significantly improve the productivity, even for a company like Nucor going forward. But it takes money to continue with those investments, but we're very encouraged by that, and that's part of our plan to continue to improve going forward.

COMMISSIONER HILLMAN: Others, Mr. Daily or Mr. Nelson, on this productivity issue?

MR. NELSON: Yes. I'll be brief because

there is not a whole lot to add. There have been significant investments in new technology, and so there has been a quantum leap, and Nucor was at the leading edge of that. Staffing the facilities properly was also a very significant productivity gain.

Specifically, at ISG, as John talked about, more efficient production runs, longer runs, and putting the right products on the right facilities to service the customers and gain efficiencies. That's, at least at ISG, that's where there is a real opportunity for us to improve, and we're just at the beginning stages of doing that.

COMMISSIONER HILLMAN: Mr. DiMicco touched on an issue that I am interested in, which is the development of new technologies. Again, we have all of the numbers in front of us in terms of the expenditures that have been made by the industry in terms of R&D and other capital expenditures, and, obviously, this is one of the big things that we're going to hear a lot about throughout this, is, again, how much of a deficit, if you will, is there in this issue of capital and research and development spending?

Mr. DiMicco touched on one technology. I'm just curious. Obviously, we've seen, again, over the life of this review, a number of changes, a shift in terms of the overall percentage of flat product produced in mini-mills. You've got thinner casting. You've got direct-reduction iron. You've got lots of things that have happened in the industry. Are there other -- Mr. DiMicco mentioned one, but are there other big technology changes that you see coming on line or that you would like to be bringing on line, and help us understand, in terms of capital expenditures, what are we talking about in order to achieve those?

MR. SURMA: This is John Surma again from U.S. Steel. I think my colleagues have described some potential future technologies that would be both in iron making and perhaps also in coke making. Those technologies take a long time to develop, Commissioner. They take a lot of money to develop. They take a lot of smart people to develop, and, quite frankly, in our company, we didn't really have the luxury of engaging in much of that for the last four or five years. We were just trying to stay in business.

We do have a modest research effort, if you've seen the numbers, which we've maintained and are now beginning to consider expanding. Those kinds of technologies, though, could be five years or 10 years away. And also, I think the longer-term issue of CO_2 and what kinds of technologies are necessary to be making iron and steel for perhaps the next half century will take a much longer period of time to look at, and to be worrying about whether or not we're going to have a flood of imports next year really isn't conducive to that kind of long-range thinking.

When we make investments in new technologies -- in our case, we're going to reline our largest blast furnace at our Gary works this coming summer. That project is over $200 million, one project that a year ago would have been a quarter of our market capitalization in one project, and that decision will stay made for 20 years. The analogy to laying awake at night; that's one thing that keeps me up at night about whether or not we're going to have the kind of stability in our trading patterns that allow us to keep making those decisions. That one blast furnace, by the way, the direct employment, indirect employment, in the Gary, Indiana, area would involve thousands of hourly employees. So stability in this situation, for us, is critical for basic investment as well as for research.

COMMISSIONER HILLMAN: Okay. Go ahead, Mr. DiMicco.

MR. DiMICCO: Yes. Dan DiMicco, Nucor. I would just like to address the cost issue involved in something like Castrip. The installation and commercialization of this completely radical technology is a $200 million investment. To get to the point of installing it, operating it, getting the technology developed, incurring the losses; that's just one plant capable of 500,000 tons of steel a year.

We're also working with an iron-making technology called Hismelt which is another $250 million investment just to get to the point where we know whether it works or not. So we're talking major, major investments to develop these new technologies, and you worry that the ability to continue to fund these types of developments can disappear overnight if we get back to the situation that we had in 2001, '98, and '99.

COMMISSIONER HILLMAN: Mr. Conway?

MR. CONWAY: All of our negotiated agreements with these companies contain an investment commitment provision, and it's a very important one, too. It was a cornerstone of the agreement, and it requires that whatever they acquire as part of the consolidation as we put these deals together, that those facilities had to run at as close to the capacity as they could, and they needed to be maintained at the state of the art.

So part of our deal was we weren't handing assets away to be closed down, and the money for the cap. ex. that's going to be needed going forward here is crucial, too. It was crucial enough that we bargained it into the deal where we could and without specifically citing assets like the No. 13 furnace, it's our expectation that these plants will be maintained at that level.

COMMISSIONER HILLMAN: Okay. I appreciate that.

MR. NOLAN: Commissioner Hillman?

COMMISSIONER HILLMAN: Yes.

MR. NOLAN: John Nolan, Steel Dynamics. Opponents of the orders have described my company from time to time as a "bottom feeder," particularly as it relates to capital investment in research and development, and what I would like to point out is that we are involved in investing hundreds of millions of dollars in leading-edge technology relating to iron making. In fact, we are part of a collection of companies that's participating in Minnesota in a new -- we call it a "DRI technology" on a pilot production basis with extensive research and development. So even your familiar bottom feeder is taking a significant initiative in the area of R&D and capital.

COMMISSIONER HILLMAN: I very much appreciate those answers. Thank you, Madam Chair.

VICE CHAIRMAN OKUN: Commissioner Lane?

COMMISSIONER LANE: Good afternoon. If there are members of the Steelworkers from West Virginia or employees of Wheeling Pitt or Weirton in the audience, I welcome you. I can't see that far back there, so I'm not sure, but, anyway, thank you for coming, and I have a few questions.

First, Mr. Stewart, in your opening remarks, you referred to the "business cycle." Could you give me a definition and description of your views of the business cycle for this industry, as well as a description of the indices that mark the end of one cycle and the beginning of another? And if anybody else wants to jump in there and answer that, I would appreciate it.

MR. STEWART: A number of the integrated producers and Nucor funded an economic consultant study that was included as Exhibit 17 to the U.S.

Steel brief, and they go through their review of the business cycle. So not being an economist, I would just as soon turn it over to the economic consultants, if that is acceptable.

COMMISSIONER LANE: Yes. That would be fine. Thank you.

MR. KAPLAN: Good afternoon. Seth Kaplan from Charles River Associates.

We looked at the peaks in consumption and pricing and profitability of the industry since the 1960's and changes in real prices as well to try to define the peaks and troughs of the cycle. We found that historically the steel industry followed general demand cycles in the United States and was also influenced by imports, but, in particular, that during the last cycle, imports were the key driver.

We felt the industry peaked in 1998. That's where we started our cycle based on consumption, and we feel, based on pricing and profitability trends, that the cycle ended sometime in 2004.

COMMISSIONER LANE: Okay. Thank you. Does anybody else have anything they would like to add to that? Mr. Lighthizer?

MR. LIGHTHIZER: Yes, Commissioner. I would just add that on our chart we did a kind of reality check on that and looked at it over the whole period of relief and tried to add up during that time, and we got essentially the same kind of answer, that there's a lot of losses and a lot of foregone investment, and the net which were the numbers were actually fairly close, as it turned out, both ways.

COMMISSIONER LANE: Okay. Thank you.

My next question has to do with what do you all consider a reasonably foreseeable time. For example, are projections for a period after 2008 a reasonably foreseeable time? Mr. Lighthizer, maybe I'll just pick on you.

MR. LIGHTHIZER: Well, that's an excellent question, Commissioner. We believe, I guess, that a reasonably foreseeable time has to be enough time, as Commissioner Koplan, who is not here, has said from time to time, enough time that you can see the effects of revocation on the business cycle. So that's the basic answer. But clearly, in an industry which has long-term contracts and very long-term investments, it should be on the longer end of what you would see when comparing industries.

So certainly, it's a couple of years out. In our judgment, it should clearly be longer rather than shorter, given the kind of industry that we have here.

COMMISSIONER LANE: Okay. Does anybody else want to add to that?

(No response.)

COMMISSIONER LANE: Okay. In the prehearing briefs, a lot has been made about the companies that have shed their legacy costs and that without those liabilities the industry is in sound financial shape. How should we view these events?

MR. SURMA: Commissioner, John Surma from U.S. Steel. In our particular case, we acquired the assets of National Steel out of bankruptcy. Through that process, not through our choice, but through that process, the pension obligations were resolved, to some degree, with the PBGC. I think my co-panelist, Mr. Conway, has described that we did take on an obligation through a profit-based payment to fund in part, depending on our profit levels, a VEBA that would provide some retiree health care for the former national retirees. We are pleased to make those payments. We think that that was what we bargained, and we have no problem with doing that based on our current profits.

Quite frankly, though, I don't see that that really changes the issue here. This is maybe a crude analogy. Just because I got a flu shot doesn't mean that I'm inoculated against typhoid or anything. The fact that we've improved our position financially through a process that was difficult, and we bargained an agreement, and it's all working out for everyone, we don't see that as really having anything to do with how our position would be affected by unfairly traded imports from countries which have shown both the inclination and the ability.

The fact that our balance sheets maybe have affected that to some degree really gave us an opportunity to make those investments. And, by the way, we took the risk. We spent a billion dollars to acquire National Steel's assets at a time when hot band prices were nowhere near where they are today, and we still have that $450 million still on our books, still at risk for our efforts for taking those assets on. So we really see no relevance of that question about legacy to what effect the potential for unfairly traded imports would have for us with respect.

COMMISSIONER LANE: Mr. DiMicco?

MR. DiMICCO: Yes, Commissioner Lane. Another way to look at it is to look at companies like Nucor or Gallatin or Steel Dynamics who haven't had those legacy costs, and the impact of unfairly traded, illegally traded steel that flooded into the United States had as disastrous an effect on us as it did on those companies. Even now that they have removed those legacy cost issues, it doesn't put them in an elite situation where they are immune to the impact of illegally traded steel where people are not concerned about making a profit; they are just concerned about moving steel into the marketplace, and they don't focus on their costs, and they don't focus on other issues.

So whether the legacy costs existed or not -- there were companies that had them, and there were companies that didn't -- the removal for those companies that had them doesn't change the situation as far as the industry as a whole goes, including companies like Nucor.

COMMISSIONER LANE: Okay. Thank you. I would like to follow up, Mr. Surma, with your remarks about the voluntary contributions that are being made to fund employee benefits. Is that something that will continue in the future, and was I wrong in thinking that those were voluntary contributions?

MR. SURMA: Commissioner, John Surma. They are not voluntary. They are really part of the labor contract that we bargained with the United Steelworkers somewhere around May of 2003 in connection with our acquisition. Part of the bargain was that at certain defined profit levels of our consolidated U.S. Steel Corporation, at certain profit levels, we would make a contribution of a defined percentage of our profits to a particular VEBA fund that would then be administered by the steelworkers or their designee to provide a certain level of benefit to the former National Steel retirees.

So it was a bargained amount. There is nothing voluntary about it. When we reach certain profit levels, we make those payments, and since the second quarter of 2003, we have been doing so. There is another portion of those profits which flows to the active employees. I might note that during 2004 -- we don't have the final fourth quarter number yet, but I think the average steelworker in our company would receive a variable profit payment in excess of seven or $8,000, which we are delighted to have made because they work very hard to make our company a success.

COMMISSIONER LANE: Okay. Thank you.

Now, Mr. Nelson, I want to talk to you about the contract versus spot prices. Did I understand you to say that even if spot prices are above contract prices, that you would expect to see contract prices drop when the contract is renegotiated if the trend in the spot price was downward?

MR. NELSON. Yes, you are correct. That's what I said. Without getting into too many specifics, we have fixed-price contracts, but many of our contracts today are based on a published index. It could be domestic prices or international pricing. And so it moves relative to movements in that published index. Most contract prices are below the spot numbers, and as the published spot numbers come down, there is an adjustment mechanism for many of the contracts that we have in place right now.

COMMISSIONER LANE: Mr. DiMicco, I'm going to have to wait until the next round, and I'll come back to you. Thank you.

VICE CHAIRMAN OKUN: Mr. DiMicco, if it's something just quick, go ahead.

MR. DiMICCO: Your question about contract pricing. If spot is above contract at the time of renegotiation, contract pricing more than likely will not come down. If spot is below contract or trending downwards, it won't really come down below spot until spot is below contract. I just wanted to make it clear about that.

VICE CHAIRMAN OKUN: Thank you.

Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Madam Vice Chairman.

Welcome to this panel and all the visitors. I have less experience dealing with steel investigations than almost anyone else in the room, so I look forward to continue learning about your industry.

I did, however, spend enough time in the private sector to develop a keen appreciation for making money. Making money is fundamentally a very good thing, and I applaud your industry for the restructuring that has happened and the recovery that has taken place during this period of review. It's been a remarkable turnaround, and you are to be complimented.

That leads me to my first question, which is one of the statutory factors that we are to consider when we do a review investigation, and that is whether any improvement in the state of the industry is related to the order or the suspension agreement. So, in this case, where we're looking at this order on hot-rolled steel from Japan, Russia, and Brazil, did this order have an effect on your recovery, and, if so, how do we see it? Those of you who are directly involved in the industry, would you care to respond? Mr. Surma?

MR. SURMA: Yes, sir, Mr. Commissioner. The period of relief gave us some stability, followed then by the 201 relief gave us more stability and opportunity to have some confidence to go to the capital markets to raise equity and debt funds, which we needed to do, and ultimately to take the risk to employ that in engaging in consolidation, which was then part and parcel to the breakthrough labor agreement that gave us a chance to have the kind of productivity we have.

Any of those pieces, if we hadn't had them, may not have gotten us to where we are today, so I'm not sure I can pin a certain piece of our success or, at least, of our improvement on the relief we've had, but we needed all of that. It was really a series of opportunities that we put together, I think, acting properly, as we were encouraged by this Commission, as well as the administration, to take advantage of the relief we had, the stability, the access to the capital markets, an agreement with labor that gave us a productivity opportunity. We expected to do all of that and be able to make some money.

As it turned out, because of some other market factors, we did a little bit better, but it was very important to have that period of stability to take the risk, in our case, to invest a billion dollars in 2003, when investing a billion dollars in integrated steel would not have been a popular thing to do with most people on Wall Street.

MR. NOLAN: Commissioner Pearson, John Nolan, Steel Dynamics. Let me add this. If you logic that the financial demise of this industry was a consequence of the illegal acts of the Respondents, and these orders corrected those illegal acts, then certainly the improvements that you see are a consequence of those orders.

MR. SZYMANSKI: Steve Szymanski from U.S. Steel. I would like to kind of put a personal touch to this because when we acquired National, we found a lot of very good people working there. The Granite City facility is primarily a hot-rolled producing facility that we have. As these orders were in place, we were able to invest in that facility, reline blast furnaces, upgrade the hot strip mill, and a lot of this was driven by the fact that because these opportunities had been created, we've been able to move more hot rolled in the markets that were primarily closed to us before due to dumped imports, primarily downstream into the Gulf Coast and also to the West Coast. So really we were able to see an opportunity, invest in it, and then capitalize on that.

COMMISSIONER PEARSON: In the back row, Mr. Kaplan?

MR. KAPLAN: Yes. I would say that the orders shifted up the performance of the industry over the whole cycle, and I would ask you to perform a thought experiment and assume that over these last six years that 6 million more tons of imported steel were here, and how would the profile of the industry have looked over the last six or seven years, and I would think the answer would be it would have been much lower over the whole time. So I think there you can see that the orders have improved the performance of the industry significantly.

COMMISSIONER PEARSON: Mr. Nelson?

MR. NELSON: Commissioner Pearson, Jerry Nelson, ISG. I agree with some of the comments that have been made. Two of the major facilities that we purchased were shut down and in bankruptcy, namely, LTV and Acme Steel, both of whom were major hot rolled producers.

We made the decision to bring those facilities back because of the people and the equipment that was in place, and it was also in recognition of some of the duties that were in place.

I shudder to think, in 2004, with as tight as steel got, had we not brought those facilities back, how it would have aggravated the situation because between those two facilities you had eight to nine million tons of steel-making capacity. So it definitely had a bearing on our decision to restart those facilities.

COMMISSIONER PEARSON: I appreciate those responses, but they were mostly somewhat general in nature, which is fine. But as we look in more detail at the record here, I think it's not unfair to see that the orders went into effect, subject imports declined, the financial condition of the U.S. industry did not seem to change much. We went forward through several years in which the financial condition didn't improve much. Then subject imports increased last year. The industry has the best year in this period.

So I'm trying to sort out the effect of this order relative to the many other things that were going on in the marketplace at that time. Mr. DiMicco?

MR. DiMICCO: Dan DiMicco, CEO, Nucor. You're absolutely correct. There is no one thing that was going on. These particular orders against three countries were followed by additional orders versus 11 other countries. Because the world is very adept at product switching, country switching, you win an order against three countries, the trading companies go to three other countries and three other countries and three other countries. So it tends to prolong the situation. You've got to deal with them one at a time because that's the nature of our laws and the due process here in this country.

In addition to that, you had a recession that took place in the United States during this period of time which had an impact. Construction, in particular, which is a major consumer of steel products, dropped off 35 to 40 percent from 2000. So you had a number of different issues. Then you had the China phenomenon jump in here and change the demand structure completely.

So you're right. It's not one issue; it's a combination of things, but they all have an impact, and these orders definitely had an impact as part of the bigger picture that followed with other orders against 11 other countries on hot rolled as well. So there are multiple issues going on here at the same time.

COMMISSIONER PEARSON: Mr. Lighthizer?

MR. LIGHTHIZER: Commissioner, I would just add that you could see the effect immediately in the first quarter of 2000, and then, of course, there was the second wave that came in.

The other thing I would point out is that while we did see an increase in imports, two of the three countries were essentially locked out by this case, and the third had a suspension agreement, so even then the numbers were much, much smaller than they were in '98.

MR. NOLAN: Commissioner Pearson, John Nolan. I want to point out one more thing that's actually in the prehearing report, and it's Section 1, page 17, and this speaks to the philosophy, let's say, of one of the Respondents, and it has to do with Brazil.

Brazil, as this Commission identified some time ago, was responsible for disruptive practices and damage to this industry and its market. You'll recall, in 2002, that Commerce determined that Brazil had violated its suspension agreement, and as a consequence, it was terminated, and orders were issued against it. Had these orders not been present, Brazil would have again been in a position to contribute to the disruption and damage to this market and this industry, and that, I believe, is part of the fact of this hearing.

COMMISSIONER PEARSON: Mr. Stewart?

MR. STEWART: Thank you, Commissioner. As is true in many industries, when the injury occurred in '98, and you had the second wave in 2000, and it was followed by a recession thereafter, the pricing spiral downward that was caused by the recession takes root at the pricing levels that were caused by the unfair trade practices. So the industry, instead of having much higher prices which would have been in existence under fair trade, started in a valley to begin with and then went straight to hell, if you will, in terms of where prices went during the recessionary period.

So the recovery is there. The imports disappeared, but the damage was longer lasting than might have been true had it been a continued period of economic upswing where the industry could have expected to get back on its feet and have better pricing.

COMMISSIONER PEARSON: Mr. Price?

MR. PRICE: Thank you. Alan Price, Wiley Rein & Fielding.

One of the things that you mentioned was a correlation between increased Russian imports and increased financial performance at the end of the POI, and what actually happened was that Russian imports increased really in the second half of 2004, and as those imports increased, prices came down sharply in the marketplace, and a large portion, or most of the domestic industry's improvement in profitability, is related to pricing. Why Russia was limited in this case was because of the suspension agreement, which capped that volume that could come in, but those volumes were significant and had a direct impact on the marketplace in terms of pricing and performance in the second half of '04.

COMMISSIONER PEARSON: Thank you for that clarification.

Madam Chairman, my time has expired.

VICE CHAIRMAN OKUN: Thank you, Commissioner Pearson, and, again, welcome and thank you to all of the witnesses. I have enjoyed listening to your responses thus far.

After reviewing all of the exhibits and materials for the hearing, I guess I was struck again and again, reading this World Steel Dynamics quote that was in a couple of the Petitioners' briefs that said, "Illusions and reality are currently hard to separate from one another in the global steel business." I thought, you know, that's our job tomorrow, I guess, as Mr. Nolan says, to sharpen our scalpels and try to dig for the truth, and a lot of it, with the sunset review, as you know, is looking forward, so it makes it much more difficult.

I want to start, if I can, at one of the key considerations in the sunset, which is the changes since the original investigation, and I think I'll begin in talking about or asking you about 1998 and some of the arguments that have been made, and one of the things that has been argued in the briefs is if you look at 1998, you had very good apparent consumption and the peak, as described in the economic brief. But you also had the Asian financial crisis.

So when I'm looking forward and projecting on what would happen to this industry if these orders were lifted, I want to hear what you think about what's going on in the overseas economies in general, and, again, lots of information submitted on China, and I understand why, and I think, from that information, there is a lot said about capacity increases, but I do want to hear what the companies think about, and many of you are operating in global markets, what you think is going to go on in general.

Does anyone here think, in the reasonably foreseeable future, we'll have an Asian financial crisis on our hands or something similar, a China bubble bursting? Do we have to assume the bubble bursts in China to see the same level we saw come back from 1998? A long-winded question. Mr. Surma, let me hear what you think about the global markets, demand.

MR. SURMA: Commissioner, John Surma from U.S. Steel. With respect to global demand, I don't know a whole lot more than most others -- I would just be observing what happens in different territories, but we see demand in the near term, and our visibility maybe goes out a couple of quarters, Europe is okay, Central Europe, territories. The Visograd 4 countries grow quite nicely. Western Europe maybe slightly in the positive. Eastern Europe perhaps positive as well. The North American economy reasonably good, 3 to 4 percent, probably in that range. That's what most forecasters seem to think, and that's what we have in our general expectations as well.

The real issue all comes down to China, and I would say, compared to where we were back at that time in 1998, there are just two new dimensions here that are so fundamentally different that they need to be considered, and it's size and speed. Those are two things that have changed so much.

One of my distinguished colleagues on the panel mentioned that China's total steel capacity is recorded now as 340 million metric tons, 340 million metric tons, out of a world of steel of a little less than a billion. So on the order of a third of the world capacity is now in China. Now, China has huge consumptive opportunities, -- a big population, low intensity, good chance to consume a lot of steel -- but that number is so large that even a modest overshoot of capacity against their demand could unleash an enormous torrent of steel that's going to bump out imports from Russia, from Japan, from Brazil, from Turkey, from Egypt, and it ends up coming here at the end. So it may not come here directly, but at the end it will come here indirectly.

And in China there is an enormous pool of capital because of their currency situation. The inverse of what we see in our customers here is that in China a huge amount of capital that's being used fairly indiscriminately with not a lot of control, not based on supply and demand economics, and in one year, China added steel capacity of nearly 40 million tons, in one year, which is the size of the steel industry in India in one year.

So size and speed are what can happen in China if not dealt with by their national government, and I have no idea what they will do there, but if China happens to overshoot the supply base, -- a small amount would do it on a 300-and-some-million-metric-ton base -- I think the effects on all of us could be substantial, and it could happen quickly because they have proved they can do that.

VICE CHAIRMAN OKUN: Mr. DiMicco and then Mr. Nolan.

MR. DiMICCO: Dan DiMicco, Nucor. One of the things I thought I heard you say is, do you have to have another Asian crisis to have us go back into the same situation? And the answer clearly is no. You do not have to have another Asian crisis where there is a collapse in the currency, a collapse in the economy because of the very things that John Surma just talked about: the massive additional capacity whereby they can supply all of their own needs and then become a net exporter impacts the capacity that exists around the world today, the overcapacity that already exists, and the new capacity being brought onstream.

So you don't have to have a collapse in Asia in order for this situation to repeat itself.

VICE CHAIRMAN OKUN: Before I go to Mr. Nolan, Mr. DiMicco, I just want to ask you because your comments about capacity reminded me that there was this Wall Street Journal article that was submitted talking about China's steel threat may be access, not shortage. But you had a quote in there, and I was trying to figure out the context. Your quote is: "'I think there is a little too much concern about announced new capacity,' says Dan DiMicco, chief executive of Charlotte, North Carolina, based Nucor Corp. 'You can build steel mills, but you can only run them if you have raw materials.'"

What are you referring to there?

MR. DiMICCO: Well, as usual, in an article you spend an hour talking to a reporter, and they report a couple of sentences, but basically the point that I was making there is that you have to look at more than just one thing to determine if that additional capacity is going to be an issue or not, and if they cannot get the raw materials, then building capacity, per se, doesn't mean you're going to see finished product in the marketplace. But that's not a comment on whether or not they will be able to get the raw materials or not. Quite the contrary. They apparently have been able to get the raw materials.

So in the context of not getting the raw materials, adding capacity may not have the impact, but if you're getting the raw materials, each additional ton of added capacity translates into an additional ton of steel shipped into the global marketplace.

VICE CHAIRMAN OKUN: Okay. I know we'll have a chance to talk about raw materials at some point. Mr. Nolan?

MR. NOLAN: Madam Vice Chair, thank you. Again, John Nolan, Steel Dynamics. I think it's important that, again, addressing your question about global markets and the prospect of another Asian crisis, that I share something in the way of an experience anecdotally that speaks, I think, to what I consider to be the new Asian crisis, and I want to tell you the story as quickly as I can.

Last summer, I was in Ziang Su Province in a little town called Jong Je Gaing, and I was with the vice chairman over dinner of one of the largest long products manufacturers in Ziang Su Province. He operated a six-and-a-half-million-ton long products facility, and adjacent to it, he was building a six-and-a-half-million-ton, fully integrated flat mill, including plate. Not only did they have no experience in flat products; they had no market for it at that point.

So we shared a number of impressions and maybe jabbed or fenced a little bit during the evening on currency, on trade, a variety of things, and I used an expression that I often use, which I actually attribute to Harry Truman. It's that "the only thing about life we don't understand is the history we haven't read."

Well, through his interpreter, he leaned forward to me, and he said, You know, Mr. Nolan, he said, us Chinese, we're historians as well, and he said, you know, your country's history is 200 years. My country's history is 5,000 years. Would you like to know what was happening in China 200 years ago? He said, 200 years ago, actually, in 1799, China represented 44 percent of the world's GDP. And I believe that if the Commission explores that, they will find that that is fact. He said to me, All we want is to return to our rightful place in the world economy.

So my reaction was, what does that mean? He said, All we want to do is return to our rightful place in the world economy, and that is the philosophy that we need to address when we think about the global circumstance and, particularly, the Asian, and I believe that speaks, and maybe prematurely, to what I consider the new Asian crisis.

VICE CHAIRMAN OKUN: Let's see. Mr. Szymanski?

MR. SZYMANSKI: Commissioner Okun, Steve Szymanski. I just wanted to talk about the length of an economic downturn. It doesn't really take that long. We don't need a large, major Asian event.

If you look at the Russian imports in 2004, they didn't bring anything in in January, February, March, brought in a little in April and May, and then they brought it all in between June and October, and then they left and said, We're done. Well, what happens is there were vessels coming into Philadelphia that had to be diverted to Baltimore because there was no place to put the steel anymore. The docks in Houston are loaded to the gills, and people can't pick up steel because they can't find a place to put it anymore, and this is the market we're going to have to live with for a number of months. So it doesn't require a long, sustained condition of economic downturn to have somebody dump steel in your backyard.

VICE CHAIRMAN OKUN: Okay. I saw a hand on the back row, I believe, yes.

MR. MORICI: I wanted to point out that the two conditions that we had in the late nineties which gave rise to the Asian crisis were misaligned exchange rates and overinvestment in capacity and manufacturing, and a lot of that appears to be building again in Asia.

VICE CHAIRMAN OKUN: Okay. Mr. Nelson, I still have a yellow light. Anything that you would add from ISG's perspective?

MR. NELSON: Thank you. In the spirit of the argument, we've already seen on hot-rolled products a shift of 7 million tons last year out of China, a reduction in imports into China, an increase in exports. The net effect of that was 7 million tons of hot rolled already that is now available on the world market, so it's already begun.

VICE CHAIRMAN OKUN: Okay. Well, I will have some further questions on that, but my red light has come on, and before we start with our next round of questions, I understand that Senator Pryor has arrived, and we will take his testimony at this point.

MS. ABBOTT: The Honorable Mark L. Pryor, United States Senator, State of Arkansas.

VICE CHAIRMAN OKUN: Welcome, Senator Pryor.

SENATOR PRYOR: One way I try to stay in good stead back home is keep my comments very short. Okay?

VICE CHAIRMAN OKUN: They are welcomed here.

SENATOR PRYOR: I'm going to do that here as well, but really I just want to thank Chairman Koplan and the entire Commission for allowing me to testify and to allow everybody to have a voice in this very important matter before the Commission today. I would ask that my full remarks be entered into the record.

VICE CHAIRMAN OKUN: Without objection.

SENATOR PRYOR: And I'll just say this. We all know this. It may come as a surprise to some people who don't live in Arkansas, but the steel industry is very important to the State of Arkansas. In fact, we have, in one particular county, one of the largest steel-producing counties in America. The biggest company there, the most known company, is Nucor. They tend to lead the charge a lot of the time in Arkansas, but there are a lot of other very good companies, very competitive companies, that are out there working hard every day providing Arkansans and Americans jobs and out there working very hard to compete in the world economy.

So I would respectfully ask that this Commission keep the orders in place. I think that it's important for the U.S. economy to have a very diverse economy, a very productive economy across the full spectrum of America's economy, and I think it's important for our ability to compete on the world market and to make the investments necessary that we keep these orders in place. So with that, I'll leave it with the Commission, but thank you very, very much for having me today. I appreciate it.

VICE CHAIRMAN OKUN: Thank you, Senator.

We will return to our questions. Commissioner Miller?

COMMISSIONER MILLER: Thank you, Madam Chairman.

Let's see. There's been a lot of interesting questions. I think where I would like to start this round, in some degree, following Chairman Okun's questions just now about global demand and ask you all to talk a little bit more about U.S. demand.

In part, I just look at our consumption data of steel, to the extent that's a bit of an indicator of what's going on in demand, and our data would tell me that over the period of the last nine years or so we sort of had a peak in '98 and then a little bit up in 2000 but kind of down sense, a bit of a recovery in 2004. But I basically see U.S. producers maintaining about the same share, 90 percent, roughly, of the U.S. market, but that market size, depending on the end points, you could say it's kind of consistent, it goes up and down a little bit -- if anything, the overall trend over time looks to be slightly down.

Let me invite the producers to talk about U.S. demand for steel products. There was an earlier conversation about the business cycle and what's going on in terms of the business cycle, specifically now, but I'm also interested in comments on the longer-term trend in terms of the U.S. market for steel products, for your steel products.

Mr. DiMicco, could I ask you to begin, if you would? What's your view of the future right now and where it's been over the last 10 years or so?

