UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	
STAINLESS STEEL SHEET AND	)	Investigation Nos.:
STRIP FROM FRANCE, GERMANY,	)	701-TA