MR. DiMICCO: Well, I'm not an economist. That can be a positive or a negative.

COMMISSIONER MILLER: A businessman's perspective.

MR. DiMICCO: It's real simple. What impacts the demand for steel in this country and globally are what's happening in general with the economic activity in the United States and globally, and as residential, nonresidential construction, in particular, improves, demand improves. As it falls off, demand falls off.

Likewise, for durable good orders, washing machines, automobiles, you name it, whatever impacts the production, the purchasing of those materials which steel is used in impacts the overall demand for steel in the marketplace. And you're quite correct that we saw a drop-off in 2000 because basically we went into a recession. As I mentioned earlier, nonresidential construction, which consumes about 60 percent of the steel produced in the United States and globally, dropped off significantly.

As far as the past and the future, I think steel's future is bright in terms of being able to be something that sees improvements in demand from one cycle to another. It's a very positive material, a very good material to work with, and you see steel consumption growing internationally. You'll see steel consumption growing in the United States, but we're more of a mature economy. Even though, per capita, we use a lot more steel than some other countries do, the growth will be much slower. But a 1 or 2 percent increase in demand, year in and year out, throughout the cycle and from cycle to cycle is definitely there for us. I don't know if that's answering your question or not.

COMMISSIONER MILLER: It wasn't a very specific answer, but you're addressing the question that I had.

MR. DiMICCO: It's going to vary with the economic conditions.

COMMISSIONER MILLER: And right now, looking out?

MR. DiMICCO: Right now, the industry is forecasting nonresidential construction to improve by anywhere from 4 to 8 percent next year. That should be good for steel, although automotive is forecasting down, which won't be good for steel. So where it all shakes out, in general, as the economy continues to grow, the demand for steel will grow.

COMMISSIONER MILLER: We understand -- our case load kind of has the same pattern to it, in all honesty.

(Laughter.)

MR. DiMICCO: I don't know if I'm helping you out there or not.

COMMISSIONER MILLER: No, that's all right.

MR. SZYMANSKI: Commissioner Miller?

COMMISSIONER MILLER: Mr. Szymanski, please.

MR. SZYMANSKI: Steve Szymanski. I want to talk a little bit about where hot-rolled steel goes because I think that's part of the factors we look at as we look at the overall economy moving forward, and much of the hot rolled that we sell goes into the ag. industrial equipment, the capital equipment manufacturers, people building skid steer loaders, mining equipment. All of that business has been good in 2004.

All of these companies flourished, if you look at their profits, in 2004. As we move forward in 2005, their business still looks pretty good. The freight car builders, truck trailer manufacturers, the energy markets; these are all markets that consume our hot roll, lived through the markets that we've experienced, have flourished, and have a pretty bright look at 2005.

So I think, as you look at the current events as it relates to hot roll and what we've gone through in the recent year cycle, I think we're still looking at some capital markets that have some potential on the upside.

COMMISSIONER MILLER: Okay.

MR. NOLAN: Commissioner Miller?

COMMISSIONER MILLER: Yes.

MR. NOLAN: John Nolan, Steel Dynamics.

COMMISSIONER MILLER: Yes, Mr. Nolan.

MR. NOLAN: I've been on the lecture circuit, as you might be aware, concerning currency for some time, and quite recently I was asked that question, and I usually answer it by saying that the light in my crystal ball is out at the moment. I say that really in preface to this remark, coming back to Mr. Nolanberg's remarks a little bit earlier today, that talked about a trend in manufacturing moving overseas, and that is clearly the case, and we're extremely concerned about that as we take the longer view on the market. We call it the "disappearing customer," and there are a number of dynamics that are responsible for that, in our opinion.

It's possible Dr. Peter Morici can speak a little bit more expansively about this, but manufacturing, frankly, is being slammed by a number of issues: currency manipulation and unfair exchange rates, health care costs relative to those of our trading partners, certain uncompetitive U.S. tax statutes that put our manufacturers at a disadvantage, a very uneven playing field as it relates to environmental regulations, which we all take extremely seriously.

Having served, as you know from prior testimony, in East Asia for a period of time, I can tell you that there -- I think I used this one time -- kind of like Dorothy, there is no place like home. There is no comparison in the environmental nature of U.S. industry and manufacturing to what you see in East Asia. These are responsible things that responsible countries should address but don't, and these all create a significant imbalance and provide advantages in a very unfair and illegal fashion.

But really, I guess I need for you to clarify. As we look forward to demand, could you ask the question in the context of we have orders or no orders because that certainly changes the picture significantly?

COMMISSIONER MILLER: Well, my crystal ball isn't any better than yours, so I can't answer that. That's for sure.

I see Mr. Blume is wanting to address the question.

MR. BLUME: Yes. Rick Blume, Nucor Steel. Concerning the end-use-demand question, first of all, others have mentioned here this morning, many times our customers ask us that very question, what we see going forward, and, frankly, our crystal ball, we talk about a three- to six-month visibility, at best. It's really a dilemma from a marketer's standpoint that this market can turn quickly and can turn on a dime.

In general, though, end-use demand, as Dan had characterized, Mr. DiMicco characterized, is decent. The problem that we have existing today is an inventory overhang that we're trying to work through, and that inventory overhang, frankly, was a result of these imports and the panic buying that we saw at the end of last year.

So while, in the short run, we appear, at Nucor, to be fairly optimistic about the end-use demand, we've got to work through this inventory overhang, and then ultimately, long term, as John had mentioned, depends upon what happens with these actions, these orders. Thank you.

COMMISSIONER MILLER: Okay. I see several other hands, and the yellow light is on, so I'm not going to be able to get much of a response. Mr. Nelson, you, at one point, were reaching for the microphone. I believe Professor Morici was -- is that right? --

MR. MORICI: Morici.

COMMISSIONER MILLER: Am I right?

MR. MORICI: Commissioner, I think you gave me an adequate opportunity to make my remark.

COMMISSIONER MILLER: Actually, I'm sorry.

MR. NOLAN: Mike Kruse; is that who you're looking for?

COMMISSIONER MILLER: Yes, exactly. Sorry.

MR. NOLAN: Okay.

COMMISSIONER MILLER: My seating chart; I'm having a hard time following it. What can I say? Please.

MR. KRUSE: Mike Kruse from Heidtman Steel. We're fairly married to the automotive industry. Between our OEM business and our various tier levels, we sell probably about 70 percent to automotive in one way, shape, or form, and even though we've seen robust forecasts from them, in recent months, we have not seen them build to those forecasts. I think GM and Ford have just come out with some recent cutbacks on top of what they had done last fall. So that's added to what Rick was talking about earlier about some overlap in our inventory. I mean, we're stuck in an inventory surplus situation right now, and as pricing moves down, we're stuck with higher-priced inventory trying to move it.

COMMISSIONER MILLER: Okay. Very good. I

appreciate all of your answers, and I have further questions, but they will wait.

VICE CHAIRMAN OKUN: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you. I guess, if I could follow up on one issue that I see in our data that I'm trying to make sure I understand, and that is the issue of the portion of hot rolled that is being sold into the commercial market as opposed to that which is being internally consumed because there we do see kind of a change in our data where, at the beginning of our period of review, about 34 percent of hot-rolled shipments went into the merchant market, today that number is near 40 percent, with a commensurate decline in the amount that's being captively consumed or internally transferred.

I'm just trying to make sure I understand, why is that, and does it have implications for prices?

MR. DIMICCO: Dan DiMicco. When you say internally consumed, do you mean within the steel producers' own companies?

COMMISSIONER HILLMAN: Correct. Presumably going to cold-rolled or corrosion or tin or something. Again, internally consumed for a downstreamed product of some kind. Again, we track the data by what are commercial shipments going out into the merchant market versus what portion of the product is being transferred downstream, again, internally transferred to related producers to be presumably made, like I said, into cold or corrosion or some other downstream product.

And, like I said, it's a pretty big change in this five-year period, meaning that you all are selling quite a bit more of your hot-rolled directly into the merchant market, as opposed to doing something with it yourselves. I'm just trying to make sure I understand why that is and does it have any implications for pricing.

MR. DIMICCO: I'm afraid I can't shed any light on that because I'm not -- I don't see where in our case that's happened, except from the standpoint of us bringing on that additional capacity at Decatur, which would have all been at the hot-rolled.

COMMISSIONER HILLMAN: Okay.

MR. NOLAN: Commissioner Hillman, in our case, I can tell you that absolutely is not the situation. If anything, as I said in my testimony, we have significantly reduced our exposure in hot-rolled sheet and expanded it in value added products.

COMMISSIONER HILLMAN: Mr. Schagrin?

MR. SCHAGRIN: I would just invite

Mr. Dailey to maybe comment. I would point out, I don't want to compromise any conference information, but there are some companies in the industry like Gallatin that are focused on hot-rolled only, they don't internally consume. I think you'll see that those companies that exist in the industry have, because of productivity improvements, expanded capacity and I would argue that's probably the main reason that you see that increase of hot-rolled going into the merchant market as you've seen the expansion of production by some of the hot-rolled only players, who have no internal consumption, and that's what's accounted for.

As he pointed out earlier, I would invite him to comment, those companies are, of course, the most susceptible to the increased imports because they're not shielded and I would argue that with the increase from 34 to 40 percent going to the merchant market that makes the entire industry, looking at an industry basis, more susceptible because more of the industry sales were to the merchant market.

Mr. Dailey, I don't know if you have anything to comment.

COMMISSIONER HILLMAN: If you can pull that microphone closer enough so the reporter can pick it up?

MR. DAILEY: Don Dailey, Gallatin Steel. All I can comment on, in 1998, we produced about a million tons. Last year, we produced one and a half million tons. Again, that's all hot-rolled. Another major hot-rolled producer is a company that used to be Northstar BHP and they're in the same situation. They have dramatically increased their output over the last several years. So I think between the two of us, we've probably put at least a million tons of additional into the marketplace that wasn't there before.

COMMISSIONER HILLMAN: Okay. I appreciate that.

Mr. Lighthizer?

MR. LIGHTHIZER: Yes, Commissioner. I was just going to say that we submitted some revised numbers that won't explain all of that difference, but may explain some part of it, some numbers that we revised based on pre-acquisition numbers that we got from National that we submitted yesterday, actually. It won't change that entire trend, but it will, to some extent, make a difference. We'll be happy to get into it on a confidential basis because there are --

COMMISSIONER HILLMAN: No, I appreciate

that. Again, what I'm really trying to make sure in understand is what the implications are, as Mr. Schagrin was sort of alluding to, to the issue of prices and price vulnerability to imports or other things in the market. I'm just trying to make sure I understand the implications of the data. I appreciate that.

If I can then go to another issue that I wanted to follow up, Mr. Conway, in your testimony, you referred to the USWA's agreement to additional reductions, if I heard you correctly, of 20 percent of production workers and 40 percent of management. I just wondered if you could elaborate on that.

First of all, I want to make sure I heard it correctly and then if you can help me understand, are these future reductions or are you describing things that have already happened and, if they're future, kind of over what period and the implications of those numbers. And there's some pretty big percentage reductions from an already significantly reduced employment base, so if you can just help me understand those.

MR. CONWAY: The 20 percent different companies have phased in different ways, but that has essentially been the target on the hourly side of the --

COMMISSIONER HILLMAN: Starting from now, 20 percent further from where --

MR. CONWAY: No. Starting from when we would do the labor agreement.

COMMISSIONER HILLMAN: Okay.

MR. CONWAY: For example, Pontiac, we would then look to transition 20 percent of the active work force and that type of a number on management, assume a lot of duties they have been doing, you know, pick up a lot of training and cross-duties within ourselves, but those were the targeted numbers.

COMMISSIONER HILLMAN: Okay. So beginning from the new labor agreements, the target is at the end of the day to end up with a 20 percent reduction in hourly employees and a 40 percent reduction in management employees.

MR. CONWAY: Right. And there is a ratio of management to hourly workers and, in some instances, some companies just do that in the nature of how it was coming together. Some places we could do it fairly immediately, some places it took time to train replacements and it's still ongoing, but that's generally the target we've been working with.

COMMISSIONER HILLMAN: Okay. I appreciate that answer. And timeframe, again, is there is a specific time when you're expected to get to those levels?

MR. CONWAY: Yes, there are actual bodies per year. I mean, we have head-counts that we're taking out on a time table.

COMMISSIONER HILLMAN: All right. I appreciate those answers.

A question perhaps for counsel. I'm just trying to make sure I understand how we should be looking at the fact that in this case, unlike most of our sunsets, where all of the orders are orders as opposed to here where we have a suspension agreement with Russia that had reference pricing plus quotas, we had a straight up dumping duties on Japan and with respect to Brazil we had these reference prices that were ultimately converted into dumping duties when the reference prices were not adhered to.

Does it matter as a legal or practical matter when we're looking at this sunset that we have had this kind of amalgam of relief in place, that it's not been the same for each of the three countries at issue? From either a legal standpoint or from sort of a pricing or other practical implications, has it made any difference?

Mr. Hecht?

MR. HECHT: Yes. I guess I would just add a couple of thoughts on that. I think there's certainly relevance in the fact that the Brazilians violated their suspension agreement early in the period. I think that shows to some degree the interest level they have in this market. I think you can garner some additional evidence from what the Russians did last year when the reference prices in the suspension agreement were no longer binding. That, once again, I think, showed extraordinary interest in this market. The fact that they borrowed against next year's quota, I think, shows that as well.

Legally, I think, again, the overall analysis is the same in terms of effectiveness of the order and type of thing, but I do think factually you can gain some insight into that.

COMMISSIONER HILLMAN: Okay. No. I appreciate those answers. If there's anything further you wanted to expand on in a post-hearing brief, I would appreciate it.

I also wanted to follow up on a question that Commissioner Lane asked, because clearly we're going to hear a lot about this issue of how we assess the vulnerability of the industry. We're required to do that by statute. One of the big changes that has occurred over this period of review is this issue of the pension liabilities being moved to the PBGC. And I understand and heard the responses that you gave.

I'm trying to make sure I understand from a long-term perspective from these companies what you think that really means in terms of your vulnerability or lack of vulnerability to imports. I'm trying to put that issue of the shedding of those liabilities, pushing them out to the PBGC, in terms of what it means long term to your ability to compete with imports.

And I don't know whether Mr. Surma or --

MR. SURMA: This is John Surma. I'll start with our company. First of all, in our company, at U.S. Steel, the legacy obligations that we incurred over time we still have. We didn't shed anything at our existing operations, we still have those. We made promises and we intend to keep them, so there's no real change in our position. We have with our bargaining with the Steelworkers, hard bargaining, I might add, made some improvements in how our medical benefits are conveyed to retirees in a little more efficient fashion and we've tried to work on ways where we can provide a good benefit and save the company money, but those obligations we had we still have. So we didn't change anything, any healthcare, any pension obligations to our existing retirees or existing actives.

The assets we acquired from National Steel, those pension plans for the retirees did go to the PBGC. We didn't take that on. We took on the assets. That was part of our economics. Being willing to pay a billion dollars and borrow most of it, that was all part of the economics and that went into the transaction.

For active employees, we negotiated and effected a fine contribution plan for the actives, so we do have a benefit, a cost that we pay. I'd restate my earlier point, that I don't really see that the fact that the former National Steel pension plans were assumed by PBGC as being really all that relevant to this because we paid a billion dollars for these assets based on not having that obligation. The economics were such that if we'd had to assume that, we wouldn't have paid a billion dollars. So I really see that as being part of our economic decision making and it's up to us, we took the risk, and whether we are vulnerable or not is going to be depending really on what the market conditions are and, again, the legacy effect, I think, was really part of the original bargain and shouldn't really be relevant to the discussion now, respectfully.

COMMISSIONER HILLMAN: I appreciate that.

Mr. Nelson?

Can I get this --

VICE CHAIRMAN OKUN: Yes, but try to be brief.

MR. JERRY NELSON: I'll be very brief. Jerry Nelson, ISG. This is not really my area of expertise and we'd be glad to address that in a post-hearing brief, if that's okay.

COMMISSIONER HILLMAN: I'd appreciate that.

MR. JERRY NELSON: Okay.

COMMISSIONER HILLMAN: And for any others where pensions got moved to the PBGC, I would appreciate that.

Thank you.

VICE CHAIRMAN OKUN: Commissioner Lane?

COMMISSIONER LANE: Mr. Blume, the first question is for you. In response to a question from Commissioner Miller, did you attribute the current increase in service center inventory to increased imports?

I believe earlier testimony attributed this to increased buying while prices were going up before the largest increase in subject imports.

MR. BLUME: Yes, Commissioner, I believe I responded that the increase in inventories were due to panic buying last year by some of our customers. As others have testified, there was a lot of imports that were -- purchases that were placed that came in in a delayed fashion, came in much later in the year, and that's the inventory situation we currently face.

COMMISSIONER LANE: Okay. Thank you.

MR. SZYMANSKI: Steve Szymanski of U.S. Steel. I had talked about the inventory build. If you look at the MSCI statistics, the Service Center Institute reporting, flat-rolled inventories, you really don't see that number start rising until around June or July, which was really about the same time you started to see the Russian imports and other imports hitting. So most of the steel that came in really went directly into inventory and that's the overhang that we're living with at this point in time.

COMMISSIONER LANE: Mr. Price?

MR. PRICE: One thing I would add is that if you look at the commission underselling data for the subject imports, particularly from Russia, almost all of the volume was undersold. I can't go into the specifics here, but essentially they used price to get this volume in here and it was one of those issues that Mr. Hecht mentioned briefly, that as soon as those reference prices went down a point where they could have access to the market, they shipped as much as they could, they did it at low prices, they undersold the market and they moved in quickly.

MR. NOLAN: And, Commissioner Lane, John Nolan, Steel Dynamics. If I could add to Mr. Price's comments, it all came in at one time. Most of it came in in the second half, actually, a considerable quantity came in in the third quarter. That's very difficult to manage without an inventory spike.

COMMISSIONER LANE: Okay. Thank you.

The next question I have is a legal question. During the period examined in these reviews, Severstal of Russia acquired Rouge Steel. Should this change in ownership affect the commission's related party analysis? And, if so, how?

Mr. Lighthizer?

MR. LIGHTHIZER: Yes, Commissioner. The consumers, I guess, make the argument that because Severstal bought Rouge they no longer have an interest in hurting this market. Our view is quite to the contrary. First of all, they in fact did ship substantial amounts of hot-rolled steel in the second half, well after they bought Rouge, and from public sources, you can see it's more than 400,000 tons that they shipped themselves.

Secondly, there is a history of importers who have substantial investments in U.S. companies actually going right ahead and injuring this market. Indeed, in this case, in '98 and actually if you want to go back to '93, you saw major investments by Japanese companies in the U.S. and yet the Japanese went ahead and made the fast profits from dumping in this market and had the effect in both cases of dumping and really knocking the legs out from the market.

So I guess our sense is that there is no logic to the suggestion that for some reason this company will not hurt this market merely because it has a substantial investment in the U.S. In fact, all the evidence is to the contrary and, in any event, they are a major exporter and they're going to send the product somewhere and they have distribution channels and the like here already established.

MR. PRICE: Not to mention that there are other Russian exports and also, as was mentioned earlier, in a marketplace where acquisitions are a business strategy at this point driving down market prices, driving down asset values, causing injury can be a very wise business strategy for a company in Russia.

COMMISSIONER LANE: Okay.

MR. SZYMANSKI: Commissioner Lane, Steve Szymanski. Just a commercial angle to this. The offers that we've seen from Russia have been independent of their domestic-owned operation and we've tracked those as they've come in, so they seem to be acting independently from every indication we have.

COMMISSIONER LANE: Okay. Thank you.

In the pre-hearing brief of U.S. Steel consumers, it states that U.S. Steel consumers are being placed on allocations or extended lead times or being turned away all together. Have domestic producers of hot-rolled steel been unable to supply their customers with sufficient quantities of hot-rolled steel? And are any of your customers currently on allocation or controlled order entry?

Mr. Surma?

MR. SURMA: Commissioner, John Surma from U.S. Steel. At this moment, to the best of my knowledge and belief, I'll allow my colleague, Steve

Szymanski to interject, but I don't believe any of our customers for hot-rolled steel are on allocation. As has been discussed in some of the pre-hearing materials, there were periods during the market circumstances last summer when supplies were in somewhat tighter balance and we tried to make sure that our most longstanding and loyal customers were well supplied. To the best of my knowledge and belief, none of them went without steel that they have requested from us. Sometimes it took us a little longer to get it to them than we would have liked and perhaps we didn't have as much inventory in front of them as they would have liked, but in general we kept all of our customers well supplied and endeavor to do so today.

I would re-state an offer made earlier by one of my fellow panelists that if there's anyone in the audience today who is in need of hot-rolled steel, I urge them to contact us soon.

Thank you.

COMMISSIONER LANE: Sir, in the back there?

MR. MOORE: Jerry Moore with ISG. I'll echo the same comments. Currently, we have none of our customers on allocation for hot-rolled products. It is true that for a short period in 2004, for maybe six to eight months in duration, we did reserve capacity referenced as booking allocation to support our contractual agreements and also to protect those customers not under contract but at their normal historical purchasing patters to support their business.

MR. NOLAN: Commissioner Lane, John Nolan, Steel Dynamics. I'd just like to echo what Mr. Surma said. We were in a situation last summer where we took steps to protect longstanding customers. There were a number of what I would consider to be spot market players who came in and asked for, in some cases, three or four times their typical pattern or purchase volumes and some of those we had to indicate our business relationship doesn't necessarily support this. But, again, as you've heard in prior testimony, that is one of the risks of playing the spot market to your advantage. Sometimes the bear eats you and sometimes you eat the bear.

MR. DAILEY: Don Dailey, Gallatin. My answer would be much the same as John's. Again, we produce only hot-rolled steel and we didn't put anybody on allocation throughout 2004. What we did do was limit customers to past purchase levels because if we didn't do that we'd be taking something away from another customer to give it to somebody else. But we had nobody on allocation.

COMMISSIONER LANE: Okay. Mr. DiMicco, did you raise your hand, too?

MR. DIMICCO: Yes. Dan DiMicco, Nucor. There were a few instances where there were some issues that did impact short-term supply, things like coal mine fires and the like. One of the things that Nucor did was to institute a scrap surcharge mechanism because scrap prices had gone up three-fold, to ensure that we could get our customers the steel that they needed. We went out and bought the scrap that was out there. We never had trouble getting the scrap, it was always an issue of what we had to pay for it, but we made sure that we took care of our customers' needs and then some.

COMMISSIONER LANE: Okay. Thank you.

MR. PLATZ: Commissioner Lane, just to complete your survey, Roy Platz from Ispat Inland. We have no one on allocation and, in fact, during 2004, to my recollection, we did not have anyone on allocation last year.

COMMISSIONER LANE: Okay. Thank you.

MR. KRUSE: Commissioner, I'd like to jump in from a service center standpoint, too. Mike Kruse from Heidthman. Last year, we had some obvious problems with deliveries and didn't get things on time, but for the most part, the mills kept us in the steel that we needed, although it might be late.

MR. REDER: Commissioner Lane, good afternoon. Bill Reder with U.S. Steel Corporation, representing the automotive sales office. We have fulfilled all of our part commitments to all of our customers in 2004 as well.

COMMISSIONER LANE: Okay. Thank you.

I see my yellow light on, so I will wait until the next round. Thank you.

VICE CHAIRMAN OKUN: Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Madam Vice Chairman.

In wake of the 2004 import surge from Russia, did any U.S. producers see reduced sales because of those imports? I understand there was a contemporaneous price reduction, but did you lose sales?

MR. SZYMANSKI: This is Steve Szymanski from U.S. Steel. Actually, our order book started to slow down moving into the fourth quarter as we saw the real impact of the amount of volume that came in and we made a decision at that point in time to pull up some outages that we had planned in 2005 into 2004 to cover some of that shortfall, but, yes, we did see lost business. As I said earlier, we're now competing against inventory that was put there by the Russians that we're going to have to live with for some period of time and it's very hard to sell against something that's already there.

COMMISSIONER PEARSON: Okay. So you took maintenance downtime, basically then, when the market changed.

MR. SZYMANSKI: Yes.

COMMISSIONER PEARSON: There was a hand in the back?

MR. MOHR: Gary Mohr with ISG. Very similar. During the fourth quarter, as the imports came in and we started realizing this inventory overhang that was presented earlier, we did also move up some outages that were planned and to place those into the late fourth quarter, as well as one of those outages involved the taking down of a blast furnace at our ISG Weirton facility which later on after we did the maintenance and the capital work we elected not to restart that furnace and at this time it still remains idle.

MR. NOLAN: Commissioner, if I may? John

Nolan, Steel Dynamics. I want to echo Mr. Szymanski's and Mr. Mohr's comments. We're feeling the effects or influence of that inventory as we speak today.

COMMISSIONER PEARSON: Okay. Mr. Dailey?

MR. DAILEY: Yes. Our experience was basically the same. We had actually postponed some scheduled maintenance outages so we didn't let our customers down and we saw -- as the demand reduced in the fourth quarter, we took that opportunity to schedule some planned maintenance time.

COMMISSIONER PEARSON: Okay. Thank you.

MR. DIMICCO: Dan DiMicco, Nucor. One thing that I would add to all of this is there was a $150 a ton softening in price that was brought on, as well as what you've heard in respect to volumes and sales. So there was definitely a softening from that standpoint as well.

COMMISSIONER PEARSON: Yes, I would have kept running the plants when the prices were $150 higher, too, and taken my downtime later. That's not an irrational thing to do.

Mr. Hecht?

MR. HECHT: Yes. I just wanted to follow up a little bit on the legal question you asked before because I think it goes to this point, just very briefly, in terms of effectiveness of the order. The fact that you had a suspension agreement in place in 2004, that it was binding and that the industry performed well is a sign of effectiveness of the order. I don't think you could construe that as a sign of ineffectiveness. So to talk about a surge, obviously, it was binding, the Russian imports did show they could affect prices, and I think if that suspension agreement was removed you would see even more price effect, but in terms of effectiveness, I just wanted to make that point.

COMMISSIONER PEARSON: Okay. Well, perhaps for the post-hearing you might be able to supply any information you have on how that increase in Russian imports influenced the contracts for 2005 relative to 2004. There may be price effects, there may be other effects, and it would be interesting to see something about that in the post-hearing.

MR. LIGHTHIZER: We will be happy to do so.

COMMISSIONER PEARSON: Thanks.

I think I have just one more question. Global demand has been relatively robust, the U.S. economy has been expanding, the steel industry has restructured as we've discussed and has been making some decent money finally. If these conditions don't justify lifting the order, what conditions would?

Can you envision a set of circumstances in which you would not oppose lifting the order?

Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor. Something that we've all made points about today is that one year does not make a healthy industry and with the long-term nature of our investments, the huge amount of capital required, with the impact of the business cycle, this is something that we would need to see have a positive impact for more than just one year. It will have to have a positive impact throughout the entire cycle. The other thing would be some more responsible action by the governments of the world to stop adding capacity in government-owned facilities and government heavily subsidized facilities, which we tried to accomplish through the OECD negotiations but so far have failed miserably.

COMMISSIONER PEARSON: Mr. Surma?

MR. SURMA: I would just echo my distinguished colleague's comments. We've tried to work through OECD on the steel subsidy agreement negotiations, allegedly, an agreement that would ban subsidies. It turns out most of the conversation has been about legitimizing half a dozen or so that every other territory in the world wants and we're very reluctant to agree to. If we saw a strong, well administered, enforced anti-steel subsidy agreement that gave us a feeling that these kinds of decisions on capacity increases would be made by responsible commercial companies, I think we would be much more content with allowing the market to make the decisions that have products moving to one market or another based on whatever fair pricing would be. But until we see that, I think we're going to be very concerned that ill-conceived state-sponsored expansion like we might see in China could have ruinous effects in a very short period of time and that's the reason we're here today.

MR. NOLAN: Commissioner Pearson, John Nolan, Steel Dynamics. There was a very interesting article in Financial Times yesterday. In fact, I'd be happy to leave it with the commission if you were interested. It speaks to Russia and their philosophy of obeying its own laws and basically what the article describes, it was written by a Russian newsman, is that Russia does not obey its own laws. So what would it be that would lead us to believe that once again they will obey ours?

Obviously, if they had obeyed our laws, we wouldn't be here today. So I would again come back to Mr. DiMicco's and Mr. Surma's comments about responsible action on the part of governments. Certainly, that would go a long way.

MR. SCHAGRIN: Commissioner Pearson, Roger Schagrin. I would make two points as to your legal question as to when there might be circumstances in which orders could be sunset. First, obviously, where the record demonstrated that there wasn't going to be an increase in imports because there wasn't any ability of the foreign producers subject to the orders to increase their exports after termination and combined with a situation where an industry was completely invulnerable, but, secondly, I would posit to the commission that you, the commission, you don't really see the cases in which the domestic industry decides that those circumstances exist because the industry doesn't request a sunset review. And in fact, that occurred recently for clients I represented and the circumstances which tie into the first point I made is that the industries in the two countries who have been subject to orders had had their capacity diminished so much because of huge additions of capacity in China that those industries didn't to the exist that they could muster increased exports to the

U.S. and injure the U.S. industry. So the industry decided to forego sunset review. So I would say we need similar types of circumstances where really an industry is confident that there is not going to be increased imports and you don't then have to get into the issues of what will be the effect of those increased imports in terms of recurrence of injury.

COMMISSIONER PEARSON: Mr. Lighthizer?

MR. LIGHTHIZER: Yes. I don't want to repeat anything anybody said. I certainly agree with respect to everything everybody has said on volume and price, but I just want to underline this point on vulnerability. You have to be able to make your cost of capital. You're a businessman, Commissioner, you understand this. You have to be able to make your cost of capital over a prolonged period of time and if you haven't made your cost of capital over a prolonged period of time, you're basically just dissolving. That's really all you're doing.

This industry made its cost of capital last year for the first time in any number of years and I think you would be mad not to ask to continue orders under these circumstances when you have an industry with one good year and in desperate need of a number of years making whatever you decide the measure is of cost of capital. Whatever that is, they have to make that for a number of years before they lose that vulnerability.

Thank you.

COMMISSIONER PEARSON: I would just add to the comments about the OECD steel negotiations that I followed them with some interest and share the frustration that was expressed that they did not lead to a better result. May they do so in the foreseeable future.

MR. LIGHTHIZER: I could just address that, just for a second, because I think it was very misleading in the purchasers' brief. The suggestion was that somehow the talks fell apart because everybody thought we were sort of in pretty good shape. In fact, the exact opposite is true.

I went to every single session. Our CEO went to the last one. The fact is the talks have basically fallen apart because a number of countries, by the way led by Japan, Brazil and Russia, don't want to give up new subsidies to create new capacity. That's what's going on on the one hand. And on the other hand, they want to get out of U.S. trade laws.

This is precisely the dynamic that's going on here. Nobody thinks we're doing well. What we're fighting about is we want to stop new capacity that's coming on because of government subsidies and these three countries, among others, but these three as leaders, are taking the position that no, we won't give up our subsidies. And, if you like, in our post-hearing brief, we'll be happy to give you more on this, including what subsidies each one of them wants to keep and document the fact that they're primarily interested in getting out of the countervailing duty laws in the United States and the antidumping laws in the United States.

COMMISSIONER PEARSON: If it's possible to summarize that in a relatively concise way, I'd be pleased to see it.

Madam Chairman, my time has expired.

VICE CHAIRMAN OKUN: Thank you, Commissioner Pearson.

Let me just go back, then, on the vulnerability point and I know my colleagues have had a chance to talk a bit about pension costs and some of the other legacy costs, but I guess the question that I wanted to ask, and I guess it was Mr. DiMicco, after hearing your comment, I think I'm quoting you right, you said no amount of consolidation protects us.

If I look at some of the articles out there, again, trying to judge what the financial community thinks about the market, there was a recent February 16th article in Forbes and you've got an analyst there and one of the comments they make about the companies is "The depth of the downturn has forced steel companies to cut debt, rein in pension costs, and shut down outdated facilities; these changes make the industry better prepared to withstand any drop in prices."

I think that's one of the questions we have to address, which is has restructuring made you less vulnerable to a drop in prices? So I guess I pose it to you there, this is an analyst who says steel's a steal, buy.

MR. DIMICCO: Dan DiMicco, Nucor. Everything is a matter of relativity. In general, those kinds of comments are correct. The normal course of pricing moves throughout a business cycle. What they don't protect you from are catastrophic drops in pricing, where the pricing drops by 50 percent or more because of a flood of illegally traded imports like we saw in the '90s and continuing into 2000 and last year, when supposedly there were all these shortages, imports increased by something like 55 percent. There are huge amounts coming in.

It doesn't protect you from catastrophic changes in pricing. It does protect you and allow you to be more profitable through the normal course of the business cycle where you're not impacted by that flood of illegally traded imports.

VICE CHAIRMAN OKUN: Okay. And a catastrophic drop in price, I don't know if you can do this, can you say -- if prices dropped to 350, something that hot-rolled traded at for a long time, you make money, you cover your cost of capital? I know it depends on raw material costs, but --

MR. DIMICCO: It absolutely does. But if you go back to '98, '99, where we looked at pricing go from $400 a ton to $170 a ton, there's no amount that can protect you against that kind of catastrophic drop, over a 50 percent drop.

Now, some operations who have more variable raw material costs who might be impacted by a drop off in demand and those raw materials costs go down will be in a better position to weather that, but nobody is in a position to weather that kind of drop off like we've seen in the past.

VICE CHAIRMAN OKUN: Would any of the other companies -- well, Mr. Stewart wants to comment. Let me hear from the industry and then Mr. Surma and

Mr. Nelson and then Mr. Stewart.

MR. SURMA: Thank you, Commissioner. John Surma from U.S. Steel. Just to follow on a bit from my colleague's comment, we have to view a catastrophic reduction in prices in a different way now because raw material costs have changed and it's been a very turbulent period for raw materials and they're settling down a bit now, but all the major inputs in our business, metallics, be they scrap or, in our case, iron inputs, or carbon inputs, be it coal which we make into coke or coke itself, and energy, natural gas and electricity, any of those have been up and down in the last year or so, but it's settled out at a much higher level. So a reduction to the price level you just mentioned, given those raw materials prices, I think would be catastrophic, so I think we have to really view our current supply/demand situation, our current cost/price ratio in the context of a much higher raw materials based cost and if these orders are revoked and we do have a large price response because of that, because of unfairly traded imports, we could easily end up with the worst of all worlds, with lower prices, higher costs and lower margins than we had before, if that's possible. So that would be an extremely unfavorable situation from our point of view.

VICE CHAIRMAN OKUN: Mr. Nelson, did you want to add something?

MR. JERRY NELSON: Well, I would just reiterate what John said in the sake of time. Raw material price increases have established a new breakeven point for the industry, I think, in spite of some of the significant gains we've made in productivity, labor productivity.

VICE CHAIRMAN OKUN: Okay. Mr. Stewart, did you have something you wanted to add?

MR. STEWART: Just that in the consultant's report that's attached as Exhibit 17 to the U.S. Steel, Exhibit 11 of that takes data from the staff report and looks at the various elements, direct labor, factory overhead, GS&A and raw materials, and since you have a period that post-dates the consolidation, you can see what effect there has been from consolidation in these various areas and they are not insignificant, but they are small, versus the huge increase in raw material costs, which I believe the companies have testified is an on-going moving forward basis. So there has been clearly some benefits from the consolidation and from the other issues, but they are relatively small dollar-wise compared to the very huge increase that you've seen in terms of raw material costs.

VICE CHAIRMAN OKUN: Yes?

MR. NOLAN: Madam Vice Chair, John Nolan, Steel Dynamics.

VICE CHAIRMAN OKUN: Yes, Mr. Nolan?

MR. NOLAN: Let me just echo maybe a little different what Mr. Stewart just said. I think the world of raw materials and energy circa 1998 is considerably different than it is today. You're now looking at increased raw material costs, energy costs, alloys. I think you've probably seen the press information about iron ore price, coke is up. If you looked at $350 a ton in the context of 1998 or $350 a ton relative to today's costs, a company like ours which is arguably, again, one of the more cost-efficient producers, would like lose its butt transacting prices at that number.

VICE CHAIRMAN OKUN: Okay. Mr. Price?

MR. PRICE: The commission has a variety of data before it and what the data tends to show is that while there are gains of efficiency that have occurred in the industry, those gains actually are relatively modest and most of the changes you have seen in performance in this industry relate principally to pricing. You also saw imports come in and you saw pricing deteriorate. And so while efficiencies are important and there have been efficiency gains in the U.S. industry, there have been efficiency gains in the global industry. Whether efficiencies are going to protect this industry, I think you're seeing some modest improvements. You see a flood of imports, you see rapid price deterioration, as Mr. DiMicco pointed to. It doesn't take a lot of deterioration in pricing to have dramatic impacts and elimination of this industry's profitability.

VICE CHAIRMAN OKUN: And looking at you, Mr. Price, reminds me, I think a number of the briefs but the Wiley Rein brief in particular had talked about what happened in Canada when the order was lifted on Russian hot-rolled along with some other countries. You had attached, I think the Stats Canada data on imports increasing after that order was lifted. We've tried to take a quick look, they don't collect pricing and I wondered whether the Ispat witness or anyone else could comment on what happened, what's going on with pricing in the Canadian market post-order. And if you don't have it, whether you could submit it post-hearing since you've made this argument.

MR. PRICE: We'll be happy to submit it in the post-hearing brief.

VICE CHAIRMAN OKUN: Okay. And does Mr. Platz -- do you have any -- no?

MR. PLATZ: No, I don't have any direct data on Canadian pricing.

VICE CHAIRMAN OKUN: Okay. On pricing, one of the things -- that also reminded me, in your charts, Mr. Lighthizer, the comment about prices in the United States are relatively good, and in sunset cases we have attempted to collect data to try to understand what's going on in some of the other markets, sometimes more successfully than others, I wondered if you have any other data that you could share with us or whether you could just comment in general on how you see pricing in other markets and where the U.S. is relative to those other markets.

MR. LIGHTHIZER: Well, first of all, it's probably better for me to let my boss comment on pricing in other markets rather than do it myself.

I have World Steel Dynamics' most recent documents, there are a lot of different numbers, as you allude to, Madam Chairman, around. One thing that occurred to us and one of the reasons we looked at this is that a lot of the people you're going to see this afternoon who are going to be in here complaining about steel hurting their business basically are themselves competing against people who are buying steel from other places that have prices essentially the same as ours.

But in terms of the relative prices, I should let Mr. Surma make whatever general comments he has and then I'd be happy to submit the documents that we have from World Steel Dynamics and from other sources.

VICE CHAIRMAN OKUN: Okay. I appreciate that.

MR. NOLAN: Madam Vice Chair, John Nolan, Steel Dynamics. There's also a report being circulated now published by Goldman Sachs and Aldo Mazzaferro that has some excellent information on the trends in pricing in the Asian market, European market and the U.S. market. And if Aldo was here, he would tell you right now that there is relative parity today in pricing in those three markets. So manufacturers, as Dr. Morici would say, are not disadvantaged if they work here relative to those other markets.

VICE CHAIRMAN OKUN: Okay. I know we have some Goldman Sachs -- but if we don't have that particular document, if you could make sure I have it.

Mr. Surma, if you could --

MR. SURMA: Commissioner, I really can't add too much to what Mr. Mazzaferro's Goldman Sachs paper showed. We look at a variety of information from around the world, major markets, Northern Europe and Southern Europe, South Asia and North America and the North American prices were out in front of European and some Asian prices back in the summer when a lot of these other dislocations with raw materials and other things occurred that we described before. We've seen them come back in quite a bit with a reduction in U.S. spot market prices. It's been alternately described here as somewhere between $100 and $140 a ton.

We see relative parity, I think, is the comment that Mr. Nelson made. I think that's a fair comment, that $100 a ton gets us probably close to parity among all the major trading regions for what we would see as a fairly commonly traded spot hot-rolled price.

VICE CHAIRMAN OKUN: Okay. I've run out of time but not questions, so I'll turn to Commissioner Miller.

COMMISSIONER MILLER: Thank you.

The vice chairman covered one of my question, so I'll try to get the rest of yours right.

One question that she asked that I had wanted -- or at least there was an answer to the question, I think it was Mr. Surma who addressed scrap prices and what's been going on and what you see, your comment that scrap prices have settled out at a much higher level.

Is that global? I mean, I know the increase in raw materials and scrap prices in particular was a global phenomena last year. Would you say that higher raw material prices are a global phenomena going forward as well?

MR. DIMICCO: Dan DiMicco, Nucor. As the largest purchaser of scrap globally, over 17 million tons last year, the answer to that is yes. They are going -- it's an international commodity, the prices have gone up internationally, not just here in the United States.

One of the things that we've been facing from a raw materials standpoint, and we've worked with our customer base, many of whom are in this room on the other side of the table today, on the Emergency Scrap Coalition to get countries like Russia and Korea and Brazil who have put restrictions on scrap exports from their countries that have impacted the global pricing to where they can keep their scrap prices very low at home and keep it off the global market, that would have a positive impact by supplying more scrap to the global market and have a moderating effect. But in general, yes, the price of scrap that you saw go up here went up internationally. And it went up because of the demand from offshore.

China came in and bought hundreds of thousands of tons. Turkey, you name it. And it was not just a domestic phenomena at all.

Prices have moderated here the last few months, absolutely, but scrap is a month-to-month transaction. It's not bought on long-term contracts, it's not offered on long-term contracts, it is sold month-to-month globally and domestically and so it can change up $100 in a month, down $100 in a month, depending upon what kind of trading activity we see from international buyers.

COMMISSIONER MILLER: Okay. And given China's production, the forecasts regarding China's production, no matter where they are as a net importer or whatever, that element, the demand side that's going to push those scrap prices up would appear to be continuing?

MR. DIMICCO: It's entirely related to supply and demand as to what the product is priced at.

COMMISSIONER MILLER: Okay.

MR. DIMICCO: Now, in some countries, they offer rebates to the companies for the scrap that they do buy to help moderate the costs. That's not the case here.

COMMISSIONER MILLER: Okay. I believe we'd like to take a break for a minute, but I do have further questions.

VICE CHAIRMAN OKUN: Madam Secretary, if you could make sure that Commissioner Miller's time is not eaten up by testimony from our next congressional witness?

MS. ABBOTT: No problem.

The Honorable Robert C. Byrd, United States Senator, State of West Virginia.

MR. DIMICCO: Good afternoon. Thank you for being here today.

MR. BYRD: Thank you.

VICE CHAIRMAN OKUN: Welcome, Senator Byrd.

MR. BYRD: Thank you. Thank you. How very nice of you to accommodate me as you are doing.

Madam Chairman, Vice Chairman Okun, other distinguished members of the commission and the commission staff, I thank you very much for providing me with this opportunity to speak in support of continuing the existing antidumping duty orders on hot-rolled steel from Brazil and Japan, the countervailing duty order on Brazil, and the suspension agreement on Russia.

It is imperative that the existing orders and suspension agreement remain in effect to ensure that the U.S. hot-rolled steel industry has every opportunity to recover fully from the injury that it has sustained as a result of decades of unfairly traded foreign imports.

An examination of the record since 1998 reveals that the domestic hot-rolled steel industry throughout the United States has been devastated, devastated by dumped and unfairly subsidized imports of foreign steel. Any revocation of existing import relief will likely lead to a recurrence of material injury to the U.S. industry.

America's steel industry is essential to our economic well being that is particularly true in West Virginia. Steelworkers in West Virginia and across this great land are committed. They're hard working individuals, individuals who contribute much, individuals who demand nothing more than simple fairness.

As I have stated before in testimony before the ITC steel is of particular interest to me. Why?

Well, because I represent West Virginia, but not only because I represent West Virginia, also because I earned a living working in the shipyards.

What was I doing? Welding steel. During World War I, I worked as a welder in the Baltimore, Maryland shipyards and at the McCloskey shipyard in Tampa, Florida. So I know what it means to be a worker who earns a living by the sweat of my brow, an edict which God placed upon Adam as Adam and Eve were driven from the garden in that beautiful paradise.

So I know what it is to be a steelworker, I was surrounded by steelworkers. I know what it is to be employed in the type of honorable and necessary work that spans generations, builds close-knit communities and contributes to our nation's most vital economic and national security interests.

Yes, I know what it means to be one who works with his hands, to be a steelworker. I know it should not mean. Being a steelworker in West Virginia should not mean having to postpone one's retirement after 30 or 40 years of employment because you can't afford to stop working. It should not mean losing your family's healthcare benefits because America's trade laws are not being enforced.

Being a steelworker should not mean becoming a jobless statistic, a faceless pawn sacrificed on the altar of the global economy by unscrupulous traders.

Being a steelworker should mean making an honest living for a decent wage, producing a competitive product in a fair trading system.

Steel companies and their workers in West Virginia deserve no less. As Commissioner Lane knows firsthand, two of the top integrated steel producers in the United States have key facilities in the northern panhandle of West Virginia. In 1998, Weirton Steel employed approximately 3800 workers. Largely as a result of injury caused by unfair trade, ISG's Weirton facility today has approximately 2300 workers, but those workers know that so long as existing import relief is maintained sufficiently to allow them to get back on their feet they are well positioned to produce profitably for many years to come.

Continuation of the existing import relief is particularly important to ensure that ISG can continue to contribute to its voluntary employee benefits association which provides ISG Weirton's retirees with health benefits and life insurance and is tied to ISG's profitability. No profits mean no VEBA. No VEBA means no healthcare for at least 3500 Weirton retirees.

Wheeling Pittsburgh Steel of West Virginia is another of the nation's largest integrated hot-rolled steel producers, with facilities in Wheeling, Falensby and Beach Bottom, West Virginia, as well as in Allenport, Pennsylvania and in Steubenville, Mingo Junction, Yorkville and Martin's Ferry, Ohio. As of December, the company employed 3400 workers and had approximately 10,000 retirees.

Steel pipe and tube are also produced in West Virginia and the pipe and tube industry is one of the largest consumers of U.S. produced hot-rolled steel. In fact, pipe and tube producers account for purchases of nearly one-third of all of the hot-rolled steel made in the United States.

Parkersburg, West Virginia boasts a large diameter pipe producing facility operated by Northwest Pipe Company, which has been in business for nearly 30 years and it is an important regional supplier.

Although West Virginia steel companies and their highly dedicated workers continue in their unstinting efforts to trim expenses, invest constructively and compete efficiently against government-backed foreign competitors, they continue to face high fixed costs and prices that are sensitive even to small changes in supply.

Consequently, if current trade relief from unfairly traded imports is allowed to lapse, the lives of thousands of steelworkers, their families, and entire communities in West Virginia, Ohio, and Pennsylvania will be devastated.

The importance of steel manufacturing to West Virginia and to the security of our country compels me to urge you most respectfully in the strongest possible terms to defend this vital industry. I therefore respectfully request that you support continuation of the existing antidumping and countervailing duty orders on hot-rolled steel from Brazil and Japan, as well as the current suspension agreement on hot rolled steel from Russia.

Ladies and gentleman, let me thank you out of the bottom of my heart and out of the bottom of the hundreds and thousands of steelworkers' hearts in West Virginia and elsewhere in this nation and I thank you for the good work you are doing on behalf of your country and may I close by wishing you Godspeed in your efforts.

May God bless you and bless the steel industry and the United States of America now and forever more.

VICE CHAIRMAN OKUN: Thank you, Senator

Byrd. Thank you for your appearance here and for providing us your testimony.

Commissioner Lane?

COMMISSIONER LANE: Senator Byrd, I want to thank you for appearing here today and for doing such a wonderful job representing West Virginia. Thank you.

MR. BYRD: Thank you. Thank you, Madam.

VICE CHAIRMAN OKUN: And we want to wish you a good day as well, Senator.

MR. BYRD: Thank you as well. Thank you all.

(Applause.)

MS. ABBOTT: The Honorable Arthur Davis, United States Congressman, 7th District, State of Alabama.

VICE CHAIRMAN OKUN: Welcome, Congressman Davis.

MR. DAVIS: Thank you, Madam Chairman. It is a daunting task to follow Robert Byrd, if you're a sophomore member of the House.

Let me thank all of you all. I will be brief. I want to begin by thanking the ITC for conducting this hearing. This is an important part of the work that's done to promote a good strong economy in our country.

Let me take you from the rolling hills of West Virginia, if I can, to Birmingham, Alabama and Jefferson County, the biggest communities in my 7th District. I heard a lot of what Senator Byrd said and I would echo it. There is no question that steel has been not just a vibrant industry, it's been an industry that's at the heart of building a strong security system in our country. Not only has it been an industry that's been important to making us more secure, it has also been a major part of growing places like West Virginia, places like central Pennsylvania and places like central Alabama.

Let me disabuse the commission, if I need to, of one notion that's often thrown out during these debates. A lot of people, a lot of them sitting in the press and the editorial rooms, like to frame these debates as an exchange between those who believe in trade and those who are somehow anti-trade. I think nothing could be further from the truth.

When I talk to the steel industry in my state, when I talk to the employees of the steel industry in my state, they believe in trade. Of course they do, they look at the shirts they were and where they're made. They look at the shoes they wear and where they're made. Of course they believe in trade. What they simply want is a competitive playing field.

I make that point because I am a very strong believer that if the steel industry is empowered to compete, truly compete, in a fair, competitive environment that we will one day come to a point that we don't have to have these kinds of hearings because the power of that industry will be enough to allow it to prevail in the world market.

But we know what has happened. In the late 1990s, the American steel industry was almost literally brought to its knees because of anti-competitive dumping practices. That's wrong. It violates basic principles of fairness, it violates international law, and I think our government was right to respond. And I'll note that their response has been bipartisan. It's been one that two administrations now and both parties, I think, have stood by, this notion that if you dump products, if you engage in unfair subsidies, there will be a consequence. That consequence simply levels out the playing field.

It is important for you today to let this process continue. It's important for you today to let these rules and these laws that have helped this industry continue, not out of some empty goal of protection, not out of some empty protectionist impulse, but because this will create a fair and better and more competitive trading environment.

I will say something about this industry. Another myth that's often put before you is that if you allow countervailing duties, if you allow the U.S. to be aggressive in defending international trade law that you're somehow giving a free pass to industries who aren't doing enough to make themselves more competitive.

That could not be further from the truth when it comes to American steel. The American steel industry has done, I think, a remarkable job in the last several years of making itself more productive, of making itself more competitive, in meeting the challenges of global competition of the 21st century.

I don't think this industry comes to you looking for you to shield it from what's going on in the rest of the world. I think this industry and its workers come to you simply asking that it be allowed to meet the rest of the world in a fair place.

The final point I will make is, as Senator Byrd told you very well, this is important to our communities. Bessemer in Fairfield, Alabama used to have almost 50,000 people. Today, that number is down to around 25,000 to 32,000 people. Much of that loss has been because of the erosion in steel and that's due to the erosion of the competitiveness and the potential for competitiveness of the steel industry.

There are whole families in Birmingham, Alabama who worked for years in steel and now the grandchildren have to go elsewhere. That cannot be good for the health of our communities because the steel industry has become an institution in many of those communities, it's become a pillar that allows people to have certain dreams and to raise their families and we very much need to sustain that pillar.

So I thank this commission again for its work and I ask you to endorse a very simple proposition, that if you play by the rules, you will be rewarded; if the rules are violated, that this country doesn't have to stand powerless. I think that's all the steel industry wants and I think it's all these employees want as well, so I stand here on their behalf.

I note a final observation today. Look at the list of who's come before you. Democrats, Republicans, southerners, northerners. There is a reason we are all here and it's not just because our districts are impacted. It's because we have a collective belief that we cannot write off a major American industry. We cannot allow it to die because if you do that, you're impacting the health and vitality of communities.

Thank you for the good work you do and I am honored to be here today.

VICE CHAIRMAN OKUN: Thank you for your testimony today, Congressman Davis.

We will now return to the questioning with Commissioner Miller.

COMMISSIONER MILLER: I hope you all had big breakfasts. We're not done yet. That's what 30 members of Congress will do for you.

VICE CHAIRMAN OKUN: For the record, I did not.

COMMISSIONER MILLER: Okay. All right. I do have some other questions.

Mr. Lighthizer, let me go through this chart that you put up at your initial testimony this morning. I wanted to make sure I understood what this was. You describe the source of it as Attachment 6 of your pre-hearing brief as amended by subsequent data. It doesn't reflect what's on your Attachment 6.

I heard you reference earlier something about the data you submitted yesterday and I don't know if that is what creates this, but can you tell me what this is?

MR. LIGHTHIZER: Yes. That data is not reflected in this. What this is is cumulative losses. I could watch you when I first put the chart up, so I knew we were going to be talking about this, Commissioner.

What we have here are cumulative data. The point we're trying to make, and I think it's essential, is that you have to believe that you have to make money at some point and you have to make enough money to be able to actually make your cost of capital and make the kind of investments you need to survive. So what we've done is we have taken the losses in '99 and added them to the losses in 2000 and added them to the losses in 2001 and added -- do you follow what I mean? They're cumulative losses as you move along.

And then in 2004, you had a substantial --

COMMISSIONER MILLER: You make money, so it changes.

MR. LIGHTHIZER: Well, not only -- you've got a substantial profit.

COMMISSIONER MILLER: Right.

MR. LIGHTHIZER: But the point is that it only got you back to still -- now, the data that we submitted yesterday will actually make this loss somewhat larger, it doesn't affect any trends at all, but it will make it larger. And then when we moved a couple back, we just wanted to make the point that if you really want to see how big a hole we are in over the whole period of review, you have to also add on the cumulated foregone investment. That was the point.

COMMISSIONER MILLER: Okay. All right. I like to understand what's being represented.

MR. LIGHTHIZER: I knew we were going to do it.

COMMISSIONER MILLER: Yes, you did. I wouldn't want to let you down.

Okay. Well, then, let me ask another question, just again aimed at understanding where you would have us look in terms of understanding profitability.

In your pre-hearing briefs for the most part you urge us to focus on the merchant market as some of us, including myself, have looked in the last two investigations regarding hot-rolled, have applied the captive production provision. We don't apply it in sunset cases but you've urged us to still focus on that particular market. I'm trained, I've done it, I've been convinced by your earlier arguments that it's the appropriate place to look to understand the impact of imports most clearly. And so now I come to this record and I see a different picture on the commercial market and on the total market.

There are a couple of things that are different about it; one I'll ask you to help me with probably in a post-hearing submission. One thing I've seen in many investigations over time doing this is usually operating profits basically look the same just by virtue of the way the financial accounting works here. The pictures pretty much are the same, the financial picture and the trends tend to be the same, whether you're looking at the commercial sales or the total market.

In this case, that's not the case. We have one year in particular, 2002, I believe it is, where it's different. It's different. And the operating margins generally look quite different in this case.

Now, that is something that may require you addressing that in the post-hearing submission to help me understand and I've asked our staff to look at it and to talk to you to help us understand why the picture looks different.

I don't know if you have any comment or if you want to address it at all right now or if you just want to leave that to the post-hearing submission, why there's this discrepancy.

MR. HECHT: This is Jim Hecht. I think it probably is better dealt with confidentially.

COMMISSIONER MILLER: Yes.

MR. HECHT: Obviously, one thing you could see is the performance of companies that sell more downstream versus companies that are more active in the merchant market. That could certainly result in some differences between the two sets of data.

COMMISSIONER MILLER: Right.

MR. HECHT: I think our sense of the trends are fairly much in order and, again, once we have the revised data we can get a final look at that, but we would be happy to walk through that in our post-hearing.

COMMISSIONER MILLER: Okay. Do. Look at particularly the discrepancies between them. But then, you know, and this I can look at, you know, publicly, I mean, if I look at the last three years and just look at the picture, if I was going to characterize the picture of the industry in general, you know, you've said often today one good year does not change the situation. But if I look at the commercial sales and the operating income in the commercial sales, you had a good year in 2002 as well, it wasn't just one good year in the period of time and the operating loss was sort of less in 2003 than I've seen many times. In other words, it didn't look like it was -- the picture in general gives you a different picture, okay?

So I've usually looked at the commercial market. I don't know if there's any reason why I won't do so this time. But the commercial market picture is different than the total market and I know some are looking at me rather perplexed here. I am perplexed because I have always seen them as tracking each other and in this instance they don't. So help me in the post-hearing submission. I think that's the only place you can do it.

All right. Okay. The confusion took us all the way to the end of my questioning, so I might as well stop at this point. I have perhaps one other question and perhaps not. Thank you for all of your answers.

VICE CHAIRMAN OKUN: Commissioner Hillman?

And I apologize, Commissioner Miller, for having to interrupt you and your train of thought, but hopefully we'll get through this.

Commissioner Hillman?

COMMISSIONER HILLMAN: Well, I confess, even though I knew better I didn't eat a large enough breakfast to keep going forever, so I am going to ask for one question to be answered in the post-hearing briefs and it's really more of a specific comment on the data.

If I read the briefs, everybody takes very different positions on the future trends in terms of global demand and global supply and everybody cites different numbers and different databases and specifically also on China's future status as a net exporter and importer.

So I would simply invite you to comment, analyze or critique the other side's data on this because you all are relying on different data sources and coming to very different conclusions on these issues of global supply and demand and China's presence or absence in the market. And I would like to understand why everybody has such very different data on these kind of fundamental questions. If that could be done in the post-hearing briefs, I'd very much appreciate it.

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

COMMISSIONER HILLMAN: Okay Thank you.

And with that, Madam Chairman, I have no further questions at this point. Thank you.

VICE CHAIRMAN OKUN: Thank you, Commissioner Hillman.

Commissioner Lane?

Commissioner Pearson?

COMMISSIONER PEARSON: Madam Chairman, even though I did have quite a nice breakfast, I still have no further questions for this panel in support of continuation of the orders and I would like to thank them very much for their testimony in this investigation.

VICE CHAIRMAN OKUN: Okay. I still have some questions, even though I'm the one who didn't eat the big breakfast, but we also have some congressional witnesses who we're trying to figure out how to accommodate and still turn to our next panel.

Let me ask my questions and then I think we'll just take a two-minute break to confer with my colleagues to come up with a schedule for the afternoon that will try to give some certainty to our next panel of witnesses of when they'll be coming back on, give everyone here a break, but we may just continue to hear from congressionals and not officially recess, but I want to talk to my colleagues before I do that.

With that, let me ask a couple of my remaining questions, although a lot have now been covered.

With regard to the raw material costs, and I think that was at the end of one of Commissioner Miller's questions, she was asking about what you saw going forward and I think what I heard was continued high raw material costs. If you can comment for me without getting into confidential information, one of the things I'm interested in is what that means in terms of prices now and prices going forward as it relates to contracts, whether -- you've put in place a change for this industry, I think, that would be similar to some other industries we see where you get a surcharge for rising material costs and whether that's been accepted -- again, some of this might have to be done and some you've done, but I want to hear as much as I can here, just going forward, how do you look at raw material costs and is this a change? If you see raw material costs going up, you've got to have a surcharge in a contract.

And, as part of that, if you can also tell me whether there have been any changes of when the steel industry does its contracts? In other words, some cases we've heard recently where there's kind of an annual season where a lot of the contracts are done. It's never been my impression for this particular industry that it's more spread out, but if there have been any changes in that, if you can just let me know, that would be helpful in thinking about it as well.

Mr. Surma, I'll start with you.

MR. SURMA: Thank you, Commissioner. Some of that, of course, would be proprietary and we may want to submit some in the post-hearing brief. But in general, contract-wise, and about half our business in the U.S. is contract business, we haven't seen any major change in the overall trading patterns of those industries and customers that we do contract business with on our side of the table as we have those conversations. More would be annual contracts than not. Some would go longer than that, some would be shorter than that.

We consider all the information on our side of the table that we have, what our cost structure is, what our expectations are for raw materials, what our expectations are for energy and what we think the market is going to do. And, naturally, the people on the other side of the table do the same thing and we have a conversation and we end up with a negotiation and some contract terms with respect to quantity and quality and volume and price and delivery terms we can agree on.

We did that this year, as we did it many years before that, we ended up with a particular solution in each customer's case that satisfied us and satisfied them. So I don't see any major change. The specifics I wouldn't really want to get into. We have seen the beginnings of some new mechanisms that might be more variable based on some raw materials, but that would be more prevalent in my colleagues' discussions and I would defer to them in that regard.

Thank you.

VICE CHAIRMAN OKUN: Thank you.

Mr. DiMicco?

MR. DIMICCO: Dan DiMicco, Nucor. Without a doubt, it's been a year of extremes, both from the standpoint of our raw materials and our customers' raw material costs. We made a decision a year ago, a little over a year ago, to institute a raw materials surcharge because of the rapid increases in scrap pricing that we couldn't keep up with. And in our contract negotiations, we negotiated in raw material surcharges so there was a base price and a raw material price that was indexed to some numbers out of American Metal Market. And at the beginning, the scrap prices rose, the total transaction price to that contract customer went up based upon the raw material surcharge. As it has come down, the transaction price to those customers has subsequently come down as well. The base price during that period has not changed.

If you were to ask me is that raw materials surcharge here to stay, absolutely yes. Will it be zero sometimes? It could be. But will a mechanism have to be in place? Absolutely. Why? Because the kind of extremes that we've seen where scrap goes from $100 a ton to $400 a ton in a period of months, not years, those dynamics force you to deal with it in no other way to be able to supply your customers with the material that they need.

Now, one of the things that we have done and other people are doing is that we've embarked upon a raw material strategy to bring in house production capabilities of up to 7 million tons of raw material in the form of pig iron, hot briquetted iron and DRI so that we can become less subject to those wide swings and basically have a hedging mechanism in place to be able to supply our customers in a more balanced and consistent fashion in the future, but that takes years to put in place. It doesn't happen overnight. It will take us -- to get from where we are today to 7 million tons, we forecast to be on the order of three to five years.

VICE CHAIRMAN OKUN: And, again, any difference when you're negotiating contracts, the timing?

MR. DIMICCO: Not really. No.

VICE CHAIRMAN OKUN: Okay. I just wanted to make sure about that.

Mr. Nelson?

MR. JERRY NELSON: Vice Chair Okun, we have tried to build in more flexibility into our contracts, whether that's in the form of a surcharge or tieing them to some sort of an index. As a general statement, they tend to be shorter in length than contracts have historically been. So we are negotiating more frequently, to answer your other question.

As far as long term, we started off this discussion today talking about how we all didn't forecast what was going to happen in 2004 and I think if we've learned nothing else, we don't know what's coming around the corner in 2005. We think we've got a handle on things like scrap and iron ore and coke, but we don't know what's going to happen with oil, energy costs, things like that. So we've learned to build more flexibility into our contracts, yet try to make them responsive to our customers' needs where they need stability. So that's the biggest change that we've seen.

VICE CHAIRMAN OKUN: Okay. Mr. Nolan?

MR. NOLAN: Vice Chair, thank you. John Nolan, Steel Dynamics. First, let me address the negotiating season. Typically, it occurs in the August-September and forward time line, but I will tell you that we had customers who actually moved beyond January 1st, so this is kind of an extended season, maybe it's unique to the circumstances of 2004 and 2005, I can't speak to that.

Typically, we could like to get them done and keep them in play. And, frankly, getting them done and keeping them in play is where issues caused us to look differently at how we approach the market for contracts. We found that as you heard from Mr. Nelson earlier today there was considerable downward pressure on the contract prices when spot market prices fell. We also had experiences where promised quote-unquote volumes did not materialize, putting us in a difficult circumstance. All of these things were material issues related to the contracts in a prior context.

We have moved like Mr. DiMicco to a combination of base and surcharge. The surcharge follows an American Metal Market index for Chicago, number one busheling consumer buyers price. As the surcharge goes up, our customers pay more. As the surcharge goes down, as it has recently they pay less. We also have appended an index tied to CRU, to the base price. So that's adjusted on a quarterly basis. So we've tried to create a very flexible solution to the marketplace to address the problems that the dynamics in spot pricing create as it relates to contracts.

So very much as you asked on several occasions and your fellow commissioners asked, there is a huge link between spot pricing and contract pricing and there always will be and it's really a consequence of behavior and philosophy in the buying community.

VICE CHAIRMAN OKUN: Okay. Any other comments?

MR. SZYMANSKI: Steve Szymanski from U.S. Steel. We have a number of different types of contracts that we pursue. Some customers only wanted to go six months or three months as opposed to a year, so we responded to each of those situations. We do have some fixed contracts, some adjustable based on indexes, really trying to find that perfect formula that works for everybody because of the seasonality that we've gone through. However, on the timing of these negotiations, I think they're really a function of what the market is like and if the market seems to be firming, then people want to sign up early. If the market is looking like it's softening, they're going to drag it out.

We had one customer buy a lot of Russian hot-rolled in the fourth quarter and really wasn't interested in putting any deals together, any contracts or anything like that, because they really didn't want to -- they just weren't sure where the market was going. So I think we've faced a lot of different combinations in terms of the responses to contracts.

VICE CHAIRMAN OKUN: Okay. I appreciate all those comments.

MR. NOLAN: If I could have one more comment with regard to surcharges?

VICE CHAIRMAN OKUN: Yes.

MR. NOLAN: Surcharges are a component of price and ultimately we have to be competitive with the marketplace, so no matter how you bulked that price up, whether you call it surcharges, base price, whatever, all of us have to be competitive with the entire U.S. market.

VICE CHAIRMAN OKUN: Okay. Mr. Price?

MR. PRICE: Yes. One quick note, which is several countries, most notably Russia, have given themselves a major raw material cost advantage by the way they have restricted their exports through taxation, giving themselves by their own admission about a 50 percent cost advantage on scrap costs. They're currently trying to reduce their iron ore and restrict iron ore price increases. So it's a very uneven playing field as to the economics out there and it really gives them a major cost advantage to bring prices down a lot because their underlying cost basis is much lower.

VICE CHAIRMAN OKUN: Okay. My red light has come on. One thing for post-hearing, if I can ask counsel, I know in your briefs you did talk a little bit about whether you thought the commission could consider consumer interest as it's been argued. I would actually appreciate -- we've done this in another case going on, but if you could address that in a little more specificity, the Respondent is arguing that we're not prohibited from considering them and if you could address that and address congressional and legislative history related to the consumer issues vis-a-vis this Section 201, I would find that of interest. All the counsel out there are shaking their heads, so we will go with that.

Let me see if there are any other questions from my colleagues.

Let me turn to staff to see if staff has questions of this panel.

MR. CORCORAN: Douglas Corcoran, Office of Investigations. Thank you, Vice Chairman Okun.

One question from staff. It's a request for information in your post-hearing brief. Testimony this afternoon touched on moving outages that had been planned for 2005 into the fourth quarter of 2004. Could the domestic producers please provide a schedule of planned outages in 2005 and then contrast that with the outages that outages that actually occurred in 2004?

MR. PRICE: We'll be happy to do that.

MR. CORCORAN: Thank you, Vice Chairman Okun. Staff has no further questions.

VICE CHAIRMAN OKUN: Thank you.

Do counsel for those in support of revocation have questions for this panel?

MR. MCCONNELL: No questions from the steel consumers.

VICE CHAIRMAN OKUN: Thank you.

If can just have the indulgence before I release this panel just to briefly determine how we're going to proceed.

(Pause.)

VICE CHAIRMAN OKUN: Okay. Thank you.

We all knew this was going to be a long day and it will be, but I first want to thank this panel of witnesses very much for your testimony, for your answers to all our questions and for your patience through a very long morning and afternoon. There's more to come.

The hearing will adjourn until 3:15. However, the Respondents will not be testifying before 3:30, so the Respondents panel will not be testifying before 3:30. There may be congressional testimony that we will begin taking at 3:15 and then we will start the Respondents panel after that. So, again, my colleagues and I will all return at 3:15 after a brief lunch and Respondents start at 3:30.

I will remind everyone the room is not secure. Please take your confidential information and we will see you back here.

With that, we are adjourned.

(A recess was taken from 2:48 to 3:29.)

VICE CHAIRMAN OKUN: If we could please have everyone take their seat, ready to begin?

To point out the obvious, we didn't reconvene at 3:15 because Senator Obama was not able to get here when we thought he was, but he's still coming, so I regret that we are going to be in a situation where we're probably going to be interrupting the testimony of this panel to take congressional witnesses because the other reason we were trying to do that was because there was supposed to be a House vote at 2:45 that they changed to 3:15. So nothing worked out as we planned, other than giving all of us indigestion from eating our lunch quickly.

Having said that, we will go on. I want to go ahead.

Mr. Secretary, if you could please announce this panel.

MR. BISHOP: The panel in support of

revocation of the orders and suspension agreement has been seated. All witnesses have been sworn.

VICE CHAIRMAN OKUN: Thank you, Mr. Secretary.

It looks like everyone at the panel is seated.

You may proceed, Mr. McConnell, and I will make every effort to make sure that we can break at an appropriate time.

MR. MCCONNELL: Thank you very much, Madam Chairman, and thank you again to the panel. I am Mark McConnell on behalf of the American steel consumers and I'd like to kick off our panel with just one observation.

Could we queue up the slides, please?

This case is the prototype of import restrictions that should be sunset. The conditions that led to the restrictions have reversed completely during their term. Let me explain.

Could we advance to the first slide?

This chart shows Asian and rest of world steel demand from 1994 to 1998 indexed to 1998 demand. So to read the chart, the red bars show Asian steel demand as a percentage of their 1998 levels and the white bars show the rest of world steel demand on the same basis.

As you can see, Asian demand fell dramatically in 1998. The reason for this was made clear in our brief: a financial crisis plunged Asia into its worst economic downturn in 30 years. This was the picture when these restrictions were imposed.

Next slide, please.

This shows the turnaround in Asian demand, more than an 80 percent increase since 1998. We simply are not in a marketplace where foreign steelmakers are desperately looking to find markets.

This change in world demand has been matched by a change in the condition of U.S. producers. In 1998, producers were fragmented, they were burdened with legacy costs and now the situation is completely different. The steel industry has consolidated, balance sheets have been rid of legacy costs and the consolidation has given the U.S. industry market power. We're in a very different steel market. Our witnesses will develop these points.

Brian?

MR. BECKER: Good afternoon. My name is Brian Becker and I'm the President of Precision Economics. I will briefly summarize a paper I co-authored with Kevin Hassett attached as Exhibit 1 to the pre-hearing brief.

The steel companies today describe their industry as financially vulnerable; however, our research consistently found domestic steel manufacturers to be in better financial health today than in December 2003 and in better health than typical heavy manufacturing industries. This can be seen in current profits, forecasts, utilization rates and consolidations.

The steel manufacturing industry enjoyed very high profit margins in 2004. For example, U.S. Steel earned positive profits in each quarter of 2004 after suffering losses in each quarter of 2003. Nucor's 2004 earnings were approximately 10 times its average earnings over the previous three years. The staff report showed the domestic hot-rolled industry to have earned operating profit margins above 20 percent in 2004.

While the clear profitability results focus on a single period of approximately 14 months since the removal of 201 safeguards, there is also consistent evidence that these high profits are expected to continue. Contrary to what was presented earlier today, many of the Petitioners have announced publicly their expectation of future financial health.

Indicative of recent press releases and analyst reports, U.S. Steel's CEO stated, "The substantial increase in our quarterly dividend rate reflects our confidence in our financial outlook."

The best way to quantify changes in profit expectations over time is to consider how much investors are willing to pay for the rights to future profits by purchasing shares of stock in a company. In the steel manufacturing industry, expectations reflected in stock prices have surged since December 2003. Steel company stock prices increased by as much 100 percent in the first 13 months following removal of the 201 safeguards. During this same time period, economy-wide expectations of future profits were essentially stagnant.

Consistent with these measures of financial health is the fact that the domestic industry is producing at nearly full capacity. This 94 percent utilization rate for raw steel is the highest seen over at least the last ten years.

The staff report provides the same data on raw steel, but concludes its table in 2003 when utilization rates were approximately 9 percentage points lower. Unfortunately, this (a) provides no information on how the industry has performed since removal of the 201 safeguards and (b) has the potential for the current reader to misinterpret the current state of the industry.

Publicly available data imply that the ability of foreign producers to quickly increase production and export to the United States may be limited, as world capacity utilization levels for raw steel are expected to be above 99 percent in 2005. The high utilization rates have allowed investors in domestic steel companies to feel shielded from an increased level of imports. The success and high expectation in the U.S. steel manufacturing industry in part reflect healthy financial times for the industry worldwide. However, they also reflect changes in the U.S. industry's structure and market power over the past few years, made possible in part by the PBGC's assumption of nearly $10 billion of steel industry pension liabilities. The domestic industry has become more consolidated than the worldwide steel manufacturing industry. Thus, the steel manufacturers' financial health can be seen in the form of recent profitability, consistently optimistic projections, high capacity utilization rates, a limited opportunity for imports to increase and PBGC-assisted consolidations.

Thank you.

MR. ENGLE: Good afternoon. My name is Jeff Engle. I'm the Americas Purchasing Operations Executive Director for Ford Motor Company. I have with me today Lisa King, who is our Manager of Steel Purchasing.

I cannot underestimate the degree to which the steel supply situation is adversely affecting Ford's business. It is consuming the attention of every single officer at the Ford Motor Company. That is why we requested to appear today.

We believe that the restrictions in this case are no longer needed. The automotive industry accounts for nearly 4 percent of the U.S. economy, eight times larger than the steel industry. Auto manufacturers directly employ 450,000 people in the United States and support an additional 1.3 million supplier jobs.

Each year, Ford purchases about 4 million tons of steel for our North American operations; 98 percent of that purchase is with U.S. steel companies, North American steel mills. We have no intention of changing that focus. We work with our U.S. suppliers constantly on issues like technical development and delivery processes. We depend upon the financial health of our suppliers and they depend upon us. We build and sell the vehicles that creates a demand for their steel.

Let me tell you why we think the import restrictions should end. First, the facts show that they are no longer needed. The steel industry's restructuring has been difficult, but as Brian showed you, it has created strong producers. Three companies, U.S. Steel, Nucor and ISG, now control 52 percent of the total U.S. steel production. The industry is consolidated, it is competitive, it is recording record profits and it's investing in improvements.

Second, supply is constrained in this market. In our business, an unplanned plant shutdown is a disaster, so we intervene in the spot market not only to protect our own supply but also to protect our suppliers. In 2004, we were forced to make three times the number of emergency spot buys versus prior years. From our perspective, the mills appear to be operating at full capacity, Whatever their reported utilization rates, one can only assume that the mills are selling all available hot-rolled steel in light of the shortages and high prices.

Third, there is an imbalance in the

marketplace. In 1998, U.S. producers had limited market power, but the pendulum has swung far in the other direction. The price run up in 2004 was unprecedented. We have compared the 2004 price peaks to the peaks of other steel cycles since World War II. The price increases in 2004 were several orders of magnitude greater than in any other post-war cycle.

What will change when the restrictions are lifted? Well, we do not plan to import more steel. We have a U.S. supply base that we will continue to support and I can tell you that we are highly unlikely to see much interest in the U.S. hot-rolled market from either the Brazilian or the Japanese mills if the restrictions are lifted. We have a hard enough time getting the Brazilians to return our phone calls to Brazil, let alone here in the U.S. You will hear the Russian view in a moment.

We do know that quality steel suppliers worldwide are struggling to meet their existing customer needs. The last thing that they are going to do is short supply their core customers to ship large volumes of steel to the United States.

We do hope to see an improvement toward balance in the marketplace. In 1998, U.S. producers were vulnerable to large volumes of imports. The restrictions on imports played a role in getting the steel industry through a necessary restructuring. Lifting the restrictions will now not injure U.S. producers and will be a small step toward making the U.S. market more competitive. The restrictions are no longer necessary and should be revoked.

Thank you.

MR. DENTON: My name is Larry Denton. I'm the President and CEO of Dura Automotive Systems based in Rochester Hills, Michigan. I have with me today John Knappenberger, who is the Dura Vice President of Procurement and Quality. Dura is a $2.5 billion automotive and RV supplier with over 60 locations worldwide. Today, 28 of our facilities are located in the U.S., where we employ nearly 9000 workers. By the way, today's Dura is a product of 19 acquisitions and consolidations over the past 15 years.

Dura has tremendous productivity and quality performance and provides competitive wages of around $40,000 annually per employee. Note that number is only two-thirds of what Nucor recently announced was being able to pay its average employee. We have generated over $120 million in cost savings over the past 24 months alone, to offset inflationary increases such as medical costs, salaries and traditional material increases.

Nonetheless, global competitive pressures in the supply base, coupled with higher than normal material increases and significant volatility and instability in relation to steel costs have driven us to close or exit eight U.S. facilities over the same period.

Dura continues to purchase 100 percent of the steel that it uses for its U.S. facilities from U.S. companies and we do not intend to change these steel suppliers. It is our point of view that supply is not an issue if you're willing to pay the highest price.

In June of 2003, I testified before the ITC regarding the severity that the sudden and hyper-inflationary steel pricing in the form of tariffs, 201 safeguards, were having on Dura and other U.S. based automotive suppliers. At that time, I highlighted an automotive jack produced in our Butler, Indiana facility. This product is 100 percent steel-based and at last 30 percent of its cost is driven by steel pricing.

In June of 2003, we were experiencing approximately a 30 percent increase in material pricing Today, the price of that same steel after the removal of the 201 safeguards has escalated to levels nearly 80 percent above their price just five quarters ago. Furthermore, we have been unable to gain significant relief from our customer base to pass through these increases. In fact, one customer has informed us that a portion of our jack business has been resourced to a Chinese firm based on its now uncompetitive pricing. Today, this situation has been amplified and cascaded throughout all of our steel-based products.

May I have my slide, please?

I have illustrated on this chart the detriment and direct correlation that the escalating price of hot-rolled steel has had on earnings. You will note the blue line pointing upward reflecting the increase in Dura's steel pricing and directionally the increase in profitability that the large four steel companies have enjoyed.

In sharp contrast, the red line, which points downward at an extreme slope, is Dura's earnings over the same period. This trend is not sustainable for any company and I could easily replace the Dura name with countless other suppliers in our peer group experiencing a similar degree of pain. In fact, now some are in bankruptcy.

Next slide.

I would like to draw your attention to my second and final chart, which reflects a balance of U.S. jobs involved in this value chain. The bottom of the reverse pyramid represents the steel industry with approximately 100,000 jobs. The next level shows the OEM groups which provide about 600,000 jobs. And at the top of employment is the automotive supply chain, which provides over 700,000 jobs, 800,00 by some estimates.

I will point out that only one group of companies, the one that represents less than 8 percent of the U.S. jobs in this graph and chain, has profited from the unnatural steel pricing to the detriment of the other 92 percent.

In summary, the elimination of AD/CVD orders, while not a total cure, will help to minimize artificially high steel prices, increase availability, and improve deliveries for consuming companies such as Dura. We respectfully request the commission consider strongly this imbalance of market power and the necessity to provide U.S. companies and the workers we employ with a balanced playing field on which we compete.

Thank you.

MR. DAVID NELSON: I'm Dave Nelson, Vice President of Global Supply Management for Delphi Corporation. I have with me Eric Sandford, who is Deputy Director for Metallic Raw Materials globally.

This is my 48th year in industry. I previously worked for TRW, Honda of America where I served as a member of the board of directors and Deere & Company. At Delphi, I am responsible for purchases of over $18 billion of materials. I am pleased to provide testimony today on the impact of steel duties on our company.

Delphi is among the largest providers of automotive technology and components in the world, with nearly 50,000 employees in the U.S. On behalf of Delphi, I'd like to make three points.

First, today's U.S. automotive supplier industry is dependent on reliable and competitive materials for its survival. Our customers demand high quality product at competitive prices and just-in-time reliable delivery. Any disruption of this system jeopardizes Delphi's business with our customers and, in turn, Delphi demands quality and reliability from our suppliers. In other words, delivery delays and last minute price demands create severe disruptions in our supply chain.

Second, steel is a critical resource to Delphi's component pipeline. We currently purchase nearly $200 million of carbon hot-rolled steel from U.S. steel companies. In the past year, we have experienced the following: a 50 percent increase in price, under-capacity causing supply allocation and a doubling of lead times.

Third, like our customer Ford who testified a few moments ago, material shortages, delayed deliveries and extended lead times force Delphi to increase our spot market purchases which are often an additional 50 to 100 percent above contract prices. As has been mentioned, supplier and material validation requirements in the auto industry must meet months of quality testing, especially for safety-related components.

Finally, the U.S. automotive industry continues to be hampered by high labor, health care and pension costs in an extremely competitive industry. With the increases in the price of steel, a vital component in the content of a motor vehicle, the future viability of the U.S. automotive supplier industry is in serious doubt.

For these reasons, we urge that the commission allow these duties to expire and provide balance to the marketplace for this critical steel type.

MR. GASKIN: Good afternoon. My name is Bill Gaskin. I am President of the Precision Metal Forming Association with 1200 member companies employing more than 100,000 people. Average sales are about $20 million. Members are located in 41 states. The 1.4 million employees in metal forming industries stamp and form flat-rolled steel into metal parts, assemblies and end products. Customer markets include virtually every manufacturing sector: defense, medical, agriculture, off highway, lawn and garden, construction, telecommunications, toys, large and small appliances, consumer products, office machines industrial and consumer hardware, automotive and others.

As you will hear from my members, flat-rolled steel is the largest cost for our metal forming companies, comprising 40 to 60 percent or more of their sales dollar. Most small and middle market metal forming companies purchase steel through distributors and, like the auto sector, their overwhelming preference is to buy steel made in America.

Automotive is an important market for steel, but I want to emphasize that thousands of companies supplying non-automotive markets also have suffered from shortages, poor quality, late deliveries and skyrocketing prices for steel during 2004.

Small and middle market companies, unlike the OEMs such as Ford and tier 1 auto suppliers, lack market power to command the attention of steel producers. When steel is in short supply, small businesses are first to suffer. They are powerless to resist price increases and they often cannot pass along increases to their customers.

Here are a few examples of problems being faced by my members.

A Wisconsin company was notified just before Christmas that a large customer is moving 25 contracts to a new China source. The lost work is about 7 percent of their annual sales. The customer cited the price increases my member was forced to pass on due to the 69 percent increases in steel costs over the last 12 months. Of the 25 contracts, 16 are produced from hot-rolled steel, representing 349,000 pounds of steel which will no longer be purchased from a domestic steel producer.

Second, a California member reported that in the third quarter of 2004, a 200,000-pound order of flat-rolled steel from a domestic producer had to be rejected for not meeting quality specifications. The domestic mill subsequently canceled the order to the distributor, forcing my member to replace the steel he ordered at 39 cents a pound with a spot buy at 56 cents per pound. He had to eat the $33,000 his customer, would not reimburse him.

There are two important points about the hot-rolled steel market that we want to make very clear and make unequivocally. One is that demand for flat-rolled steel is not declining. In 2004, my typical member reported 10 to 15 percent higher shipments based on volume and PMA's February 2005 business conditions report noted that 56 percent of members expect incoming orders to rise during the next three months, only 10 percent anticipate declines, the lowest level in a year.

The second point is that steel imports are critical to the future of metal forming companies. For the past ten years, steel imports have averaged approximately 20 percent of U.S. steel consumption and 2004 was no exception. For hot-rolled sheets, 2004 imports comprised a below average 15 percent of consumption. American Metal Market has reported that domestic steel producers operated at 90.8 percent of capability during 2004, a level commonly being considered effective full capacity. So if demand is likely to hold firm or increase, if imports for hot-rolled are below average level of the last few years and if domestic producers are running at full capability, then we do not see any likelihood that steel producers would be injured if these orders are revoked.

Also, the recent decline of the dollar certainly works to help keep imports below injurious levels.

Steel consuming manufacturing jobs depend on the steel industry. We know these orders if left in place will distort the market for years to come and make our members uncompetitive. A 19 percent increase in imports of metal fabricated parts last year is the reality that we face. The competition is beating us because of cost.

MR. KEAT: Good afternoon. My name is Dennis Keat and I'm the CEO of The Su-Dan Corporation.

VICE CHAIRMAN OKUN: I'm sorry to interrupt, but we are going to go ahead, since there's a break in the testimony and take a congressional witness and then we'll return.

I apologize, Mr. Keat.

Mr. Secretary, if you can please announce our congressional witness?

MR. BISHOP: The Honorable Barack Obama, United States Senator, State of Illinois.

VICE CHAIRMAN OKUN: Welcome, Senator Obama.

MR. OBAMA: Thank you, Madam Chairman. I appreciate this accommodation and thank you very much. I know you've got some very knowledgeable witnesses here, so I'll try to be relatively brief.

Chairman Koplan and members of the commission, it's a pleasure to be here in my first appearance before this commission and I appreciate the opportunity to make a brief statement on behalf of my state, the state of Illinois.

We have thousands of steelworkers in Illinois and our state is one of the top steel producers in the nation. These hardworking men and women know that more trade means more competition with workers all over the world and they are ready for that competition. All they are asking for is for us to enforce the trade laws that will make sure the playing field is fair, to make sure we're not allowing foreign companies an unfair advantage and foreign workers a head start.

All of this means that as we continue to open markets and break down trade barriers, moves that I support, the work of this commission will become that much more important, especially when it comes to enforcing trade agreements that involve dumping and foreign subsidies.

In this case, the countries in question were proven to be trading unfairly and caused unprecedented damage to the steel industry, starting in 1998. Unfortunately, they represented the first wave of what would become a deluge of unfair imports in the years to follow, leaving the steel industry with perhaps the most serious crisis in its history, a crisis that left more than 40 bankruptcies, catastrophic financial losses and thousands of lost jobs in its wake. In Illinois, three of our steel companies were forced to declare bankruptcy.

It is largely thanks to the relief provided by this commission that the steel industry has finally started to get back on its feet, but in order for us to help the industry help itself, in order to give our workers the best shot possible, we must continue to stop unfair trade practices from harming American firms.

Letting unfair trade return to this market would put at great risk the progress we've seen so far. The Department of Commerce has already determined that if the relief is lifted these countries would again sell dumped and subsidized steel. That not only harms our trade laws, it harms the businesses and the workers who count on these laws to compete.

We know there is a place for imports in this market and other countries have every right to compete, but there shouldn't be a place for unfair trade and they don't have a right to break those laws.

Your decisions affect the lives and livelihoods of many people throughout this country and throughout my state. I know you take your responsibilities very seriously and I realize the importance of your actions. My plea to you is that at a time of great challenge to the steel in this country you make sure that this market is characterized by trade that is free and fair. Our workers deserve that, our companies deserve that, and our country deserves that we meet the hope to keep such an important industry that employs so many people thriving in the future.

One other comment that I would just make, I am not a native of Illinois, I originally came to Illinois as a community organizer when I was 23 years old and I was working in the far south side of Chicago, an area that had been devastated by steel plant closings. So I know firsthand the devastation that occurred.

Some of this, I think, was inevitable as a consequence of shifts in technology and opening of trade barriers and so I recognize that we cannot simply take a posture of protectionism in meeting global competition, but I will say that as somebody who has worked with steelworkers and communities that depended on steel that the devastation that they've experienced should not be repeated.

There are a lot of steel companies now in Illinois that have re-tooled, are lean, are mean, are working as hard as they can to make sure that they can be effective in the world marketplace and I just want the record to reflect that if you have the opportunity to hear directly from workers and meet with workers and the people of these communities what you will see are people who are very much willing to compete, but they need a fair shot and that's something hopefully this commission can help provide.

Thank you very much for your attention and your time.

VICE CHAIRMAN OKUN: Thank you, Senator, for appearing here and your testimony and welcome to Washington.

MR. OBAMA: Thank you.

VICE CHAIRMAN OKUN: And now, Mr. Keat, you may continue.

MR. KEAT: Thank you.

Good afternoon. My name is Dennis Keat and I'm the CEO of the Su-Dan Corporation. I'm also the current Chairman of the Precision Metalforming Association.

Our business has been a family-owned company since our inception in 1966. We have four manufacturing facilities located in Oakland County, Michigan, and one facility located in South Carolina. We currently employ nearly 200 people with 35 percent of our workforce serving over 15 years. Our core business is manufacturing metal stampings and metal assemblies for the appliance and automotive industries.

Steel amounts to 60 percent of the total cost of our products. Availability, quality issues, delivery, and rapidly escalating cost of steel over the last steel have been nothing but a wrecking ball tearing through the middle of my manufacturing plants.

Just more than 12 months ago my company

experience a sudden sharp increase in the price of steel. At the same time every long-term contract we had with our suppliers was canceled. Prior to that we never had a contract canceled within the last ten years. For a company our size even the slightest disruption in our supply chain can be devastating.

In our history we were never sued by our customers for non-compliance to their contracts. During 2004 we were involved with two major court actions with our customers and negotiations with all of our customers. Every single one was related to our problems with steel.

Historically, our average delivery performance to our customers was 98 percent. In 2004 this was reduced to 76 percent with the primary reason being for delivery of steel, our largest component.

We participated with our customers and steel resale programs. Even then they could not supply the needed materials to meet production levels. We were asked to spot-buy the material to keep production moving. All this cost us an extra $1.5 million last year that we did not get compensated by out customers. In an industry with razor-thin profits, it nearly killed our company.

Buying materials on a spot buy basis costs more, but even worse it added a lot variation to our manufacturing process. This reduced our productivity and increased our cost of quality. We thought we were just lucky to receive material so as not to shut down our customers' assembly lines. For small metal market manufacturers like us any disruption in our production has a frightening ripple effect throughout our industry.

Availability problems, broken contracts, attorney fees, is just the beginning. Our industry makes precision metal parts that go into defense equipment, safety-critical parts such as airbag deployment covers, seatbelts, garden equipment, tools and appliances. The quality of our steel is critical.

In the last 12 months we rejected 15 percent of the flat-rolled steel we received as compared to a historical average of less than two percent. There is such a clear shortage in the domestic supply that the producers will ship us anything that they have.

Today a large portion of our business is bid on a worldwide basis through the Internet. We just lost a million dollar opportunity, and an analysis of that quote showed that our steel prices were the primary reason we lost the bid. This is routinely happening to us in high volume manufactured parts that we traditionally supplied, especially to the appliance industry.

Five years ago 55 percent of our business was in the appliance industry. Today it's just five percent. Because of our steel costs we simply cannot globally be competitive.

To combat these escalating costs, quality and delivery issues, and the loss of sales, Su-Dan had to recently cut staff. For a family-oriented company like ours, it's not easy. Our remaining employees were asked to take a ten percent pay cut.

We sincerely believe that our American-based company can compete globally through technology that is employed within our manufacturing plants. What we cannot control is the availability, quality and cost of the flat-rolled steel that we need to succeed.

Thank you.

MR. SMITH: My name is Wes Smith and I am President and Owner of E&E Manufacturing with facilities in Tennessee and Michigan. My grandfather founded the business in 1963, and I hope to some day be able to pass this along to my children.

E&E has 320 employees producing progressive die metal stampings, value-added assemblies, and heavy gage fasteners primarily for the automotive industry.

Like typical small manufacturers, we rely on larger customers for most of our sales. We purchase steel through service centers because we do not have the marketing power of large companies to purchase mill direct. Flat-rolled steel comprises 50 percent of our total sales. Some 95 percent of the steel we use is hot-rolled carbon.

From 1963 until 2001 only one of my customers ever had filed for bankruptcy. In the past two years nearly 18 of my customers either closed or filed Chapter 11. Some of the companies told me that these closings were in large part directly attributed to steel prices.

E&E is a highly efficient manufacturer. A delay or quality problem in steel that I purchase can cost me a customer's business. If we are forced to reject an incoming steel shipment for quality problems we must replace it quickly regardless of cost and in time to meet the delivery schedule of my customer.

Just over a year ago our steel suppliers notified us that raw material surcharges would be added to our previously negotiated contract prices for hot-rolled steel. However in recent months as some of the producers' costs were reduced, such as on scrap, the surcharges have been rolled into base price increases. Over the past year our cost of steel skyrocketed from approximately 20 cents to 44 cents per pound. This amounts to over $5.4 million in unrecovered raw material increases. If the current pricing holds for the rest of the year, which it is expected to, the premium on our steel pricing will be over $5 million for yet another year.

Steel consumers like myself have worked hand in hand with steel producers to lower the cost of raw materials they need. I have met with countless members of Congress and administration officials regarding foreign export controls on coke and scrap. I did this in the hope that lowering the producers' costs would help assure that my price for steel is globally competitive.

Because of late deliveries caused by steel shortages we have absorbed over $250,000 in order to get our incoming steel on time to deliver the final product to our customers on schedule. E&E has also absorbed an additional $400,000 in quality and production-related costs including unscheduled overtime, increased changeover and added costs for shorter production runs.

Companies like mine are constantly being rebid by our customers. They will market test my best products against foreign competition. For comparable products if I cannot lower my prices from current levels to meet foreign quotes, I will lose their business.

Steel producers say that we should be able to pass on a higher cost of steel to our customers who would in turn pass the cost on to their ultimate customers, but this doesn't really work in reality. If E&E tries to pass these increases along to our customers they will simply buy their parts from off-shore sources where the costs of steel are unfettered by duties.

Our customers tell us that we need to be competitive globally. We're willing to meet that challenge, but cannot with our hands tied behind our backs when our government puts an unnecessary tax on our largest input cost -- flat-rolled steel.

It is in my interest to have a healthy domestic steel industry. By their own admission, 2004 was an extremely successful year for them, but it was at the expense of thousands of customers that they must rely on for future business.

Our customers tell us to relocate our facilities outside the U.S. where the price of steel is lower if we want to keep their business.

Members of the Commission, I want to keep manufacturing in America and keep my American employees, but I need your help. I can no longer get the quantity and quality of steel when I need it at a globally competitive price. Manufacturing in America could become a thing of the past and I may not be able to pass on my grandfather's business to my children.

Thank you.

MR. McCONNELL: Madame Chairman, that concludes our testimony. I'd like to reserve the rest of our time for rebuttal.

VICE CHAIRMAN OKUN: Okay, and that's a good breaking point. We do have another congressional witness so before we turn to the next group of witnesses we will take that witness.

MS. ABBOTT: The Honorable Joe Wilson, United States Congressman, 2nd District, State of South Carolina.

VICE CHAIRMAN OKUN: Welcome, Congressman Wilson.

MR. WILSON: It's an honor to be with you today. Thank you very much for the invitation and the opportunity on behalf of many wonderful people who work in our state.

Good afternoon. Thank you for the opportunity to speak to you today concerning hot-rolled steel. I am grateful to serve as the Chairman of the Congressional Steel Caucus' Executive Committee and am honored to be here this afternoon.

Over the past three decades the steel industry has become a major part of South Carolina's economy. I have visited both steel producers and steel consumers in the district that I represent, and I recognize the concerns both industries have regarding this issue. Besides the jobs the mills provide directly, the industry has created thousands of jobs upstream for those supplying the industry with goods and services, and downstream for those industries using steel to make their products such as Mancor Carolina of Camden.

Manufacturing plays a vital role in the American economy. That is one reason President Bush has made the expansion of manufacturing one of the centerpieces of his economic agenda. Because a healthy domestic steel industry is absolutely essential to a healthy manufacturing sector the President has implemented a comprehensive steel policy to address the issues confronting the American steel industry. Three of those are global overcapacity, subsidation, and unfair trade practices. All three are relevant in this review.

It's no secret that the world makes too much steel. The one exception is the United States which is the only major industrial nation that produces less steel, including less hot-rolled steel, than it needs. You would think that American steel producers would take advantage of the situation to build more mills. They haven't. Not because they're short-sighted, but precisely the opposite. As long as there is global overcapacity and as long as imports can enter the U.S. market at low prices, no new steel mill in the United States will be able to generate an acceptable rate of return. That's why no new hot-rolled steel mills have been built in the United States since 1998.

Under the President's direction, American negotiators have been trying to convince other steel producing countries to limit their capacity increases and even take excess capacity out of production. Instead, the global steel industry is undergoing a new bout of expansion. China has added 29 million tons of new hot-rolled capacity in the past two years and intends to add over 60 million more tons in the next four years.

In January I visited a steel mill in

Shanghai and I saw firsthand the ongoing expansion of the Chinese steel industry. China is not alone. Brazil has announced plans to increase hot-rolled and slab production by over 40 million tons between now and 2008. This is a major cause of concern because slab gets converted into hot-rolled.

If these investments were the result of market forces, the decisions by these countries could be considered legitimate. However, these new investments are not the result of the operation of the market. They are aimed at undermining the domestic steel industry in this country.

The Brazilian government has made increasing the export of manufactured goods like steel one of its top economic priorities. It is preparing to subsidize these investments with massive low cost loans from the State Development Fund.

As for China, most major investments occur only with the agreement and support of the Chinese government including their use of currency manipulation and other devices that distort the world market. And what happens to all this steel once it's made? While these countries claim the huge increases in capacity are just for domestic consumption, in actuality supply far exceeds demand and these countries then try to dump their excess steel in the U.S. market. They know that if they just drop their prices low enough, they can sell their excess production here. The American hot-rolled steel industry, its workers, suppliers, and customers are the ones who will pay the price.

The Commission cannot control global steel overcapacity or subsidation. The Commission can make sure that imports of hot-rolled steel in the United States are sold at fair prices and do not benefit from government subsidies.

By maintaining these orders the Commission will be playing an important role in the President's steel policy. The American steel industry, its workers, the manufacturing sector, and the entire American economy will benefit.

Thank you, and again it's an honor to be here with you today.

VICE CHAIRMAN OKUN: Thank you. And thank you very much for appearing.

If my colleagues have no questions or comments we thank you and wish you a good day.

MR. WILSON: Thank you very much. Best wishes.

VICE CHAIRMAN OKUN: Madame Secretary, I

understand we have another congressional witness who just arrived. We'll go ahead and hear from them before turning over to the witnesses.

MS. ABBOTT: The Honorable Shelly Moore Capito, United States Congresswoman, 2nd District, State of West Virginia.

VICE CHAIRMAN OKUN: Welcome Congresswoman.

MS. CAPITO: Thank you. It's great to be here, Madame Chairman, and members of the Commission, and my fellow West Virginian, as well. It's a pleasure to be here today to testify in support of our United States hot-rolled steel industry.

I represent West Virginia's 2nd Congressional District -- 18 counties that stretch from the Potomac River to the east, the Ohio River to the west. My district is also home to many former steelworkers and retirees of the former Weirton Steel now owned and operated by International Steel Group, and home to retirees of Wheeling Pittsburgh Corporation.

Five years ago Wheeling Steel Corporation and Wheeling Pittsburgh Corporation of West Virginia were two of the top ten integrated steel producers in the United States. Unprecedented import surges of foreign steel from Brazil, Japan and Russia challenged the strength and indeed the survival of these companies. The influx drove domestic prices into death spirals causing immeasurable losses to steelworkers, retirees, and the communities in which these men and women live.

After suffering from waves of dumped and subsidized imports, mainly in the late '90s, Wheeling Pitt was forced into bankruptcy in 2000; and Weirton Steel filed suit three years later.

The impact of these unfair trade practices was felt by the companies in the form of lost revenues. Felt by the workers in the form of lost jobs. Weirton Steel and Wheeling Pitt were significant parts of the lifeblood that sustains West Virginia's economy and its tax base. Their revenues were used to provide essential services such as education, health care, and transportation to West Virginia citizens.

The importance of preserving and safeguarding the domestic steel industry including hot-rolled steel operations is critically important to the State of West Virginia and to the many lawmakers who have the privilege to represent steel states like West Virginia, Ohio, or Pennsylvania, and I guess South Carolina since I saw Joe here before me.

Today I stand before you with the hindsight of knowing what the likely result will be if conditions of fair trade are not maintained.

Past history shows us that if trade remedies are not in place America's steel markets will be the dumping ground for the world once again. Indeed, waves of unfairly priced and subsidized imports of hot-rolled steel in the last quarter century have repeatedly harmed domestic producers. When this happens, companies are forced to lay off workers, postpone investment and eventually face bankruptcy with the heaviest of the consequences felt by our communities, our steelworkers and our retirees.

We have all witnessed firsthand the rapid deterioration of strong companies and I have personally listened to the stories of numerous retirees in my district who have lost their pension benefits and health care coverage due to unfair trade practices.

Weirton's assets were acquired recently by ISG in May of 2004. They've kept the facility running, have restored jobs, and depending on future profits have committed to paying into the Voluntary Employee Benefits Association. This voluntary fund is designed to assist retirees whose hard-earned and well-deserved pensions and benefits were reduced or eliminated by bankruptcies like the one experienced by Weirton Steel.

Thanks to ISG's profitability in 2004 payments to the fund will be made and many retirees will have more hope and security going forward.

The importance of maintaining fair trade is critical to the preservation and future profitability of the domestic hot-rolled steel industry. Continued profitability is also critical to the funding of VEBA and potential restoration of some health are benefits to many of my constituents.

Madame Chair and members of the Commission, I believe in the absence of these duties foreign steel producers will continue to dump their product into our domestic market driving steel prices down and hurting our workers. This information gathered by the Commission staff, the testimony of domestic producers and workers today, as well as the repetitive history of the past quarter century all support a continuation of these orders and suspension agreement.

I therefore urge you on behalf of thousands of steelworkers and retirees in my home state of West Virginia to continue the relief that is helping maintain fair trade for the U.S. steel industry.

Thank you for the opportunity.

VICE CHAIRMAN OKUN: Thank you for appearing here today.

My colleagues? Commissioner Lane?

COMMISSIONER LANE: Thank you for coming today Congresswoman Capito, and with that we've heard from four-fifths of West Virginia's delegation today. Thank you for coming.

MS. CAPITO: Thank you.

VICE CHAIRMAN OKUN: Madame Secretary are we ready to return to the panel of witnesses?

MS. ABBOTT: Yes, Madame Chairman.

VICE CHAIRMAN OKUN: You may proceed. Ms. Georgi?

MS. GEORGI: Thank you.

Could I get just a quick time count?

MR. BISHOP: You have 30 minutes remaining.

MS. GEORGI: Thank you.

Again, I'm Kay Georgi with Coudert Brothers, LLP. With me today on the panel are senior executives from the three Russian hot-rolled steel producers -- Magnitogorsk, Novolipetsk and Severstal. Also Dan Cannistra, Senior Manager with Ernst & Young, and Mark Lunn and Kristy Balasanek, also with Coudert Brothers.

Andrei Shikhanovich, head of the Trade

Policy Group at Severstal will lead off our presentation and introduce the remainder of our industry panelists. Andrei?

MR. SHIKHANOVICH: Good afternoon. My name is Andrei Shikhanovich. I am head of the Trade Policy Group of Severstal, a Russian producer and exporter of various tube products including hot-rolled steel.

With me today I have senior executives from three Russian steelmakers, Mr. Valery Ogarkov, Engineer in the Sales Division of Novolipetsk; Anton Bazulev, Deputy Director General of Novolipetsk; and Viktor Obukhov, Deputy Head of Market Research Department from Magnitogorsk. Together our companies represent virtually all of Russian hot-rolled steel production.

Today my testimony will focus upon important current developments in the Russian hot-rolled steel industry. Developments that ensure that Russian import volumes will not significantly increase if the suspended investigation against Russian hot-rolled steel imports is terminated.

Let's start with capacity utilization. We were very surprised to read in the briefs that U.S. steel companies believe we have additional unused capacity and can ship another 2.4 million short tons to the U.S. market. This is simply not true. There are many ways to measure capacity -- name plate [ph] capacity and effective capacity are two.

Name plate capacity is relatively easy to measure and is generally considered fixed for a mill. By contrast, effective capacity can change quarterly, depending on manufacturers including product mix. We estimate effective capacity based on the projected product mix. We produce only for orders. We do not produce for inventory of stocks.

During the course of the year actual product orders will vary from our projected mix. This may result in a lower than optimal capacity utilization. Just because the mathematical calculation results in a percentage less than 100 percent doesn't mean that we can produce more. 2004 was the best year for global and Russian steel producer sellers. We had to turn away customers. If we could have produced more we would have produced more.

On behalf of Severstal, we could not produce any more hot-rolled steel in 2004 and we expect the same situation in 2005. I believe my colleagues will agree.

MR. BAZULEV: Oh behalf of Novolipetsk, we couldn't produce any more hot-rolled steel in 2004, and we expect the same situation in 2005.

MR. OGARKOV: I can confirm also, that on behalf of Magnitogorsk we couldn't produce any more hot-rolled steel in 2004 and we expect the same situation will be in 2005.

MR. SHIKHANOVICH: In addition, we have no plans to increase our production capacity. The numbers cited by Nucor in its brief, part of the NAFTA's admission to the OECD, mentions increasing capacity in Russia. These are not increases in hot-rolled capacity for sale as flat hot-rolled. Instead they are a long product marked for consumption in downstream products.

For example, the 2.1 million ton capacity expansion in 2007 attributed to Metchell [ph] in the NAFTA submission is six-blade destined for use in Metchell's [ph] pipeline. It's not planned for sale as hot-rolled.

MR. OGARKOV: Good afternoon. My name is Valery Ogarkov. I am Engineer in the Sales Division of Novolipetsk, a Russian producer and exporter of various tube products including hot-rolled steel.

In today's testimony I will focus on Russian demand and ability of Russian producers to shift products.

Now the Russian economy is growing and the steel industry is stable. Based on official Russian statistics, the Russian industrial production grew between four to 11 percent annually in every year between 1999 through 2004. The machinery building and metal processing industries experienced even greater expansion, growing annually between two to 20 percent during 1999 to 2004, and at 20 percent in 2004 alone. Construction likewise grew annually between three to 13 percent during the same period.

As is reflected in the Commission's record, according to the staff report, since 1999 the demand for hot-rolled steel within Russia has increased from 9.9 million short tons in 1999 to 13.5 million short tons in 2004, an increase of 36 percent.

As a result, our hot-rolled exports have declined substantially as a percentage of total shipments. In 1998, Russian exports of hot-rolled steel were 42 percent as a percentage of total shipments, based on Commission statistics. In 2004, Russian hot-rolled exports were 32 percent of total shipments, a decline of ten percentage points which represents a one million ton drop from 7.3 to 6.3 million tons.

The global shifting of import restrictions such as safeguards further decreases any likelihood that these remaining exports will go to the United States.

Many different countries have lifted their import restrictions on a variety of products including the following: Canada, hot-rolled and cold-rolled steel; China, cold-rolled and electrical steel; Colombia, cold-rolled; Peru, hot-rolled; Indonesia, hot-rolled; South Africa, hot-rolled; Egypt, hot-rolled and cold-rolled; in the United States comprehensive agreements, our products, other than hot-rolled.

Our plants are effecting a continuation of the growth in downstream value-added products. Based on official Russian government statistics, Rustat, from 1998 to 2004 cold-rolled production in Russia grew 67 percent. From 1998 to 2004, production of coated and galvanized products also grew 67 percent. During the same period, production of hot-rolled flat steel products grew only 28 percent. Thus the production of downstream, value-added products grew at much faster pace than hot-rolled production. These downstream products require hot-rolled steel inputs.

This is in contrast to Russia's internal economic problems. During the late '90s when Russia experienced high inflation, growing unemployment, and low investments in domestic industries. In those days, Russia's sluggish economy created conditions that resulted in low steel prices and high steel exports. The Russian crisis and the Asian crisis both hit hard in the late '90s and contributed to the increase in imports from Russia and Japan during the original period of investigation.

Lastly, Russian producers have almost no ability to increase production of hot-rolled steel by shifting between products. Of those certain products could theoretically be produced on the same equipment, product switching is not a practical possibility. As I mentioned, the Russian hot-rolled steel industry is dedicated to production of high value-added downstream products. Responding to the growth in demand for these products Russian steel companies have made substantial investments in the billions of U.S. dollars in these downstream product lines for cold-rolled, galvanizing and polymer coating lines. It would be unwise to close these new highly profitable downstream product lines to sell more hot-rolled steel.

By producing more downstream products with high added value, Russian steel companies have earned increased profits. As a result, Russian steel companies cannot shift products without reducing the rates of return on these substantial downstream investments.

In sum, Russia's economic growth, rising Russian home market demand, extremely high levels of Russia's capacity utilization and the inability for Russian producers to shift products greatly reduce any likelihood of an increase in the volume of Russian hot-rolled steel exported to the United States and demonstrate how unlikely it would be for Russia to increase the production of hot-rolled steel to supply the U.S. market.

I thank the Commission for allowing me the opportunity to discuss these issues today.

The other Russian steel executives and I are available to answer any questions the Commission may have on these matters.

Thank you.

MR. CANNISTRA: I'm Daniel Cannistra. I have some slides as well. It will just take a moment to get them up.

In this industry, the Commission has before it an interesting control group on which to base the likely impact of the repeal of the hot-rolled suspension agreement.

From 1999 until July 2004 nearly all Russian steel exports were subject to quotas in the form of a comprehensive steel agreement. Import restraints were in place against nearly all products including corrosion-resistant steel, cold-rolled steel, slab, all products produced by the same companies that are producing hot-rolled steel -- Magnitogorsk, Severstal, and Novolipetsk.

This agreement ended in July of 2004. In each of these product lines with the elimination of quotas there has not been a significant surge in steel exports to the United States. In fact, seven months after the termination of these limitations, Russian exports to the United States are still within quota limits that no longer exist. This is indicative of the current self-regulating effect of the global steel market where suppliers are struggling to meet surging demand with limited supply.

This is true even in an environment where price levels in the U.S. market were at historic levels, providing the best possible incentive for Russian exporters.

With respect to the hot-rolled quota, the quota that Russia was entitled to ship to the United

States in 2004 was actually 999,000 tons. Actual exports to the United States during that period were only 899,000 tons -- a shortage of 100,000 tons. So even during 1994 with respect to hot-rolled Russia could not and did not meet its hot-rolled quota into the United States.

Projected patterns likely to develop in the hot-rolled industry are similar to those that have materialized for cold-rolled, corrosion-resistant and slab. That is no discernable impact in import volumes after the termination of the order.

I'll move on to the next slide.

With respect to likely pricing patterns, Russian import volumes will not have any measurable impact on U.S. prices. In fact Russian imports which were only a small percentage of imports increased while U.S. price levels were increasing. Then, beginning in October, Russian steel imports started declining at the same time spot prices were declining. So in fact there's an inverse relationship between Russian imports and U.S. prices, indicative of the insignificant impact Russian import prices have had on the U.S. market.

This pattern of slow changes in trade trends will continue for some time given the dynamics of the global steel industry. India hot-rolled coil exports will be reduced by one-third during the first half of 2004 to meet strong home demand in consumption. At minimum, India alone will require three to four million more tons of steel every year.

China alone accounts for one-third of all steel produced this year for infrastructure and other projects with steel demand growing more than 20 percent over the last three years.

Turning to the next slide.

This slide is the same pricing pattern chart as the one we just looked at with the addition of total imports. In addition, highlighted down below is the U.S. shortage period which was addressed this morning. I thought it would perhaps be useful to summarize and place in one setting all the different indicators which we have been discussing this morning. And as you see during the U.S. shortage period, that was when Russian exported hot-rolled material to the U.S. at its price peak. It then declined significantly beginning in October 2004.

In addition to the growth factors, supply considerations are playing a significant role in the industry. Raw material availability is and will continue to be a major constraint with contract raw material prices set to rise by approximately 20 percent. In addition, more attention will be paid to freight rates and shipping costs which also have increased dramatically. This last factor is particularly important and will have the effect of limiting any rapid changes in import volumes as transaction costs increase significantly.

I'd also just like to turn a moment to Slide No. 1.

This is the continuation of consumption and production figures in China that were also presented this morning, but rather than stopping in 2006 it does continue to 2007 and beyond. I project it here because I think it's particularly useful to view Chinese production increases in relation to anticipated consumption increases within China moving forward.

That concludes my testimony this afternoon.

VICE CHAIRMAN OKUN: Mr. Cannistra, before we turn to someone else can I just ask, are the slides that you're referring to available? We don't have them up here. I'm not sure if they just didn't get distributed or if we're --

MR. CANNISTRA: They are I believe presently on that table, and on the back table as well.

VICE CHAIRMAN OKUN: Okay.

If you can just make sure we get a copy so if we want to refer to them during questioning we'll have them in front of us, Madame Secretary.

MS. GEORGI: That concludes our testimony. We'd like to reserve the remainder of the time for rebuttal.

VICE CHAIRMAN OKUN: Okay, and Madame Secretary, please don't deduct the question from their time. I just wanted to clarify that.

Before we begin -- Oh, everyone is finished? Okay, thank you.

Before we begin our questions, and let me take this opportunity to thank the witnesses for being here. For those of you who have traveled near and far to be with us we greatly appreciate your willingness to appear and to answer our questions.

And with the same housekeeping reminders to this panel, that it's hard for us to see all the names so if you can just repeat your name for the record when you respond to questions that would be great. There may just be a couple of congressional witnesses that again we'll try to accommodate them and still have a full line of questioning.

With that, Commissioner Hillman will begin our questioning this afternoon.

COMMISSIONER HILLMAN: Thank you, Madame Chairman.

Again, I would join Commissioner Okun in welcoming all of you and thanking you for the testimony and all of the data that has been provided in the pre-hearing briefs as well as here this afternoon.

Perhaps if I can start on the Russian side. Obviously the slides have indicated and we've seen a fairly significant increase in Russian shipments to the U.S. in 2004. I understand the point that was being made about it coming in during what you're describing as the U.S. shortage period. But I'm trying to understand whether that came to us out of inventory, whether it came to us being shifted out of shipments to other markets.

Your testimony described that there is strong home market demand in Russia for the product, and that you have contract arrangements in a number of other markets. So I'm trying to make sure I understand, again, we did see an increase of some 890,000 tons coming in in 2004. From what source did it come?

MR. OGARKOV: I'm Valery Ogarkov, Novolipetsk.

We mentioned in our exporters questionnaires that we don't produce for stocks, therefore we have no inventories. We produce only to orders, and everything that we produce is immediately shipped to our customers. Therefore the amounts that were shipped to the United States were not from stocks.

COMMISSIONER HILLMAN: Were they additional production? You produced more than you had been producing in order to meet those orders.

MR. OGARKOV: No, we didn't produce more

The amounts which were envisaged by the suspension agreements, by the quotas within the framework of the suspension agreements, were immediately reserved for shipments to the United States. That's our regular practice. Therefore it was just ordered by our traders, by our customers, and we shipped them when they ordered, we produced them and then we shipped it to the United States. It was not taken from some other markets.

COMMISSIONER HILLMAN: Obviously what I'm trying to understand is in the year before you had shipped about 32,000 tons. So then when we move into 2004 you're shipping 890,000 tons, so obviously a very big change in the volume from Russia. That's what I'm trying to understand. Where does the 860,000 tons come from?

MR. OGARKOV: There was a very unfavorable pricing situation before and there were 201 Section measures. Therefore we didn't produce just for our customers in the United States. And when the 201 measures were terminated and there was an increasing demand in the United States, our customers just asked us to ship them those amounts and we shipped it. We produced it especially for them and we shipped it just for them.

COMMISSIONER HILLMAN: Okay, I appreciate those answers.

Other witnesses?

MR. BAZULEV: Anton Bazulev, Novolipetsk.

Just a little clarification. All the volumes that were shipped to United States in 2004 were redirected from the other markets because the price situation on the U.S. market was more favorable than on the other markets we are shipping. It's normal pattern for us to shift --

VICE CHAIRMAN OKUN: I'm sorry, we're getting a ring from your microphone.

MR. BAZULEV: I'm sorry.

COMMISSIONER HILLMAN: Maybe if there is another microphone near you, perhaps we can turn that one off and then --

Thank you.

MR. BAZULEV: I'm sorry.

COMMISSIONER HILLMAN: Go ahead.

MR. BAZULEV: It's a normal pattern for us to shift to the markets which are more profitable because the profitability is the main feature of our export sales on all the markets that we are having.

COMMISSIONER HILLMAN: So you're saying the fact that there were greater shipments from Russia into the U.S. market in 2004, from your perspective came from other markets. Came from other export markets.

MR. BAZULEV: Exactly, Commissioner. It doesn't represent any growth of our hot-rolled production.

COMMISSIONER HILLMAN: In the testimony it was mentioned that a number of the trade remedy measures have been lifted with respect to Russian product, specifically mentioned was the Canadian duties on both hot and cold-rolled. Can you tell us what has been your experience going into the Canadian market after the lifting of the duties on hot-rolled?

MR. BAZULEV: Lifting the duties on hot-rolled in Canada was at the same time, exactly at the same time when Canada experienced a shift, a big upwards shift in steel prices for hot-rolled and for other steel grades. So shipments grew from Russia according to the lifting of the restrictions, but they grew only to the extent that was commercially viable for us. It grew from approximately, for our company, it grew approximately from, approximately to 10,000 ton monthly during the second half of last year.

COMMISSIONER HILLMAN: And how would you describe the prices in Canada?

MR. BAZULEV: The prices were one of the highest in the world markets to my knowledge.

COMMISSIONER HILLMAN: Mr. Obukhov, did you also ship increased, increase your shipments into Canada?

MR. OGARKOV: Yes, we resumed our shipments to Canada, but not in much volume.

COMMISSIONER HILLMAN: Not much? I'm sorry?

MR. OGARKOV: Volume was not a big one.

COMMISSIONER HILLMAN: Others? Were there others that increased shipments into Canada after the duties were lifted?

MR. SHIKHANOVICH: On behalf of Severstal I can confirm also that we resumed our shipments to Canada but only based on the very attractive price situation in the Canadian market and as was stated already, the Canadian market prices for the hot-rolled steel were one of the highest prices in the world.

COMMISSIONER HILLMAN: And the shipments that did go into Canada, again, I'm still trying to make sure I understand, they came out of increased production or they came out of shifting from other markets to divert product to go into Canada?

MR. SHIKHANOVICH: As we noted before, we are working at full capacity. Therefore we couldn't produce more. We couldn't increase production. It was --

COMMISSIONER HILLMAN: So did you shift out of other markets to come into Canada?

MR. SHIKHANOVICH: Yes, we shifted from those markets where prices were not as attractive as in Canada. Yes.

COMMISSIONER HILLMAN: Today how would you describe U.S. prices relative to the other markets that you're serving for hot-rolled?

MR. SHIKHANOVICH: Today's prices in the USA are approximately the same as in Europe or in other markets. Maybe a big higher, but transportation costs just eat out any advantage of the U.S. prices.

COMMISSIONER HILLMAN: So if we look at comparing the Canadians lifted their order and you're saying all of you were able to shift product and send it into Canada after that order was lifted. I'm trying to understand what would be different in the United States or the same if we were to lift our orders. Would your response to the lifting of an order in the U.S. be the same or different as your response to the Canadians lifting their order, and why?

MR. OGARKOV: As Mr. Cannistra showed you today after the expiration of comprehensive agreement our shipments of cold-rolled, galvanized and other products didn't increase dramatically. They remained approximately within the limits envisaged by the quotas. That is why I personally presume that our shipments will not increase dramatically. They will remain approximately at these levels.

COMMISSIONER HILLMAN: Others? Do you see the U.S. lifting an order as your response being comparable to what happened in Canada or different?

MR. OGARKOV: Viktor Obukhov, Magnitogorsk.

I don't think if you terminate the suspension agreement there will be any increase of our shipments to United States because we shipped last year, for example, about 300,000 metric tons and it's rather a big volume for us.

Why we need to terminate the suspension agreement is the negative effect of this agreement on, not only on U.S. markets but on the global market. For example, the situation with Section 201, many countries follow it, the America, and they're erecting trade barriers, and when this decision was canceled in December 2003 many countries also canceled their trade barriers for Russian steel.

That's why when we maintain the situation, the negative effect on the global market will keep up.

COMMISSIONER HILLMAN: I appreciate those responses. Thank you very much.

VICE CHAIRMAN OKUN: Commissioner Lane?

MR. SHIKHANOVICH: Sorry. Can I add something on behalf of Severstal.

VICE CHAIRMAN OKUN: Yes, if you can try to just make it brief.

MR. SHIKHANOVICH: Our testimony explained that about 70 percent of the sales of hot-rolled steel were made into the domestic markets of Russian Federation, so I need to stress that the Russian market is the key market for all Russian producers of hot-rolled steel. The demand in the Russian market grew substantially, is the first point.

The second one is that another portion of sales of hot-rolled steel is made into the developed export markets and the share of each market is, the shares are basically equal. I mean that we are not going to focus only on the one, two, three, or five markets, export markets. But we sell globally. For Severstal, I can say that our export of hot-rolled steel into -- are concerning this issue. We made exports into 61 countries throughout the world. So this is why we are not going to focus only on one particular or maybe more particular markets.

COMMISSIONER HILLMAN: Thank you.

VICE CHAIRMAN OKUN: Thank you for those additional comments.

Commissioner Lane?

COMMISSIONER LANE: Thank you. Welcome to the afternoon panel or early evening panel as the case may be.

I'd like to ask this panel the same two questions that I asked the first panel, and that is first, I'd like a description and a definition of your view of the business cycle, and how it is relevant to this particular industry and how the Commission should view that concept as set forth in the statute.

MR. BECKER: Thank you, Brian Becker from Precision Economics.

All industries have some business cycle and they're not necessarily consistent. Some are longer, some are shorter. The thing that I find interesting about this industry is that if we were in the business cycle that was expected, that is normal, and we are simply at the top end of the business cycle which appears to be what Dr. Kaplan has written in his report, that we are simply at the top end of the business cycle, that's normal.

Well, things that are normal that are within normal expectations don't affect people in the stock market. In other words, if we're doing something that's normal, if the industry is normal, if the company is doing something normal, that doesn't get stockholders' attention or stock investors' attention. Things that are different from normal, do. And what we see over this time period, meaning the last 14 or 15 months, is that stockholders have said very definitely with their money, with millions and millions of dollars, we are not in a normal cycle. We are somewhere else. That's why these companies are now worth two or three times more than they were 14 months ago. So I think we've seen a shift as opposed to simply being in the cycle.

MR. McCONNELL: If I can just also ask if perhaps Lisa King could help us. Ford's actually done some examination of this particular price swing as compared to prior cycles and I think she may be in a position to explain it.

COMMISSIONER LANE: Thank you.

MS. KING: Lisa King, Ford.

Our economics group has actually looked at pricing shifts in the steel industry since World War II. In general since the 2nd World War the average steel price has been in the 300 to 350 dollar range, and we've seen pricing shifts around that average price. Most of those pricing shifts have been within one standard deviation statistically from the average. We've seen a couple of episodes where there have been two standard deviation shifts in pricing.

The current pricing level we have today is a six times one standard deviation price shift.

It's the opinion of our economic analysis that that is not a standard shift, that is not something within the cycle, but that is actually an indication of a new cycle.

COMMISSIONER LANE: And how would you

recommend that the Commission then view this business cycle as you have defined it in looking at this case?

MS. KING: We believe that cycle is driven off the changing structure in the steel industry and particularly off consolidation. We believe that the change in structure of the industry, the shift in the power base in the industry, so that the steel producers have more consolidation and more leverage in the market position has actually shifted the market. We believe that because that's been through acquisition, that is a new cycle because it's not going to be a reversible cycle since it's a structural shift.

COMMISSIONER LANE: Does the increased cost of raw materials have any place in this concept as you have defined it?

MS. KING: Yes, certainly obviously the increase in raw materials cost has put up the level of steel pricing, has influenced steel pricing in the marketplace as well. There's a number of factors that we believe have shifted price. But when you look at the impact of raw materials pricing that alone wouldn't have shifted prices to the extent that we've seen in the marketplace, we don't believe. Certainly our analysis shows we keep some fairly detailed cost models and we have taken the raw material price increases that have been experienced. We've actually modeled, if somebody had every price increase that's been in the marketplace imposed on them, i.e., if they had to move to 100 percent spot purchase of all raw materials, what that cost impact would be to them, and it's significantly lower than the price shifts we've seen in the marketplace.

COMMISSIONER LANE: Thank you.

Now let's go to my next question which is what would you consider a reasonably foreseeable time in looking at whether or not these orders should stay in place or should be taken off?

MR. McCONNELL: I think I'd like to take that one if I can.

One thing we would urge you to do in determining whether something is reasonably foreseeable is to recognize that to be foreseeable you have to be seeing some of it now. Basically you have to see some trend in the record before you that you reasonably can expect to lead to the conclusion that you want to draw.

So I would define reasonably foreseeable as something that you can ground in a demonstrable trend in the data before you, and not something that is mere speculation or something that might happen.

COMMISSIONER LANE: Okay. Having said that, what is it that you recommend?

MR. McCONNELL: We recommend that you find that the revocation relief wouldn't injury the steel industry.

(Laughter).

COMMISSIONER LANE: Okay. So I walked into that.

No, what I meant was, what do you think is a reasonable, foreseeable timeframe?

MR. McCONNELL: I hate to punt on this one but I think I probably would like to consult further with, particularly with Lisa and some others about some of the cyclical data and give you -- I mean if we're actually looking for a term of years to see what actually does look reasonable from what we're able to derive from these data.

COMMISSIONER LANE: Okay, thank you.

Now I have a question for Mr. Engel and Mr. Nelson. For the post-hearing, could you please provide details concerning the quantity and delivery dates of spot purchases in 2003 and 2004 and compare the spot purchase prices to contract prices.

MR. ENGEL: Is that a question or a request?

We can certainly provide --

COMMISSIONER LANE: Yes, it's a request.

MR. ENGEL: We can provide what you're requesting.

COMMISSIONER LANE: Thank you.

To follow up, what are the current lead times now for hot-rolled steel?

MS. KING: The lead times that we're seeing have extended from, traditionally we have a four, six and eight week lead time. Four weeks for hot-rolled, six weeks for cold-rolled, and eight weeks for coated product. Where we have those agreed as part of our performance measurement system, those lead times have held.

What we are seeing though is in the shipments we get that are outside that performance measurement system we are seeing up to an easy 12 weeks of delivery on hot-rolled, and in some of our sub Ts, longer than that.

MR. KNAPPENBERGER: John Knappenberger from Dura Automotive Systems. I head up procurement.

We've gone from, in 2003 a six week lead time on typical hot-rolled, and this is a rolling purchase. This isn't a unique purchase. This is week after week. To anywhere from 12 to 16 weeks. And our

Tier 2s, those to us tell us it's longer if they don't have to go to the spot market. Maybe some of the other folks could chime in on their findings.

MR. DAVID NELSON: For Delphi we've seen the lead times go from the four to eight week timeframe also to 12 to 14 weeks.

COMMISSIONER LANE: Mr. Engel, what sort of price effect have the increased steel prices had on people buying cars and other consumer goods?

MR. ENGEL: That's a good question because I'm not sure everyone realizes what is going on in the pricing of vehicles today, so I'll just comment on that briefly.

There is no opportunity to pass along prices or these increased costs in our prices of vehicles. We look at pricing as a net pricing effect. While there is pricing, increased pricing going on on vehicles, there are increased costs that come along at the same time. The net effect is that prices are not increasing.

We increase costs for raw materials; we increase costs for incentives and discounts that we utilize to sell the vehicles; we have increased content to make them competitive with the other OEMs. So there actually is no passing along of cost through to the price to the consumer.

COMMISSIONER LANE: Okay. I may come back to you on my next round. My time is up.

VICE CHAIRMAN OKUN: Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Madame Vice Chairman.

I would like to welcome you as a panel and thank you for your persistence, patience, whatever.

I'd like to talk about demand starting with demand for steel itself. Are there publicly available projections of steel demand and supply that project out over perhaps the next one to three years?

MS. KING: Lisa King, Ford.

Yes, there are various publications that put out forecasts. They don't all necessarily agree. They're obviously forecasts. But there are a number of publications that do put out steel forecasts for certainly I think '05 and I'm looking at some of my compadres. I don't know that they go out much further than a year with any rigor.

COMMISSIONER PEARSON: Do any of your firms use those projections to try to plan your own buying of steel?

MR. SANDFORD: Eric Sandford, Delphi.

We review the projections. We review those projections with tentative or speculation in terms of trying to understand or foresee what perhaps the market might be. Clearly they're only an indication and there's activities around it, of course, economic activities that certainly impact projections. But they're only projections. They're not perhaps even the market.

In particular, they may not be the automotive market for which we're in. So they could be using a composite spread of steels that would indicate a projection for the future.

COMMISSIONER PEARSON: Mr. Knappenberger?

MR. KNAPPENBERGER: In Dura because we are a pure automotive supplier, we take the customer projection of build for the coming year coupled with a projected six month forecast for us. So we use the six month forecast they have plus other indicators, and our usage, and we come up with contracts each year with our suppliers around the volume plus or minus that we expect to have. That's what constitutes the contractual arrangements that we make each year with our suppliers.

COMMISSIONER PEARSON: Let me make sure I understand. You are looking at your order book in terms of the demand for your product?

MR. KNAPPENBERGER: The customer gives us a forecasted six month order. Not firm, but forecasted. We use that plus two other indicators, an outfit called J.D. Power and one other where we gather other data about our specific industry, play that back against the products we have and the steel required for that, and we forecast our steel for one year from that.

COMMISSIONER PEARSON: Okay.

Any other comments?

MR. CANNISTRA: With respect to published forecasts, USB is one entity which was the source for the Chinese forecast for consumption which also published global consumption data as well. Steel Dynamics is another publication which provides published forecasts.

COMMISSIONER PEARSON: Okay.

Those of you who are manufacturers of products that contain substantial quantities of steel, what do you see in the demand for those products in the year ahead? Is it going up, down, level?

MR. DENTON: Larry Denton with Dura Automotive.

I answer that question, Commissioner Pearson, along with maybe Commissioner Lane's question on the cycles. There used to be a cycle in the demand cycle and they were predictable. I think because we've seen structural change in manufacturing in the United States, I think the question pertains only to manufacturing in the U.S., and there is structural change today where manufacturing is leaving. So to forecast demand today, it was interesting, this morning I heard it referred to as the disappearing customer. That's interesting, because that's exactly what's occurring here.

It's not just because of steel pricing. It is because of legacy costs, taxes, health care and all the other things that we face as manufacturers in the U.S.. But the steel issue is the issue that breaks the camel's back here and will accelerate this process and has already continued to accelerate the process.

To see five suppliers in the auto industry in the last 12 months go bankrupt and mention that steel was one of the contributory factors to their bankruptcy -- not the total, but one of the factors -- is an indication of where we're headed.

So I think the only sure bet is that demand in the future will be less.

MR. ENGEL: Commissioner Pearson, just to try and answer your question directly. The auto manufacturers, of course, estimate demand. We all forecast demand. Everyone has forecasted demand for this calendar year. All of the estimates from all of the major OEMs, ourselves for Daimler Chrysler, et cetera, have estimated the total volume of light vehicles in the U.S. to be between 17 and 17.2 or 17.3 million units. That is a fairly consistent estimate and forecast from the prior years. So the overall demand in the auto industry in the U.S. is fairly flat and consistent at those levels and we forecast it to be the same this year.

COMMISSIONER PEARSON: Other comments?

Are there any manufacturers here that aren't closely related to the automobile industry such that you might have a different demand pattern?

Okay. Well, what would be helpful to me --

MR. McCONNELL: I think Bill Gaskin may be able to offer --

MR. GASKIN: I'm Bill Gaskin. I'm not a manufacturer, but my members are of course and more than half their business is non-automotive. The answer is really that it's too varied to answer. There are just five, ten, eight percent in all these other markets, and generally speaking I think they see firmness for the year ahead, they see some growth. We heard earlier that housing, I think Mr. DiMicco said housing is expected to grow, construction. That means that our members will have some more business.

So I think it's at least a stable market, perhaps growing. As I mentioned in my testimony, our members are seeing growing orders for the next three months.

COMMISSIONER PEARSON: Mr. Smith?

MR. SMITH: West Smith, E&E.

We're a small manufacturer. Our biggest concern is we don't know where our replacement business is coming from so we'll quote and we'll be awarded a contract which may be for typically four to seven years but we have no idea whether we'll ever see an opportunity to quote that replacement business. And Automotive News this past publication, identified a report from the U.S. Commerce Department where they said over the past five years U.S. factories have lost 47.5 billion in original equipment business to rivals. This has fallen from roughly 142 billion to about 95 billion last year.

So as we see this trend continuing, we just don't know where these opportunities are going to be in the future so it's very hard for us to predict more than the next year.

COMMISSIONER PEARSON: Ms. King?

MS. KING: Lisa King, Ford.

The Goldman Sachs report was referred to a number of times earlier today. There is a forecast in there that shows about a 2.4 percent growth rate in the U.S. for steel consumption.

COMMISSIONER PEARSON: Does it also have a global figure?

MS. KING: I believe it has some global figures in there. I'm not sure. I'd have to reference it to check.

COMMISSIONER PEARSON: If we don't have that on the record can we please make sure that it ends up on the record?

The reason for asking these question is we, and I'm asking you about projections and forecasts. In some respects we have to do a projection as to whether if the orders are lifted there will be a recurrence of material injury. If there's not much demand, then obviously the chances of injury would seem to be greater. If we have a robust demand in the United States and around the world, then the market may take care of any extra steel that might be floating around. So that's what I'm trying to understand.

Mr. Becker?

MR. BECKER: Yes, Brian Becker, Precision Economics.

If we want to about forecasts, the most credible thing to look at and the most unbiased and objective thing to look at is what people are willing to pay for the rights to future profits in a steel company. Today people are willing to pay a lot of money for the rights to future profits in the Nucors of the world, in the US Steels in the world, a lot more than they were willing to pay a year ago or two years ago. So that tells you something.

Now people that are investing in Nucor, for instance, think that Nucor in the future is going to make more than $10 billion of profit. They think US Steel is going to make more than $7 billion of profit. There's a cost for them to do this. These are credible actions that they're doing. They're investing money hoping to make this out. They're not just writing a report with no cost associated with it.

So I would encourage you to consider people putting their money where their mouth is and that's where investors come into play.

COMMISSIONER PEARSON: I appreciate that. I'm also aware that markets often overshoot one way or another. We're just trying to sort out plenty of information.

My light is changing. Madame Chairman I'll stop.

VICE CHAIRMAN OKUN: Thank you, Commissioner Pearson.

Do we have congressional witnesses who are here? This would be a good time. We're in between questions.

MR. BISHOP: The Honorable Robert W. Ney, United States Congressman, 18th District, State of Ohio.

VICE CHAIRMAN OKUN: Welcome, Congressman. You may proceed.

MR. NEY: Thank you so much. Sorry to walk in front of everybody here.

I want to thank you for extending me the courtesy, Chair Okun and members of the committee, the other Commissioners of the International Trade Commission, for providing me this opportunity to testify today. I think I'm probably they tell me about the 20th Member that's been here. I certainly appreciate you considering the input from the House that as you know has been on a bipartisan basis. I wanted to testify today regarding the continuation of the orders and suspension agreement on the hot-rolled steel.

During my time in Congress, which has been about a decade, I've been a strong supporter of the steel industry and the steelworkers and their jobs across this country, not just in my tri-state area. As a member of the Congressional Steel Caucus we've been able to support numerous efforts to strengthen our steel industry including the antidumping orders imposed in 1999 on Brazil, Japan and Russia.

I believed then and I continue to believe now that keeping the antidumping orders imposed is vital to the future strength of the industry and the livelihood of the thousands of workers who are the heart and soul in these communities and also the spinoff jobs that economically help so many people throughout the United States.

In fact the Department of Commerce has already concluded its reviews and determined that the revocation of the orders and termination of the suspension agreement is likely to result in continuation or reoccurrence of illegal steel dumping and subsidation by foreign competitors. We cannot allow this to happen. We've come so far and we simply can't go backwards.

After years of injury from illegally dumped and subsidized imports the U.S. hot-rolled industry is finally beginning to get back on its feet. We have to continue to stand up for steel. These antidumping orders have provided much needed relief for our domestic steel industry. The combination of those orders and the strategic restructuring of the domestic industry have led to improved competitiveness and record gains in productivity. In fact in 2004 our domestic steel industry finally saw a return of profitability. This is tremendous progress or an industry that only a few years sago faced extinction. But we cannot forget that this progress has come at a tremendous cost to the industry and its employees. It has not been without pain.

Since 1999 some 40 companies have been forced in to bankruptcy, leaving tens of thousands of employees jobless and hundreds of thousands of steel industry retirees with reduced pensions and no health care. Therefore continuation of the antidumping orders is essential if the industry is to achieve full recovery and a sustained level playing field.

In my home state of Ohio hot-rolled steel producers such as Wheeling Pittsburgh Steel and AK Steel as well as the former Weirton Steel and LTV

Steel, now owned by International Steel Group, have faced the adverse economic consequences resulting from the repeated onslaughts of dumped and subsidized steel from foreign countries. Thankfully we've been fortunate that investors such as ISG have recognized the value of our steel industry assets on a level playing field and have restarted bankrupt and idle facilities. Their efforts combined with the help of the antidumping measures that went into effect in 1999 have brought about a renewal in our steel industry where companies have consolidated, production grew, and workers sacrificed for a better future.

Keeping these measures in effect will ensure that American steelmakers remain globally competitive. Thanks in large part to the antidumping measures instituted in 1999, the industry has made good on its promise to consolidate and bring its house in order while unfair steel trade has been constrained. The United States today has a healthy steel industry -- something we haven't been to say for decades, yet I know from personal experience in Ohio that such optimistic proclamations can be tenuous and fleeting and can also change in a heartbeat. Revocation of the antidumping measures would likely result in foreign producers once again shifting their exports back to the United States at illegally dumped and subsidized prices. Such a surge of unfairly traded foreign imports would have a devastating effect on the tremendous progress that our domestic steel industry and its employees have made in the last several years.

It's clear then that we have to continue to protect the American marketplace and American workers from foreign competitors who do not play by the rules. It's as simple as that. It's not the same level playing field. We cannot have trade unless it's fair trade.

So on behalf of my district, my state, my tri-state area, and our country, I urge the Commission to continue the antidumping relief in order to give our domestic hot-rolled steel producers the chance to build upon their tremendous progress. We've all worked so hard together on a bipartisan basis to implement these measures which are so needed, and I promise that we will continue to work hard to ensure that they remain intact.

We will continue to fight for U.S. steel interests, the jobs, until the dumping of foreign steel ceases to flood our markets and I'm certain that our American jobs, pensions, and benefits are protected and are given the justice they so deserve.

Let me just close by also thanking you. I sit through countless meetings in my job in the Ohio legislature and in Congress, and you are attentive, you always have been, you're concerned about the issues and you're always willing to listen. I think that's a wonderful achievement by your group.

With that, I'll close. If there are any questions --

VICE CHAIRMAN OKUN: Thank you very much, Congressman. Let me see if my colleagues have any questions?

No. Thank you very much for your appearance here today.

MR. NEY: Thank you, whoever I interrupted, I'm sorry. Thank you for your time.

VICE CHAIRMAN OKUN: We've been used to it today.

(Laughter).

VICE CHAIRMAN OKUN: All right. I believe I can now turn to my questions for this panel.

I was interested in the responses that you were giving with regard to demand. I just wanted to make sure whether all the purchasers had a chance to respond to the question of what their order books looked like going forward. I know I heard a couple, but was there anyone on the purchase side who can talk about their order books now who hasn't had a chance?

MR. SANDFORD: Eric Sandford, Delphi.

We are clearly at the whims of our OEM customers and as we look forward into '05 we do see some softening of the marketplace in terms of our schedules, but nothing sustained. We do believe that we will see a pickup, if not at least as a minimum equal to what we had last year as far as output.

Again, we see schedule changes with some of our customers, but we do see increased schedules with other customer so there's a balance.

VICE CHAIRMAN OKUN: Okay. For -- I'm sorry, Mr. Engel?

MR. ENGEL: Commissioner, could I just add to that?

We would be happy to provide to you all, because you've had a number of questions on this, some of the projections of the industry. The automotive industry. What we see the demand being this year, as well as projected out.

We each have chief economists and other outside sources that forecast demand and we can provide that to you. It might give you a better view of what the future holds.

As I said, it's fairly flat. I think when you speak to individual suppliers or manufacturers it might be a little different, it depends on their customer mix. Not everybody is growing in the U.S. market. The big three are struggling to grow. One of the big reasons is our cost structure. Raw materials is a big part of our cost structure. If we do not have a competitive cost structure we cannot be price competitive, we cannot compete. That causes maybe our volumes to go down, others might be going the other direction. But we'd be happy to provide that if you'd like.

VICE CHAIRMAN OKUN: I think it would be very helpful to see those forecasts, and we appreciate those. I think it was your colleague whose name I just can't see right now --

MR. McCONNELL: Ms. King.

MR. ENGEL: Lisa King.

VICE CHAIRMAN OKUN: Yes. Ms. King.

You had referenced a study of Ford, the historical study regarding pricing and I wondered if that was something you could also submit for post-hearing.

MS. KING: Yes, we'd be happy to.

VICE CHAIRMAN OKUN: And while I was

thinking about it, you talked about what you looked at in there when trying to figure out these differentials in prices or the deviations. You said it wasn't raw material.

How did you look at global demand? In other words, one of the things I observe on this record is the amount of consumption in China and the purchase in China, and that that caused at least part of the price increase in my mind, but I'm curious how you took it into account.

MS. KING: I'm actually going to defer that if I may and respond when we submit the data because our economics group did the detail of the study and I'm not conversant with all of that detail.

VICE CHAIRMAN OKUN: That would be great to see that, and then if they could just provide the information and the data sources that would be helpful.

Mr. Engel, you reminded me, which is for the purchasers, because it would be proprietary, I know in reading the briefs there was a lot of focus on what was going on in '04. And to the extent that you can provide details on the orders, what you see happening with prices in the U.S., steel prices in the U.S. market going forward in conjunction with some of this forecasting, I think that would be helpful as well. I just don't think I saw as much of that as I saw in the '04 prices.

I see you all shaking your heads so I will look forward to seeing that as well.

MS. GEORGI: Do you want to hear anything about Russian demand? I wasn't sure whether it was just limited to U.S. demand or whether it was more global?

VICE CHAIRMAN OKUN: I think it would be very helpful to hear more about Russian demand. I also think it would be helpful to hear more about Chinese demand and I have a question on that as well, but yes, Ms. Georgi, I do want to see that.

MS. GEORGI: Okay. We'll let Anton Bazulev make a few comments.

MR. BAZULEV: Yes, we can say that we are not largely reliant on American, on U.S. demand in our projections for future sales. We are largely relying on growing Russian demand.

There is a strong correlation between economic growth of development countries and consumption of steel in the economy. It was, this correlation was followed very strictly by China in the last ten years when it grew very vigorously and the steel consumption also grew the same, even faster than economy grew.

The same situation now is seen in India to which we are boosting shipments also of our material because it's good and close market for us. But moreover, this dynamics is seen quite obviously had constantly in Russia. For last five years after Russian economic crisis was over, Russian steel demand grows six to ten percent annually. Intact with the gross of Russian economy which grows also four to ten percent last five years. And according to all economic projections the economy will grow 6.8 to 7.2 percent next year, five to six percent the year 2007.

So we expect the same to be the situation in steel consumption. Now steel consumption in Russia is almost three-fold less than in developed countries so it has to grow in order to give the economic development say the flesh for its growth. So we are developing quite fast our sales to growing Russian market. That is our main goal for sales for shipment. Thank you.

VICE CHAIRMAN OKUN: Do either of the other Russian producers have any comment on that? Or any addition?

MR. BAZULEV: Can I add a little about

Chinese demand? It was in the presentation by Steel Success Strategies Europe, co-founders Peter Marcus and Carlos Tristis on the -- I'm sorry, World Steel Dynamics co-founders Peter Marcus and Carlos Tristis at the Steel Success Strategies Europe Conference in Paris this year. The projection for Chinese demand to grow nine percent annually in the period from 2004 to 2007, while all the rest of the world will grow approximately 2.4 percent a year. It's a quote.

Thanks.

VICE CHAIRMAN OKUN: Thank you for those comments.

Ms. Georgi, for purposes of post-hearing in terms of the information that we've just heard regarding the Russian market and also the comments regarding Chinese demand, and I would make this request, Mr. McConnell to you as well, which is there's been a lot of information submitted on the record. The Petitioners submitting lots of information on Chinese production and Russian production and your panel's submitting a lot of information on consumption figures for those countries. And I have tried to ask staff to come through and figure out the sources for the different projections but I think it would be of use if for what you're saying if you can try to connect the two. I know Mr. Cannistra has tried to do that and I have some questions for you, but for everyone else, I think it would be very helpful for post-hearing if you can cite your sources, cite both sides -- the consumption and the demand side, and help me reconcile what's going on out there.

Mr. Engel, you had your hand up?

MR. ENGEL: I'm sorry, just one other comment. Again, if you would like, if it's helpful we can provide estimates of global automotive demand as well. The automotive industry is obviously much larger than the steel industry and if you'd like, and it can be independent analysis that we use also. We can provide that.

VICE CHAIRMAN OKUN: Okay. I think it would be helpful. There are certainly arguments made that a portion of the Chinese increased production is going to automotive companies in China. To the extent that you can tie up the general automotive demand to demand for hot-rolled, it's obviously more relevant, or easier for us to comb through I guess.

I see my yellow lights on. I wanted to go back on the Chinese, but in light of that I will come back in another round if someone doesn't do it before then.

Commissioner Miller?

COMMISSIONER MILLER: Thank you, Madame Chairman.

I was interested in the same discussion on China, but I'm going to go another direction for the moment. Maybe I'll get back there. I was interested as well in the comments of the Russian witnesses, thank you for being here, regarding their impression of the Chinese market.

But I want to start, if I may, with questions -- As I listened to this morning and thinking about this afternoon I'm sort of saying to myself well the 2004 prices were obviously so high, and the question is were those an aberration or are they the future? That's the question that I'm sort of struggling with and trying to understand.

Ms. King, some of your comments about Ford's analysis of steel prices I found interesting because I think most of the discussion this morning about the story of the price increase was China, raw material prices, these sort of, well one supply, one demand side factor.

You spoke about structural changes as something that Ford has identified as being more -- Is that a fair comment? More the cause of these price increases?

I'd like, if you can, and I appreciate your willingness to share the study with us, but if you can here just to elaborate a little bit about how you think any consolidation has contributed to the price increase.

MS. KING: I don't think any one of those factors alone can be, the price increases can be attributed to just raw materials, just China, just consolidation. I think they've obviously all compounded the cause of price increase in the marketplace. But I think the structural element of it is a key element.

What we've had historically is an imbalance of power between buyers and suppliers of steel with steel buyers having significantly greater power in the marketplace which has obviously allowed for some price depression historically as we've looked for leverage in the marketplace as buyers.

I believe one of the aims of the consolidation of the steel industry was to be able to redress some of that disparity in buyers and sellers and to get to a healthier industry. I think it's something that has been recognized as important to the steel industry to do to get back to a healthy position and be able to compete.

One of the reasons we believe that it's enabled the steel industry to be in a better market situation, the folks that spoke this morning talked to I think some of the rationale and some of the reasons. There's greater productivity, there's other factors attributable to their larger size.

One of the things I think that is helping them in the current marketplace is that historically you've had operations that are single or maybe a small number of blast furnaces in their organization. So when they have had price pressure the opportunity to take out production, to not sell below cost of manufacture, to not sell unprofitably in the marketplace has been almost impossible to make because the decision to take a blast furnace down has been a decision that could impact a significant portion of their production base.

What you have now are steel mills with a much larger spread of blast furnace operations and of operations in general. So we had some of the mills talk today to the fact that as pricing softened we pulled ahead some of our blast furnace maintenance programs so that we weren't selling in a less profitable market. That truly is an option for a steel mill today. So the steel mills now are able to, if they have multiple blast furnaces, it's a much more realistic proposition for a mill to in the current environment, many of them pulling ahead maintenance, or even to make the decision as was referenced this morning, to keep capacity idle because it's not necessarily profitable to reopen that capacity.

That obviously offers much more opportunity for the steel mills to really manage their own destiny in response to market demand and supply and to pricing. We think that's a fairly fundamental shift that's been enabled by the consolidation in the industry so that the steel manufacturers can actually have a little more control of their destiny in the marketplace than they've had historically.

COMMISSIONER MILLER: Interesting, and yet there's still -- At some point today the numbers were referenced and they're not off the top of my head, but there are still a lot of steel companies competing for your business. I mean the may have consolidated, but it's not like we're down to just three suppliers or --

MS. KING: We're not down to just three suppliers. If you look at the supply base that we have into Ford we deal with mostly five suppliers, and when you look at integrated mills and you look at automotive suppliers in the U.S., for the major, large volume suppliers we are dealing with basically five major suppliers and two smaller ones if we include the Canadian mills in that count as well. So although, I think the number referenced were, I think at one point 12 were referenced I think, but not all 12 do we do business with or can we necessarily do business within automotive.

COMMISSIONER MILLER: Interesting.

Mr. Engel?

MR. ENGEL: Commissioner Miller, I just could add to that. The mills say they're running at less than 100 percent, but yet there still are some imports coming into the country and prices are at levels that they've never seen, we have never seen before.

I would probably be making more steel at that point. They could be doing even better than they are.

I think it would be good if you could listen to some of our other panel members as they talk about some of the supply problems that they've had. The steel companies earlier today referenced panic buying and I think you would be good to hear the perspective from the part suppliers and why they might be panic buying.

So if I could ask the Delphi and the Dura members.

COMMISSIONER MILLER: Sure.

MR. SANDFORD: Let me start. Eric Sandford, Delphi.

I can't expand too much further on Lisa or Jeff's comments, however what we witnessed the last year was somewhat of a perfect storm so to speak. Consolidation, I can't suggest that that would be the wholly-owned reason why prices went as they did. We know the China issue because we heard much about that today. Also currency. We talked a bit about currency because a weak dollar does not allow or suggest a good business case, the import, as you would know.

What I'd like to talk about is the inference to the price increases and how it affected us in Delphi.

During the year we had no less than 231 key suppliers basically default or threaten to stop ship as a result of steel pricing or their ability to get steel. We had to deal with, I know you talked about this morning or you heard this morning about the fact of spot prices. We too had to go out on a direct basis to spot buy. However, we had to really take control of those suppliers who did not have the leverage or had the ability to go buy steel effectively as us.

As a result, with our just in time system, with the flow of the product, the demand of the customers, we were put in a very precarious squeeze play between the steel industry and our customers.

I want to say that we worked very hard last year to ensure that our customers got all the parts and material that they needed, and we were very very, it was very very important to us to ensure that we kept our lines as well going and our ability to produce the parts that went to our customers. So we spent a lot of time, a lot of activity, and it cost a lot of money to ensure we facilitated our requirements.

MR. KNAPPENBERGER: John Knappenberger from Dura. Again, a similar tale. Let me just tell you a couple of sidebars to that that will graphically explain what we're talking about.

That summer peak that you heard about this morning was very interesting to me because the fact, the point was made about the "good" customers and they made sure the "good" customer was always taken care of.

In our industry, our problem is name one bad customer and which part you don't want today? Our problem was that we were able to leverage steel not only through our suppliers but also the spot market. Our problem was tier 2's and tier 3's who weren't the "good" customer. The smaller people who in our chain are very valuable, and if they go down with one part, our part goes down, we can't supply and then our customer doesn't. That's where we got burned in that summer period. And you heard every one of those suppliers today say they had problems with the summer.

Particularly when we ramp up for a launch, if our projections aren't absolutely on and if we didn't estimate 12 to 14 weeks in advance what our supply was going to be required from our customer as that customer ramped up in volume in new products, we had no safety stock to go to. Nowhere to go but the spot market. And that amplified through our three tiers.

So that will give you just a little indication of how we suffered last summer. What you heard this morning was, quite frankly, the tip of the iceberg.

COMMISSIONER MILLER: Okay. I'd love to hear more, but my red light has hit. So either I'll come back, or others will give you the opportunity. Thank you.

VICE CHAIRMAN OKUN: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you very much, Madame Chairman.

I would be happy to ask others that wanted to comment on this. If I could ask you to continue to respond to Commissioner Miller's question on this issue. But if I could also add into it to help me understand also what's happening now. I do want to hear this story of what happened over the summer, but I'd also ask you to bring it into today. We've obviously heard a lot of this issue on the 16 week lead time. I'm curious to make sure I understand what the lead times are today as well.

Mr. Nelson, you look like you wanted to respond.

MR. DAVID NELSON: Yes, relative to what's happening today, and one of the last comments I made in the testimony was that the future viability of the U.S. automotive supplier industry is in serious doubt. We heard a couple of companies who are seriously worried about their survival, and in the middle of the back page of the Kipplinger Report approximately four weeks ago there was a paragraph that suggested there's 8,000 auto suppliers in the United States, and by 2010, 4,000 of those will be out of business. So it's very significant.

Now in our particular case, what's going on right now, we have a method to keep a watch list on those suppliers who are getting in a little bit of trouble. We have 300 on that list right now that we're watching carefully. We have 30 that are in bankruptcy or near bankruptcy, and we have in my budget almost towards $100 million to help these companies through and to one way or another help deal with the issue. Sometimes it may be in fact moving that business because in fact they can't still stay in business.

Somehow or another I don't think this has come out very clear, that this is really a concerning issue today with the auto suppliers because as you heard from Ford, and other OEs would say the same, there is no possibility to pass this through, so it gets absorbed then in the supply chain and that's the real concern here.

COMMISSIONER HILLMAN: Okay. Are there others that did not have an opportunity?

MR. KEAT: Yes. Dennis Keat.

For the small to mid-sized companies, it was interesting this morning to say okay, what's considered a "good" company? Is that based upon the volume of material that you're buying?

So for myself buying smaller quantities of material, does that put me into a bad situation that I couldn't get it?

So what we typically had to do was find steel from multiple sources during that period of time in case one couldn't deliver. And in some cases, somebody would only deliver us half the amount of steel that we had and then we had to go find other vendors to be able to pick up the additional materials that we need to be able to meet our customers' demand.

COMMISSIONER HILLMAN: How about today? What would you say -- How is the situation today? We heard testimony this morning that least on the service center side, at least I heard the domestic industry say that their perception is there has been of late an inventory buildup at the service centers, that they're trying to bleed out some of that inventory as they perceive prices starting to come down, they're trying to offload some of that inventory so as to not be hanging on to high priced inventory as prices are starting to move down. Are you seeing that?

MR. KEAT: I think that would be true. Our availability today is better than it was. We are still concerned about it going forward into the future, especially when we hear from the steel producers that hey, if a furnace is going down the first thing that comes to our mind is hey, what's going to happen to our quality, price and availability of materials?

COMMISSIONER HILLMAN: What would you say -- You're purchasing from service centers, correct?

MR. KEAT: Yes, we are.

COMMISSIONER HILLMAN: And availability is what? Lead times are what?

MR. KEAT: Lead times are about the same as what was stated by the other people previously, about six to eight weeks for ourselves.

COMMISSIONER HILLMAN: Others? Again, I guess I'd like to understand it both from purchasers through service centers as opposed to those of you that are buying direct in terms of what are your current lead times looking like?

MR. SMITH: Wes Smith, E&E Manufacturing.

Our lead times are typically anywhere between 12 to 16 weeks out.

COMMISSIONER HILLMAN: And today that's the case?

MR. SMITH: Yes.

COMMISSIONER HILLMAN: And you're purchasing through service centers?

MR. SMITH: Yes.

MR. KNAPPENBERGER: We go through service centers who do some value-added and they still have the 12 week lead time on us.

MR. DAVID NELSON: We have the same situation.

COMMISSIONER HILLMAN: A 12 week lead time today.

Then --

MS. KING: Similar for us, for our service center buy.

COMMISSIONER HILLMAN: Pardon?

MS. KING: Similar to us for the service center portion of our buy.

COMMISSIONER HILLMAN: It's currently a 12 week lead time.

MS. KING: Yes.

COMMISSIONER HILLMAN: Then on the price issue, we obviously heard a lot of testimony this morning about prices having reached a peak, depending on who you were listening to, in the order of September of 2004, but then a pretty significant decline, a lot of descriptions of $150 a ton price decline. From your perspective as purchasers, is that what you saw in the market? A peak in around the September range and then significant declines from that?

MR. ENGEL: I would just say that yes, we did see a significant peak. I think a significant decline is probably a subjective term from a high level, as significant as it was, $100 a ton, $50 a ton is not nearly enough or what we believe it should be.

I'll let Lisa comment on exact pricing today, but pricing today is varying quite a bit and it is still very high.

MR. KNAPPENBERGER: I would say for us through a service center we have not see that dramatic a reduction. We're more in the area of $60 to $80. And quite frankly, there's noise out there that we're going to start getting linked to some kind of an indices that takes from zero and goes up. The noise in the system is what we're concerned about.

COMMISSIONER HILLMAN: And the indices would be linked to scrap prices or what?

MR. KNAPPENBERGER: It could be any number of things. In our case it would be raw material. They're trying to hang it on raw material or some index starting at this point and would go up or down.

COMMISSIONER HILLMAN: For contracts or for --

MR. KNAPPENBERGER: Contracts. Discussion around that. We have helped form, we're only on a six month contract because we're like anyone else, a lot of people, waiting to see.

COMMISSIONER HILLMAN: We also heard a lot of testimony, and obviously a lot of what you're saying in terms of your ability to be competitive vis-a-vis imports of product. Of parts, of autos, of other things. It depends on what your competitors are paying for their steel.

What is your sense of how U.S. prices for hot-rolled sheet compare to those around the world that your competitors are able to purchase their steel at?

MR. ENGEL: I'll direct it to Lisa King, if she could comment on that. We won't have detail on what our competitors are paying, obviously, but I think Lisa can give you some information on what prices are around the world.

COMMISSIONER HILLMAN: Ms. King?

MS. KING: Last year certainly there was a greater disparity between U.S. prices and prices globally. What we've started to see is equilibrium between global pricing and U.S. pricing. But we have a pretty interesting scenario now because we have very high prices globally and in the U.S. we have a situation now where the U.S. markets is less attractive because you've got that demand, that price equilibrium. So you've got a very high price without necessarily the attraction for imports to come in. So we have a pretty interesting situation right now in the marketplace because of that price parity.

COMMISSIONER HILLMAN: So you're saying prices are fairly comparable throughout the world today?

MS. KING: Yes.

COMMISSIONER HILLMAN: Mr. Gaskin?

MR. GASKIN: Included as an attachment to my testimony were a number of pages of tables and charts. The second one is an excerpt from the steel business briefing that characterizes prices for hot-rolled in the U.S., in Europe and in Asia. There's been serious disparity until the last few months of the last year when it started to equalize.

It was very clear that we were paying a $100 to $200 a ton premium in the U.S. compared to the rest of the world, at least at our level, and I think that report characterizes it fairly accurately, what our members were experiencing.

Also in terms of, there's lots of ways to measure the impact of this past year, and again in our supplemental pass-outs there are charts toward the end, the third to the last page, that shows the degree to which our members experienced and reported to us in a monthly survey, and this was a survey of over 100 companies each month, canceled orders, partial shipments and late shipments. And as you look at the tables, we certainly, as the year went on, we got better. Late shipments are still there, but canceled orders have really started to be minimized. So it did peak in that late summer period, early fall period. But the disruption early in the year was absolutely horrendous.

And it was also very reminiscent of the disruption that took place in 2002 when the 201 tariff came into place. There were six months of very active disruption and then it leveled out. This year we had a similar thing, and of course it was particularly unusual given that the 201 disappeared. It makes you wonder what stability is any more.

COMMISSIONER HILLMAN: Given that the yellow light is on I will only ask one quick question on the legal side, Mr. McConnell, for post-hearing brief.

A lot of the testimony that's come in is focused on this issue of the impact of these orders on the consumers and what they have done to all of the companies that you're representing here. I would only ask that you brief the legal question of, not just whether there is or isn't a bar in the statute toward taking in new account, but this issue of sort of are we really permitted to examine the effect on the consumers in the context of a sunset review? And where do you see the legal authority expressly in the statute for us to do that?

I understand a lot of the testimony that's come in, I just would like that issue to be briefed.

MR. McCONNELL: I'd be delighted to do that in the brief, and I would be eager to have an opportunity to speak to it at this hearing as well if I can.

COMMISSIONER HILLMAN: All right. I may come back to that.

Thank you, Mr. McConnell.

VICE CHAIRMAN OKUN: Commissioner Lane?

COMMISSIONER LANE: As promised, I didn't forget, I'd like to go back to Mr. Engel and talk about, maybe I didn't ask the question clearly enough. But what share of the cost of the average Ford is attributable to steel?

MR. ENGEL: I'm sure you asked the question clearly enough, I must not have given you a very clear answer.

The estimated cost of steel in the vehicle is about three percent. That's a number that has been I think even used today.

Your earlier comment I thought was relating to recovery of that cost in the price of the vehicle. The point that I was trying to make is that actually prices of vehicles have been going down. The Department of Labor has estimated in 2003 that the prices of vehicles declined by 1.6 percent. It was another half a point last year. Our own economics office, who also forecasts and estimates this, based on the effects of inflation it was even larger. Actual vehicle prices have declined by roughly three percent, 3.5 percent the last two years.

COMMISSIONER LANE: So I guess what you were trying to tell me was that even though the costs of steel that are going into your Ford may have gone up, you have not been able to pass those prices along to your customers.

MR. ENGEL: That's correct, because the net prices have been going down.

COMMISSIONER LANE: Why are the net prices going down?

MR. ENGEL: Well, it's a great time to buy a car.

(Laughter).

MR. ENGEL: Someone wanted to sell steel earlier, we're open to selling cars today also.

But the prices of cars are going down because of the intense competition in the market, and the regulatory requirements, and the additional costs that are being put in. Labor costs, pension, health care, raw materials, regulatory requirements. We have to put more content, more cost into the car that we cannot recoup in the price. Therefore the margins of the cars are going in the opposite direction.

COMMISSIONER LANE: Would it be fair to say that it's not just then the increased cost in steel that you cannot pass along to your consumer?

MR. ENGEL: That's true.

COMMISSIONER LANE: To reduce what I think I've heard today to the simplest terms, are you saying that the orders are increasing steel prices, and if the orders come off steel prices will go down?

MR. ENGEL: We believe that the orders have an influence on the price. In our view, the steel companies do not require the protection from the orders. They have recovered, they have restructured, they have improved.

Also from our view, recall that we buy 98 percent of the steel that goes into our automotive products here in the U.S.. It has always been that way and it will continue to be that way. We are not a big importer of steel for the automotive assembly and manufacturing that we conduct ourselves.

There is something going on with the prices. The orders, we believe, have something to do with the imbalance that is existing between buyers and sellers.

MR. McCONNELL: If I could just respond a little bit to that as well, we spent a fair amount of time yesterday sort of talking with everybody in this table who, if we had the time, I would encourage to take this on as well. I didn't sense any illusions about what revoking these orders would do to U.S. market prices. I don't think there's a lot of anticipation that this is going to make a massive change in the marketplace of any kind.

I think the sense rather was these are the orders that are up for review now. This is an industry that's back on its feet. We're seeing a lot of dislocations in the marketplace. Shouldn't we be removing regulatory barriers from the marketplace rather than restoring them or renewing them? But I didn't get a sense that any one is really eagerly awaiting the revocation of these orders because they think there's going to be a massive impact on the market place. I encourage others to speak to that as we had quite a discussion yesterday.

MS. KING: I think a lot of the discussion you're referring to yesterday, a lot of the discussion, the phrase that kept coming up was release valve. I don't think there was any suggestion or any hope from the folks around the table that prices would necessarily react sharply to the revocation or to not renewing these duties. I think the question was more one around supply and the fact that if there was ability for more freedom of movement of steel into the country, if we hit the kind of shortage situations we've seen in the last 12 months that there would be that release valve, there would be somewhere more tenable to go to find alternative sources when we're in that kind of supply crunch that we were in previously. I think a lot of the discussion yesterday was around that idea of the release valve and just having a little more freedom in the marketplace in an emergency situation.

And I want to be clear, nobody's suggesting that if you get a spot buy you can just go out to any country, whether it be one of these three or any other global source, and just buy the steel there. But it allows for a more fluid movement of steel in the industry in general so that as folks start forecasting shortages there are some alternatives.

MR. GASKIN: Bill Gaskin.

I think another issue is stability, where this probably, in my book, wouldn't change pricing but maybe it will lead to more stability in the period ahead, and also comparability with the rest of the world. If we've kind of equalized in the fourth quarter with the rest of the world, let's stay there so we're competitive.

I need to remind you that as our members testified, steel may only be three percent of the cost of a Ford, but it's 40 to 60 percent of the parts we make for a Ford.

So when steel prices go up, we're the industry that gets clobbered. The end consumer, the person that goes out and buys a car may not see it, but in the middle of the supply chain you feel it really, really hard because it's more than half your sales dollar.

MR. SANDFORD: Eric Sandford, Delphi.

I'd just like to make a few comments on the suggestion of a massive surge of imported steel.

We buy 100 percent of our hot-rolled steel through domestic sources, and to change sources readily is very difficult in the automotive business. We're highly restricted to very demanding quality requirements of our material types and product lines which take months to approve and validate.

Consequently, we just can't go off-shore, go around a corner, and buy steel readily to facilitate our customers and our quality needs. As a result, we don't believe that taking the order down that you would have a mass surge of steel coming into the automotive business per se.

Clearly we believe that at Delphi, we are free market people, we believe in the free market. We have a global footprint in terms of our material types that we procure in regions beyond North America. With the orders off, our thought would be that we could perhaps, or have the opportunity, or be less restricted in the ability to bring in approved product that may be from off-shore that we currently use and are approved upon in those regions and readily use material and buy material at best prices wherever.

So again, restrictions like this does not help us in our business. Clearly.

COMMISSIONER LANE: Mr. Sandford, I have a follow-up question on something you said earlier.

You said you had 231 suppliers who threatened to default last year?

MR. SANDFORD: Yes.

COMMISSIONER LANE: Could you explain that a little bit further? Did they actually default?

MR. SANDFORD: Yes. The process we have in our engagement with our supply base in this process was the fact that we received letters from these suppliers indicating that they were not in a position to pay the increase in steel. And the issue around it was that if they did not pay, they would not get steel. So we intervened in the negotiations to ensure, Commissioner, that they did get steel. To ensure that the material we were expecting, or parts we were expecting from them would carry on in our process and then on to our customers. But clearly, 231. This was a global phenomena. It extended beyond that.

Mr. Nelson talked about our financially troubled supply base. Many of these suppliers were in that category.

COMMISSIONER LANE: Thank you.

VICE CHAIRMAN OKUN: Commissioner Pearson?

COMMISSIONER PEARSON: A question for Mr. Gaskin.

To what extent have differences in the prices of hot-rolled steel in various countries influenced the location in which products have been manufactured? That may be something that's difficult to quantify. I keep hearing anecdotally that steel price is a factor in where manufacture takes place. Has there been any effort to quantify it?

MR. GASKIN: I'm not sure that it is quantifiable, at least at our level. I gave one anecdote in my testimony of the 25 parts that moved to China from my Wisconsin member. That has happened hundreds of times over the last few years. We saw it in 2002 when we had the disruption in the market because of the 201 tariff, and from March until November costs went up by 40 percent. We thought they were terrible then, well this year doubled.

We know that our large customers are making decisions to make metal products elsewhere in the world.

I mentioned in my testimony that the imports of fabricated metal products increased by 19 percent last year. The trade deficit for metal products I believe was increased by 35 percent last year. This is evidence that we are moving manufacturing in this middle market, in the middle area offshore, that's taking away steel companies' customers.

One could say that we're in a position, perhaps, that the steel industry might have felt they were in in '98 when there was a flood of flat-rolled metal. Now we're seeing a year where there's a flood of high prices that make us globally uncompetitive as the middle market, and so we need everything we can from the Commission to try to stabilize and make sure that we're competitive globally.

COMMISSIONER PEARSON: Certainly the steel industry would agree with your point that maintaining a robust domestic demand base is important.

If there is any ability to document in the post-hearing some of the production adjustments that might be taking place, that would give us a little something to go on.

MR. GASKIN: Okay.

COMMISSIONER PEARSON: Mr. Engel, for you a more specific question along the same line.

I was partly awake earlier this week, maybe it was just this morning, I've kind of lost track. I'm listening on the radio and I heard some discussion, too much of it was gone by the time I started paying attention, but it had to do with Ontario and the auto industry there, evidently being poised to become the largest provincial or state jurisdiction in North America in the production of autos. Larger than Michigan.

Do you know, did I hear the story right? If so, could you discuss what's leading to that?

MR. ENGEL: I don't know exactly what story you might have heard.

COMMISSIONER PEARSON: I probably heard it wrong, okay.

MR. ENGEL: No, I think there have been stories recently about the province of Ontario becoming a major automotive source for vehicles as well as components. We have operations there. We have assembly plants, engine plants, supply base. I know several of our competitors have large operations in the province of Ontario as well.

I think when you would take all of the auto operations of ourselves, our suppliers, our competition and compare it to Michigan, I believe Ontario is larger.

There are not too many people building new assembly plants in Michigan, but there are some new assembly operations in Ontario.

COMMISSIONER PEARSON: Obviously there are lots of reasons to go into the siting of a plant. Are you in a position to make an argument that the price of steel is one factor that might influence whether a plant gets built in Ontario versus Michigan? I'm not trying to lead you where you don't want to go and it may be a difficult question to analyze because of course Canadians have had some antidumping orders against steel also. But if there's anything you'd want to provide for that either now or in the post-hearing, I'd be curious.

MR. ENGEL: I'll just tell you from our perspective, when we make decisions about investments or where we're going to put our automotive production, to this point steel has not been a factor. There is too much of an additional investment for the assembly plant itself and all the infrastructure that goes with it that are far beyond the effects of steel parts might be. So for us, steel has not been a factor in what we've done in Ontario. I cannot comment today on what our competition might be thinking.

COMMISSIONER PEARSON: Thank you for that.

Mr. Becker, this question might be directed to you. Has there been any analysis of the degree to which U.S. import restrictions have influenced U.S. steel prices over the period of review? And the reason for asking that is that in some market conditions one might expect the orders to have a meaningful, a noticeable effect on the domestic market, and in other market conditions they might be entirely irrelevant. Have you had a chance to try to look at that? I know there's obviously a lot of other factors that have been influencing steel prices, but nonetheless, I direct the question to you.

MR. BECKER: I appreciate that.

There are a number of studies out there for this product, for other products. I guess the one that may be the most relevant for this Commission is a model that's been developed by the ITC's economic staff. It's called COMPAS. With COMPAs you input things that are typically in the staff report, and from there it spits out an answer as to what the impact was on price, on volume, on revenue, and in this context on employment also.

So we have the ability to do that from the data given in the staff report here. In other words, use the ITC's own model that does those types of things. I have not seen that put into what's been in evidence so far in this case, but I've certainly seen it in many other cases, steel and otherwise, and I think it seems to have some, for lack of a better term, blessing at the ITC since it was born here.

COMMISSIONER PEARSON: In general, would it likely be the case that if the domestic market is abundantly supplied with steel that the antidumping order would have less effect on price relative to a period in which the domestic market is short of steel?

MR. BECKER: I think so. There are a lot of factors that come into play. Of course those are the things that are laid out, the elasticities of supply, the elasticities of substitution, capacity utilization as you mentioned. So all those things do have a formulaic input in this model and in general. They do have an impact also. But yes, capacity utilization is not a trivial part of that equation.

COMMISSIONER PEARSON: But given the strong demand in the world broadly in the past year for steel, you are not at this point prepared to argue that the price spike we saw last year was driven significantly by the antidumping orders. There was so much else going on that you would not be inclined to separate --

MR. BECKER: Sure. I guess at this point, I guess I've looked at it from the opposite perspective which I think answers the same question and that is I've looked at what's the potential price impact of removing the dumping orders, and from what I can tell the price impact is not very significant. So chances are that does answer the question backwards too.

COMMISSIONER PEARSON: Thank you.

Ms. King? I was very interested in your discussion of the pricing having been six standard deviations away from home. At one time I knew enough about statistics to understand that that's a fairly meaningful occurrence and rather unusual.

You indicated that you think this is driven by a structural shift in the marketplace, or at least related to a structural shift. Maybe you could elaborate a little bit more on that, because, are we sure that this isn't just a perfect storm of factors that came together to push the price out to that six standard deviation level? And that within the foreseeable timeframe that the Commission is to look at, that factors won't realign such that the market looks much like it did in 1995 when we get to the end of 2005 for instance.

MS. KING: I've tried to avoid using the perfect storm terminology because we've heard it a lot, but it is a very accurate description of what I think has happened in the industry. There's been a number of companion factors that came together.

I think the key with the structural portion of it is that while we may see a number of factors revert back to kind, if we look at raw materials for example, raw material prices may stabilize. I think the generally held belief is that they won't stabilize back to the prices they were at, but they will stabilize more than they have been and they'll moderate a little. I think we may see the same with steel pricing where it will moderate back and we won't see the level of instability. So I think there are a number of factors that have impacted that over time will stabilize. But I think we've made a step change in the marketplace. If -- I need a white board. But if price were moving around the mean at a certain point in time that we've seen as 300 to 350 dollars, I think what's happened is some of the factors that have changed, the global supply situation, raw materials, and then the restructuring, will have shifted that mean fundamentally to a new level.

The reason I cite the restructuring as one that's very key is because that's structural it's not reversible. So there are other factors in the marketplace. We could see a reduction in global demand. We could see raw material prices come down. Those may change. But unless folks sell those that we have bought to consolidate, I don't understand how that shift in the structure of the industry would be reversible so that it could revert back to a position and we could go, if you like, back to where we were in the marketplace.

COMMISSIONER PEARSON: My time has expired, but if perhaps for the post-hearing, if you'd be willing to give me a sense of what the new mean would be given the new structure, that would be great.

(Laughter).

COMMISSIONER PEARSON: I would not ask you to say anything about that in public. Thank you.

VICE CHAIRMAN OKUN: I don't know, Commissioner Pearson, Mr. Engel came very close I thought to saying there was a price out there he thought steel ought to be at, and I was going to ask you what is it?

MR. ENGEL: As a purchaser what the price should be at?

VICE CHAIRMAN OKUN: Yeah.

(Laughter).

MR. ENGEL: It would be awfully nice to be back down to the 300 and 350 a ton range where it fluctuated for decades. And we believe that the structural changes and even the cost, raw material costs that have gone into it, don't justify the prices that we're seeing today. I can't tell you what the exact price is. As low as possible in our view.

VICE CHAIRMAN OKUN: Okay. I don't mean in jest, but I do think it seemed like the purchasers think there's a price it should be moving to, but Ms. King, you had talked or explained in a prior round that while there was more deviation I think in the price between U.S. price and other prices in '04, that you saw some equilibrium coming back in the market in '05. Is that an accurate description of what you were saying?

MS. KING: It's an accurate description of circumstances right now. I'd like if I could, though, to share something i terms of where things may be going, because I'm not sure that's an accurate description moving forward.

Several folks have commented on the quality of their crystal ball and I certainly don't have a firm forecast myself, but I would like to share, if I may, just some of the letter that's been sent out by one of the steel mills with regard to surcharges and with regard to pricing going forward.

This letter is dated February 25th and it's an announcement of surcharges for April of this year, and it's an announcement of a $20 a ton increase for prices in April. It's effective with orders acknowledged to ship the week of April 9th, is what it's announcing.

What's cited in the letter that I think is interesting in terms of the fate of things to come maybe and the perspective on where the industry believes they are at. The reason cited for the increase, and I'll read this portion, "Market conditions have improved during the past few weeks as a result of increasing demand, production curtailments in the industry, and continued uncertainty surrounding raw materials availability."

Those are the reasons cite for the increase. Then there are some further details given about the administration of the change.

The letter is finished with, "Further, should market conditions continue to strengthen, additional price increases may be announced."

So while we see equilibrium today, I don't know that that's a condition that will continue as we move forward. Clearly there's pricing pressure from within the industry.

VICE CHAIRMAN OKUN: Okay, and you'll submit that for the record?

MR. McCONNELL: With pleasure.

VICE CHAIRMAN OKUN: Okay.

Going back to where you saw some equilibrium or prices becoming, well, more equilibrium in the market between the U.S. and other prices.

When you look at that or when you all examine that, why do you think that happened? Do you think it was because of China moving into, well, if you agree that they became a net exporter for a portion? Is that what was driving it or something else? I'm just curious what your view is, what was going on during that period where you did see some equilibrium.

MS. KING: I think some of the comments that have been made are probably accurate. There was a much tighter market through the middle of the year and there was some release of supply towards the end of the year so that the market wasn't as constrained. Obviously the greater the supply constraint the higher the price is going to move.

For our own industry for automotive, generally as we get towards the end of the year we see some softening in demand in our schedules anyway, and that's a fairly cyclical type of movement. We have two partial months of supply. Generally our plants are closed for some of the Thanksgiving period, and then for some of the shutdown period over the traditional Christmas break. So there is generally some softening of demand around that time that does allow inventories to build.

There was some comments that we've seen that folks have said they did see inventories building. Those are the closest, the service center portion of the industry.

So I think there are a number of factors that probably allowed for a loosening of supply, that allow the price to moderate a little bit more, and I'd maybe invite anybody who sees a little closer -- We do buy from service centers, but we're probably not as close to their inventory situation as some of the other folks.

VICE CHAIRMAN OKUN: Comments from other purchasers?

MR. SANDFORD: Commissioner Okun, I'd like you to ask the question again. Can you repeat the question? In terms of global?

VICE CHAIRMAN OKUN: What I had heard Ms. King say was while in '04 you saw a much higher U.S. price than world prices, that in more recent times those prices became closer, more equilibrium in the market between U.S. prices and the other prices in the world market.

MR. SANDFORD: From my observation over time, and I've been buying steel for purchasing over the last ten years, I've seen activity basically flow in pricing from the U.S. to Europe. It's a phenomena that occurs within a six to nine month timeframe. Again, it reverses as well.

I think we set the stage here in America in terms of steel pricing. The phenomena in market power is not wholly owned here in the U.S.. This is a global activity.

I do believe the market power in the steel industry in Europe took the market momentum that was launched here in the U.S. into Europe.

VICE CHAIRMAN OKUN: Other comments on that?

MR. GASKIN: Bill Gaskin.

I think there really are some restructuring, there has been substantial restructuring that has made all the difference in the world. 1995 was mentioned by Commissioner Pearson as being one time period. Well look at the steel industry in 1995. The real competitive threat from our point of view was the mini-mills that were being so cost competitive and helping control price in the United States compared to the integrated mills who were fairly saddled by legacy costs and labor contracts, all the things they told you about this morning. The situation in the mid '90s was that.

Today that's all gone. Not only are the labor contracts changed, are the legacy costs gone, have they shed the debt and all that through bankruptcy and ended up with several large concentrated companies who are very well positioned to compete in the world, we also had the structural shift of scrap. The mini-mills were so competitive in part because they were very lean in the mid '90s but scrap was less expensive as the input cost compared to iron ore and all the process of making integrated steel.

Today scrap, or in the last year, scrap went up. That made them less cost effective against the integrateds. That gave them more breathing room in addition to all the restructuring they'd done.

So I think that really wrapped it up. It was kind of the opposite of the perfect storm. It was the perfect good event for the steel industry. I'm not minimizing the pain, it was awful. Lots and lots of people lost jobs. Lots and lots of disruption happened. But the point is that it's restructured today. There's equilibrium right now in the steel industry between mini-mills and integrated mills, and the U.S. was the price leader this year. The reason I think they were in part was because we had the hangover from the 201. The 201 chilled imports, as you all know, in 2003, way off normal levels. So the pipeline was empty as we went into January. We had all these higher costs and there were lots of reasons for the prices to go up. Iron ore scrap, coke, all that. But I think in the U.S. they had a particularly strong position to raise prices because we didn't have anything in the pipeline by way of imports to help level things.

VICE CHAIRMAN OKUN: I appreciate those comments, but it does bring me back to what's going to go on with regard to world production, consumption, and where all the steel produced in the world is going to find a home and at what price.

Mr. Cannistra, I want to go back to you on your chart that you had on Chinese production and consumption of finished hot-rolled steel sheet, and you're using a CRU analysis. I'm just trying to, well, for post-hearing again, the same request I made earlier which is I'm trying to reconcile the different data on production and consumption statistics and how CRU would compare to some of the other things being quoted.

But just so that I'm clear, the '04, '05 would show China with a net, that would be what they're exporting -- No. Consumption is their -- I'm trying to figure out in the other statistics we've seen, you saw production in China for part of '04. They become a net exporter and that doesn't show up on this chart. I'm trying to reconcile this chart with the other statistics I've seen on where China's going.

MR. CANNISTRA: Right. Actually, this is based on the same data that was being used this morning as well. The CRU analysis. It just takes it out until 2009 rather than ending at 2006 which was the data that you were looking at this morning. So it's really just a continuation of what we all were seeing this morning.

With respect to your question, how do you identify where China is a net exporter or whether a net importer. Probably the most obvious place is 2003 where you see, I'm looking at the black and white, but it's the red line showing consumption. The blue line showing production. The gap between the two being the required imports during that particular period.

What you actually see from this chart is that on a year over year basis China is not a next exporter. China happened to be a net exporter in for a couple of months late in 2004, but 2004 overall, China was not a net exporter, nor are they expected to be a net exporter on a year over year basis.

Now that's not to say that say March of this year or July of next year, in that particular month China may happen to be a net exporter in that particular month, but overall on a year over year basis, China has never been a net exporter.

VICE CHAIRMAN OKUN: Okay. I see my red light's come on. I assume the year over year was the reason for the '04. I guess what I'm more curious, what I'd like you to do for purposes of post-hearing is in the projections for '05, '06 I mean clearly in the record there are projections which would indicate China's production is going to exceed its consumption, depending again on the statistics you're looking at. I'm trying to, I would just like you to look at those statistics as well and tell me where CRU fits in and its data. So I appreciate that.

With that, I'll turn to Commissioner Hillman.

COMMISSIONER HILLMAN: Thank you.

If I could I guess just piggyback a little bit on that question because I have the same thing to again ask, the same question I asked of the Petitioners this morning, which is to go ahead and comment in your post-hearing briefs in on the data used by the Petitioners, because we are obviously coming up with a slightly different story from everybody on what happens with China.

And I would ask specifically for you to add in this issue of the imports into China from Brazil, Japan and Russia. The other issue that's being argued about is whether the fact that China's consumption and production again, whether they're going to become an absolute net exporter or whether they're just coming to the point where their consumption and their production are equal, under either scenario presumably what's getting pushed out of the Chinese market are the imports that they had been taking from Japan, Russia and Brazil. So part of it is I would like to see whatever you have in terms of what are reasonable the projections for Chinese ability to continue to absorb the imports that they had been taking in from the three subject countries. And again, this chart that the Petitioners provided, giving you some data on Chinese imports from the three countries here going into China and what's going to happen to those if any of these scenarios come into play where you're at least in equilibrium in China in terms of their ability to match their production to their consumption.

MR. CANNISTRA: I'd be more than happy to provide analysis. I just have one very brief comment on that because we actually haven't spoken much about Russia today. We've talked a lot about other countries.

But with respect to Russia and China, China is actually not a tremendously large market for Russian product. As we heard mentioned earlier, the Russian companies are shipping to well over 60 countries. So while China is a customer of Russian steel, the China factor with respect to Russian exports do not play a tremendously large role. We'll break down where those imports into China are coming from, or where Russian exports are actually going, but China is not terribly --

COMMISSIONER HILLMAN: That would be very helpful. I appreciate that answer.

MR. BAZULEV: Anton Bazulev, can I briefly comment on that?

COMMISSIONER HILLMAN: Yes.

MR. BAZULEV: In addition to what Mr. Cannistra just said, taking into account very high freight costs that we experience now to ship into China, last year we dropped, our three mills dropped shipments to China almost two-fold. But I would draw your attention to the fact that we have boosted the shipments to India which is much closer to Russian producers, seven-fold. From 59,000 ton in 2001 to 372,000 in 2004. The projections for Indian demand are very good for us because we know that India is a billion people country that are living in very bad conditions eventually, and the need for construction material, for hot-rolled steel is very high there.

Thanks.

COMMISSIONER HILLMAN: One other question on the Russian side of it, maybe Mr. Shikhanovich, is this issue of the relationship to Rouge Steel. Can you tell me if you can discuss it publicly and if not in the post-hearing brief in terms of whether Severstal intends to supply input product, either slabs or hot-rolled, to its recently acquired U.S.

facility at Rouge? If that's not something you can comment on publicly, if you can address it in the post-hearing brief.

MS. GEORGI: If it's proprietary we can submit it in a brief.

MR. SHIKHANOVICH: Actually I prefer to address this question in the post-hearing brief. Okay?

COMMISSIONER HILLMAN: Yes. Thank you very much. I'd appreciate it.

If I could come back on a couple of legal questions, I had asked the Petitioners this morning and I guess I would ask the same question to this panel. Does it matter in your view to the Commission, either from a legal standpoint or from a practical standpoint, the fact that these orders didn't actually result in orders per se. There's an order on Japan, a suspension agreement with Russia, a price undertaking that then converted into an order with respect to Brazil. Should that in any way affect how we look at what the implications would be should these "orders" be revoked?

MR. McCONNELL: I'd be happy to address that in a posthearing. I mean, I have to say that, you know, my reaction and certainly the way that we thought about the case from the start is it's principally a factual question. I mean, those restrictions are the restrictions that are in place, and you're to examine what the revocation of them would accomplish. But I'd be happy to expound on that.

COMMISSIONER HILLMAN: Okay. I appreciate that.

MS. GEORGI: I'd like to add just a little bit more, and we'll put more in our posthearing brief, but from a legal standpoint the suspension agreement for Russia established non-injurious reference prices, so from a legal perspective those reference prices that the Russian producers priced well above in 2004 are by definition non-injurious.

I think you should take a look at that, particularly when you take a look at the arguments by the Petitioners today that there's been a large number, a surge, of Russian imports in 2004 and that has damaged the U.S. industry in 2004. I think you need to take a look at that in the perspective of what the reference prices are intended to do.

Second, I think you also need to take into the perspective of exactly what we've heard this morning. This morning had a number of U.S. steel producers saying summer was when they put all their customers on allocation. That's what we just heard right now from the U.S. purchasers.

Summer 2004 there was a vast shortage of steel in the U.S. market, and so what the Russians did is they came in as a safety valve when prices were very high and ameliorated the situation a little bit, and they did it consistent with the non-injurious pricing in the suspension agreement.

COMMISSIONER HILLMAN: I appreciate that, Ms. Georgi.

If you could also address the issue, I've heard slightly conflicting testimony on this issue of the quotas as well. This morning I believe the statement was made that the shipments exceeded the 2004 quota by borrowing from the 2005 quota, and this afternoon I've heard that in fact the shipment levels in 2004 were below the 2004 quota levels.

MS. GEORGI: In fact the second point is correct. If you actually look at the levels, the levels of imports were below the quota.

COMMISSIONER HILLMAN: Okay. So there was no borrowing from the 2005 quota?

MS. GEORGI: No, there wasn't any borrowing.

COMMISSIONER HILLMAN: Okay.

MS. GEORGI: There was a request for borrowing, but no borrowing.

COMMISSIONER HILLMAN: Okay. There was a request for borrowing?

MS. GEORGI: That's correct.

COMMISSIONER HILLMAN: Okay. I assume there's some sort of a provision within the agreement that a certain portion can be borrowed?

MS. GEORGI: It's essentially -- I can leave just a little bit to Anton on how it exactly works, but essentially you can extend the 2005 year back --

COMMISSIONER HILLMAN: Okay.

MS. GEORGI: -- and ship some of the 2005 back in 2004. You're extending it back.

COMMISSIONER HILLMAN: Okay. I used to do a lot of textile agreements. I always thought it was an interesting term because they always called it carry forward when it fact, as my young children would point out to me, that's not actually carry forward. It's carry back.

Nonetheless, I'm very familiar. I just wanted to understand factually where we had ended up with the quota, so I understand that.

Again, if in responding to this generic issue of whether we should look at this any differently because it was a suspension agreement plus an antidumping agreement on Japan plus a price undertaking that converted into a dumping agreement, dumping duties for Brazil, I understand.

I would invite you to also address the volume point is all I'm saying in responding on the Russian side of that.

MS. GEORGI: We would be happy to.

COMMISSIONER HILLMAN: Okay. I'd appreciate that.

Mr. McConnell, another issue. Mr. Becker has referred repeatedly to the issue of stock prices and stock indices. As you know, we have not often relied on them for a number of reasons, most specifically that they look much more broadly than what we're looking at.

We're obviously looking at the performance of the hot-rolled steel industry, and obviously any steel index is going to include both producers that don't make any hot-rolled, as well as the production of a lot of the producers that are here today that include corrosion and a lot of other products, a lot of long products, a lot of tubular products that may or may not be more profitable than their hot-rolled production is.

I guess I'm trying to make sure I understand if you really are telling us we should be looking at this whether there's anything that you would point us to in terms of why that's an important indicia to look at in terms of understanding what it means just for the hot-rolled segment since that's the one that we're by statute directed to look at.

MR. MCCONNELL: I think I could answer a little bit of that here, but I also would like to expand in a posthearing submission if I can.

The issue on the table I think to which the stock prices are particularly relevant is the consolidation of the industry and the meaning of that in terms of the creation of market power and what that's going to do for pricing capability.

You have to look at the hot-rolled market legally, but the ability of the steel industry to assert its market power is going to be across the board, and that is going to be reflected in the stock price.

COMMISSIONER HILLMAN: Okay. Okay. I mean, obviously during the 201 we heard a lot of testimony and looked at a lot of information that came from stock indices and from general ROA and ROI numbers and a lot of other data, but I have to say to me that felt very different in that we had before us all flat-rolled production, most long production, a fair amount of tubular production, if not almost all of tubular, and a fair amount of stainless.

Here we're looking at just hot-rolled and so it's not so clear to me whether this is as relevant as it might have been in that broader 201 context.

MR. MCCONNELL: Again I think it's a question of direction of the flow. I mean, if we've got consolidation -- Lisa was talking earlier about blast furnaces. We got consolidation that goes to the liquid steel, and that is going to flow into this marketplace, and that's going to be something to think about.

COMMISSIONER HILLMAN: All right. I appreciate those answers. Thank you.

VICE CHAIRMAN OKUN: Mr. Engel, did you have something brief you could add?

MR. ENGEL: Could I just add to that very briefly? I think one of the reasons we're bringing up the point is the steel companies have said that this has not been enough of a time of recovery. They had a good 2004. They're not sure what will happen in 2005 and going forward.

The market cap is just a good projection of projected future earnings. They've all said that they're going to be stable, and this is one of the evidences of that.

COMMISSIONER HILLMAN: Okay. I appreciate that.

VICE CHAIRMAN OKUN: Commissioner Lane?

COMMISSIONER LANE: Thankfully I have no more questions.

VICE CHAIRMAN OKUN: Commissioner Pearson?

COMMISSIONER PEARSON: Mr. McConnell, I think you had indicated earlier that if time allowed you might have some comments to make regarding the legal basis for considering the injury to users. If you wish, you have time now.

MR. MCCONNELL: Thank you very much. It's actually quite brief, so you needn't worry.

Let's start with the statute. I mean, basically, you know, we read the same statute as everyone else, and your fundamental job here is to determine whether revocation will likely lead to a continuation or recurrence of injury to the steel industry in a reasonably foreseeable time. I think that's understood.

You're also directed, and you are directed. You shall consider all relevant economic factors in making that determination.

Now, an awful lot of the information that we've given you today I think you can view as traditional. You know, this is our expert commentary of people in the marketplace on what's going on in the steel industry and supply and demand factors and so on, but the specific question of whether consumers are struggling with this and the financial condition of consumers is I think relevant to your determination, and it's relevant from a factual standpoint.

A lot of what you heard this morning was a contention that -- I'll paraphrase -- prices are starting to fall. There's a lot of referencing the situation in 2004 as a departure point and then saying things are getting worse. This shows we're vulnerable. I realize I'm putting words in people's mouths, but there was that trend of conversation this morning.

2004 is not a sustainable marketplace. The consumers in the United States have got to be able to profitably use the steel that is provided at the prices and on the availability to make that a sustainable situation.

That was not the case in 2004, so the fact that consumers were struggling, the fact that some consumers were thrown into bankruptcy, the fact that a lot of consumers had difficulty meeting orders or lost sales overseas means that 2004's market is not a good benchmark for you to look at as a departure point for whether there would be a decline and would that perhaps be evidence of some injury to the steel industry.

I do think the condition of consumers is quite relevant in establishing what a reasonable marketplace is and making your injury determination using that as a starting point.

COMMISSIONER PEARSON: Thank you. Madam Chairwoman, I have -- Madam Vice Chairman. I get so confused.

VICE CHAIRMAN OKUN: That's okay. All the congressmen thought I was Commissioner Koplan. I had a good time with being Chairman Koplan here.

COMMISSIONER PEARSON: At any rate, I would like to thank the panel for the testimony this afternoon and this evening. This has been very helpful. I have no further questions.

VICE CHAIRMAN OKUN: All right. Let's see. I would have allowed Mr. McConnell to comment on the consumer issue. I will still look forward to seeing it in posthearing and Petitioners' comments as well.

I want to go back, and this could be for posthearing, but in terms of the question of what happened in the Canadian market when the order was lifted it struck me listening to Mr. Engel talk about the operations in Canada and looking at the list of companies, Mr. McConnell, that Hogan & Hartson represents that you could provide some data on the Canadian market post revocation, and to the extent that could be specific to purchases of hot-rolled that would be extremely helpful.

MR. MCCONNELL: We'd be happy to check with our clients and see what we can do.

VICE CHAIRMAN OKUN: Okay. With that, and looking at the hour, I think I will have no more questions.

I would like, Mr. Engel, to buy another car. I have a 1993 Ford Explorer sitting dead in my driveway. Do you think I can get anyone to buy it off me so I could buy a new car?

MR. ENGEL: We would probably buy it from you and give you a discount on a new one.

VICE CHAIRMAN OKUN: I'll see you afterwards.

All right. Let me see if anyone else has questions. Commissioner Hillman?

COMMISSIONER HILLMAN: I have no other questions, but I noticed that Mr. Leibowitz's hand was up at the end of my last round, and I did not want to cut him off, even though the red light did. I wanted to give him this opportunity to make his comments.

MR. LEIBOWITZ: Thank you. Mr. Smith had a comment concerning the stock price and why we think it's particularly relevant to this case, and I think it's based on your market knowledge, so if you would?

MR. SMITH: Sure. The point that I wanted to make is we try to look at the health of the hot-rolled industry. I think you really have to look at the pricing between the hot-rolled market and the cold-rolled market, which is very, very close.

What I'm saying is that it's not that the cold-rolled market is underpriced. I think it's the hot-rolled market is giving a very substantial premium. Therefore, the disparity is very negligible.

COMMISSIONER HILLMAN: The current disparity between hot-rolled and cold-rolled prices is not the normal that we would have seen?

MR. SMITH: No.

COMMISSIONER HILLMAN: Okay. I appreciate that.

MR. LEIBOWITZ: And I would just add that because of the very small difference the price that the marketplace places on the stock of these companies that produce hot-rolled steel I think is pretty clearly related to their prospects, their profitability on hot-rolled steel; more than you might think based on a broad array of products because hot-rolled is not only close in price to cold-rolled, meaning that the profitability of cold-rolling is not what's driving the stock price, but also of course hot-rolled is the precursor for cold-rolled and corrosion resistant and all the other flat-rolled product.

COMMISSIONER HILLMAN: I appreciate those comments.

MS. TRESIGNE-KING: I'd like to add one more comment if I could.

COMMISSIONER HILLMAN: Go ahead, Ms. King.

MS. TRESIGNE-KING: Earlier today there were some questions about it appeared that there were 34 percent hot-rolled in the marketplace and it went up to 40 percent and what were some of the --

COMMISSIONER HILLMAN: There was a percentage that was going into the merchant market, as opposed to the portion that was being internally consumed.

MS. TRESIGNE-KING: Yes. Our perspective was a little different on that. What we saw, as the hot-rolled price increased in the marketplace it increased to a greater degree than the prices for other types of steel in the marketplace, and the closing of the gap between hot-rolled and cold-rolled is a reflection of that. Cold-rolled went up to a degree, but hot-rolled rose percentage-wise to a much greater degree.

Coincident with that, we started seeing mills have a greater interest in selling hot-rolled into the marketplace. We've experienced for the last two plus years most of our integrated mills coming to us and expressing that they want to sell less hot-rolled into the marketplace as hot-rolled, and they want to migrate more of their products up to higher value-added products.

What we saw last year was a reversal of that situation with a far greater interest in selling hot-rolled into the marketplace, and actually we have mills that had historically been asking us particularly for electro-galvanized product where there's overcapacity in the industry for EG products at the moment actually turning down EG orders in preference to sell that substrate of hot-rolled into the marketplace because the spot market price versus our contract price for our EG, the spot market price for hot-rolled was more beneficial for them.

I think this also -- I don't quite know how that correlates, but I think there's a relationship in there in terms of the interest of the hot-rolled market and the financial impact to the mills.

COMMISSIONER HILLMAN: And have you seen a shift in applications? I mean, are people using again cold-rolled or hot-rolled differently than they used to in light of this change in the pricing?

MS. TRESIGNE-KING: Are they using? I don't think we've seen a shift in applications, just a --

COMMISSIONER HILLMAN: And to what do you attribute the ability of hot-rolled prices to rise more than the traditional relationships between cold and corrosion?

MS. TRESIGNE-KING: I'm not sure I can answer that, to be honest. Can anyone take a --

COMMISSIONER HILLMAN: Why? I mean, why is that happening?

MS. TRESIGNE-KING: I'm not sure I can give you an answer to that without some thought. Can I --

COMMISSIONER HILLMAN: Yes. If there's anything further you would want to add in the --

MS. TRESIGNE-KING: Anybody else?

COMMISSIONER HILLMAN: All right. I appreciate those answers. Thank you very much.

VICE CHAIRMAN OKUN: If there are no further questions from my colleagues, let me turn to staff to see if staff has questions of this panel.

MS. DEFILIPPO: Vice Chairman Okun, the staff has no questions. Thank you.

VICE CHAIRMAN OKUN: Do Petitioners have questions of this panel?

MALE VOICE: No, we don't, Madam Chairman.

VICE CHAIRMAN OKUN: Okay. Before I release this panel and thank you, let me just go through the time remaining.

Those in support of continuation of orders have their five minutes for closing remaining. Those in support of revocation of orders have a total of 20 minutes, which I understand they have allocated in terms of their rebuttal, Mr. McConnell and Ms. Georgi, and then your closing, which we'll do altogether, but with you allocating your own time.

With that, I would very much like to thank this panel of witnesses for their testimony, all the answers they've given us and for sticking with it through a very long afternoon. We very much appreciate you being there.

With that, we'll just take a couple of moments to let this panel go and for the parties to switch.

(Whereupon, a short recess was taken.)

VICE CHAIRMAN OKUN: You may proceed.

MR. PRICE: Thank you, Vice Chairwoman Okun and members of the Commission.

It's been a long day. Today the industry is doing better for the first time in five years. The industry has earned its capital for the first and only time in 2004. On average, the industry lost money over the entire POI.

Just as in 1997-1998, the industry is operating in a dangerous period of misaligned currency and massive excess Asian capacity being built this time in China and India. Japan is in a recession. Europe is in anemic shape. The Chinese and Indians are building massive excess capacity, capacity that is ultimately export oriented.

World Steel Dynamics last Friday confirmed that it anticipates substantial excess Chinese sheet capacity by 2006, and they are already a major exporter.

The industry is doing better because prices were better in 2004. Consolidation has had a modest impact, but pricing was the key to the industry's $120 per ton operating profit. The cost reductions of consolidation do not insulate the industry because the producers around the world have made similar cost gains.

Contrary to claims, no market power exists. This is still a highly fragmented global industry, and Russian imports easily and readily penetrated the U.S. market in 2004.

With regard to imports, the orders have limited volume and contributed to higher prices. As soon as it was attractive to the Russians they shipped every ton they could divert to the U.S. They collapsed the spot price by $150 per ton and caused a record inventory build up. As soon as they collapsed the U.S. market, they shifted to Canada despite claims they could not and would not do so.

MR. SCHAGRIN: Thank you. Let's talk about vulnerability. Prices are off in the spot market by $150 to $200 a ton in the last six months. That's 20 to 25 percent, and we have information that we'll put in our posthearing brief. That may be continuing to fall every day.

You know, in that environment it's very

unlikely price increases are going to go through. I would remind the Commission price increase announcements don't mean price increases are going to be realized.

You heard this morning that right now for the industry order books are weak, some blast furnaces have been realigned and haven't been brought back up and that lead times are short, one to four weeks for hot-rolled sheet. That's for the mills going to service centers or to OEM customers.

When all these auto parts guys are testifying about buying from service centers and it's still 12 to 16 weeks, I don't know what those service centers are doing to process all the little, tiny pieces. They have a lot of work to do. They may have long lead times, but what sets the price for hot-rolled sheet is the lead times for the mills, and those have declined. That's why prices are falling.

I can assure you prices never fall when lead times are growing, only when they're softening, and what we're facing right now for the near, reasonably foreseeable future in spite of what Aldo Mazzeferro might say from Goldman Sachs about demand increasing, look at the drivers of demand for the hot-rolled industry.

You have autos. It doesn't matter how many autos people are going to buy this year. More and more of them are imports unfortunately for America, so the big three auto producers are constantly announcing that they're cutting their production schedules about seven to 12 percent compared to last year. That means less demand.

Pipe and tube industry outside of energy is getting hammered by imports. Massive layoffs. They were just on Lou Dobbs' Moneyline two weeks ago. A quarter of the workers at the largest standard pipe producer in America got laid off in the last month. That's reduced demand for hot-rolled.

More than half of the hot-rolled goes to service centers. You heard testimony from everybody today, including a service center representative. Service centers built two to three million tons of extra inventory last year. That's going to decline. That's what makes the industry vulnerable.

There's going to be increased imports. The record is clear on excess capacity. The Russians say they're not interested in the market, but they shipped a million tons in six months last year. They said they shifted exports to Canada before prices were high there. They'll keep shifting exports to the United

States from other markets as long as prices are good here, until they ruin prices here. Then they leave that damage behind and they'll go somewhere else.

The customers say that Brazilians aren't interested in the market, but the fact is that one of the main Brazilian mills just asked for a new ship review.

The bottom line is net beneficial impact of the aftermath of the 210 tip sheet problem -- there had to be something good come out of it -- is that on this record the customers, the purchasers, the importers have told this Commission the truth. It's in your staff report. It was in the testimony today. It's in our brief. That is, if these orders are sunset they're going to buy as much imported steel as they can. That's going to result in material injury.

The auto parts industry is a problem with imports from China. They ought to address that. They shouldn't just blame the steel industry.

This relief should be continued. Thank you.

VICE CHAIRMAN OKUN: Thank you.

You may proceed.

MS. GEORGI: Yes. Thank you very much. Again, Kay Georgi from Coudert Brothers. I had just a few points I wanted to make and then go into the closing statement, so we'll sort of play it by ear and maybe smush, if it's okay, the rebuttal into the closing.

One of the things I wanted to mention is I heard a number of times today that there are no new steel mills since 1998. One of the things I thought the staff might be interested in looking into is a new steel mill by a company called Steelcor, which was apparently approved first by the Mississippi House, which voted on February 23 or thereabouts for the state to give a $25 million grant to a new steel plant, a $725 million steel plant that is supposed to make 1.5 million tons, a mini mill, for automotive grade steel.

The bill to give it the grant apparently passed the Mississippi Senate just yesterday and is expected to be signed into law by the governor, so I thought that would be at least something that the Commission might want to take a look at.

Other public reports, apparently Nucor is considering a new Castrip facility. They had mentioned the Castrip technology, and there were public reports that I happened to see about that facility.

Other points we wanted to make briefly in the closing statement -- did you have any other rebuttal, Mark, before I go into closing statements? Yes? Okay.

MR. MCCONNELL: The good news is that of the four items I had identified for rebuttal, two were so well taken care of on the panel that I'm going to skip them. The bad news is Mr. Schagrin has given me a third.

I just wanted briefly to comment on a statement actually by Mr. DiMicco, if I'm pronouncing that correctly, of Nucor this morning. He seemed to be attributing the difficulties last summer to panic buying.

I wanted to go back to this letter that Lisa King described a little while ago that effective with orders acknowledged to ship week ending April 9, the Nucor Steel Sheet Mill Group will increase spot transactions $20 a ton for all flat-rolled products.

She went on to describe how this was attributed in part to production curtailments in the industry, and then the final language was, "Further, should market condition continue to strengthen additional price increases may be announced."

Two observations. One, if you're trying to stop panic buying this is probably not a good letter to send out. Two is this was not last summer. This was last Friday.

Second, there was a fair amount of discussion this morning about the question of parody, and there was some more this afternoon on our panel, prices here in the United States and prices overseas, and there was reference made to this February Goldman Sachs study.

I'd like to quote this for you. The U.S. Has Lost Just About Its Entire Price Premium Versus Global Markets is the headline, and then the statement is, "Premiums have continued to narrow to almost nothing as global prices continue to rise while the U.S. price fell further to $640 a ton for hot-rolled sheet." This is February 2005.

The reason this is significant is that there was an attempt I think this morning to link imports during last year to the price dropoff at the end of the year, and I think actually Mr. Cannistra showed rather well that that's not the coincidence; that in fact you could probably more accurately attribute the increase in prices in the United States last summer to drawing imports in than the other way around.

What this parody does, and I'm quite pleased that Mr. Lighthizer and others among the Petitioners seemed to agree that this is an accurate reflection of the marketplace. What this parody means is that that incentive to bring imports in is eliminated. I mean, there's not much sense in bringing imports over the water to a market where the price is pretty much the same where you could sell at home.

The point is that if you're trying to suggest that the increase in imports during 2004 is a sign of what would happen if the restrictions in these situations were revoked, it's not a very good indicator because we are now apparently now in agreement in the room that the price disparity that did exist during that timeframe is not present, so if the orders were to be revoked now you wouldn't expect to see that sort of reaction.

Finally, briefly the comment by Mr. Schagrin about auto demand. He was noting that as big three cutbacks might happen that imports were coming in. I think that what Mr. Engel was talking about this morning was all North American production being stable.

Now, there may be shifts among the different auto companies who are producing in North America, and those shifts may be driven by their cost postures as he was suggesting, but it's not a situation where if some of the big three are reducing schedules that's because of imports coming in.

What Mr. Engel was talking about was flat and stable North American vehicle production across the board for all makers.

MS. GEORGI: Thank you. Kay Georgi again.

You have heard a lot today about the vulnerable U.S. hot-rolled steel industry facing a rising wave of unfairly traded imports from Russia, Japan and Brazil. It's a pretty familiar story in this room.

This time, however, the story is drastically at odds with the facts as presented by the U.S. steel industry's own American customers and the record that the Commission staff has put together.

I'd like to take the story point by point. First, the U.S. steel industry says it's vulnerable, but it's basing that on four years, five years actually -- 1999, 2000, 2001, 2002, 2003 -- when Russian, Brazilian and Japanese steel imports were largely not in the market. Instead, in 2004 when Russian imports did reenter, the industry had a banner year.

You also heard that the U.S. steel industry is currently the stock market's darling. The U.S.

steel industry says it's lost between $5.3 billion to $6.6 billion over the last business cycle, but we know that they've actually made $7 billion in 2004 alone, and we know that they've passed off something in the range of $9 billion or more in legacy costs to the Pension Guarantee Benefit Corporation.

That is in short what U.S. taxpayers such as us and our children, the future taxpayers, are paying for the U.S. steel's government-provided bailout. I would like to say that we're paying this for a purpose, and that's to make the U.S. steel industry more competitive with the worldwide steel industry, not to shelter the U.S. steel industry from global competition.

This is what the President found when he determined to remove steel 201 safeguard measures and allow the U.S. steel industry to compete on its own two feet.

The U.S. steel industry says it's fragmented, but we all know that due to the major reconstruction and consolidation there are far fewer than the 28 steel companies that we once had. This year three of them, particularly with the last merger, will control a very substantial percentage of the total U.S. hot-rolled steel production in the U.S.

The U.S. steel industry looks backwards and says look at the original investigation. If the measures are removed, we're going to see the same influxes of imports from Russia, Japan and Brazil as we did in 1998, but they only do that by ignoring all those changes that we know, things that were present in 1998 that are no longer present today.

We don't have the Asian crisis. We don't have the Russian crisis. When actually you asked them this morning whether they saw that any of these crises were reoccurring, they said no. Moreover, you've heard about the growing and vibrant demand in Russia, and the same is true in the other two countries.

The U.S. industry says the prices for hot-rolled are declining. That's a relative point. They're perhaps declining from the very, very high peak of $740 per short ton in September 2004, but at $625 per short ton in February 2005 they're still 12 percent above what they were in February 2004. Those are still pretty high numbers there.

As we've already mentioned, when the imports from Russia declined from October 2004 to January 2005, that was the period when the prices in the U.S. declined.

Switching gears, the U.S. industry says that prices are declining, but are still high enough to be attractive. I think we heard through all three panels today everyone agreed, as Mark McConnell just pointed out, that there is now an equilibrium, so the price incentive is not there.

In fact, it's been eliminated even more when you take into account the $80 to $100 per short ton that the Russian steel industry would have to pay to ship it to the United States.

In short, the U.S. and world steel industries and worldwide supply and demand, as they were in 1998 and 1999, the year the measures were imposed, have dramatically changed. It's simply not possible, let alone probable, on these record facts that the U.S. steel industry will be adversely affected by the removal of the measures on Russian, Japanese and Brazilian hot-rolled steel.

Thank you very much.

VICE CHAIRMAN OKUN: Thank you.

Mr. McConnell?

MR. MCCONNELL: Thank you. This has been a long day, and I want to start by thanking each of you for your patience and attention. I think I can probably say without contradiction that you've shown a lot of both of those through the day.

MS. GEORGI: Hear, hear.

MR. MCCONNELL: I think you're gotten a good flavor of the difficulties that steel consumers are facing in this marketplace. You heard about Dura Automotive losing its jack business to China because of the steel content and the steel price.

You heard about Delphi's 50 percent price increase and being placed on allocation. We're talking about I think the largest Tier 1 supplier, certainly one of the largest.

You heard Dennis Keat talk about having all of his contracts canceled and have 15 percent of the steel that he did receive have to be rejected on quality terms.

When we started this morning I asked you to keep in mind the context in which a lot of the arguments that we've been making today are postured. At the time I was talking about the industry profitability and the strong demand worldwide.

I'd like to add to that context in closing the difficulties of the steel consumers in this marketplace. What these shortages and record prices in 2004 mean is that the prices you saw during that timeframe simply are not sustainable.

The way the U.S. steel market worked in the last nine months or so does not permit the growth of steel in manufacturing. In fact, you've seen evidence of decline. You've got plenty of evidence of decline on the record.

What does that mean? It means that all the arguments that you've heard that prices may be falling, although maybe they're not, that the steel industry needs more time at these profit levels to recoup past losses, all those arguments are based on a false premise.

The false premise is that the situation we saw in 2004 is sustainable in the North American market. In fact, it's causing a shake out in the steel industry's customer base. The current market is not sustainable, and for that reason it can't be your benchmark for whether there would be harm to the U.S. industry if there were more competition in this marketplace.

The reality is they've got very little else to argue. They are doing so well at the moment that virtually all of their arguments are premised on the fear of a decline from a position that just isn't sustainable in this marketplace. That's not a risk of recurrence of injury.

Steel consumers want a successful U.S. steel industry. We need a successful U.S. steel industry and they need us. We urge you to revoke the restrictions.

VICE CHAIRMAN OKUN: Thank you.

Posthearing briefs, statements responsive to questions, requests of the Commission, corrections to the transcript must be filed by March 14, 2005.

Closing of record and final release of data to parties is April 6, 2005, and final comments are due April 8, 2005.

With that, again I want to thank all the witnesses for their appearances today and for sticking with us through a long hearing.

With that, this hearing is adjourned.

(Whereupon, at 7:01 p.m. the hearing in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Certain Hot-Rolled Flat-Rolled Steel - Brazil, Japan and Russia

INVESTIGATION NO.: 701-TA-384, et al.

HEARING DATE: March 2, 2005

LOCATION: Washington, D.C.

NATURE OF HEARING:

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: March 2, 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: Renee C.M. Katz
Signature of Court Reporter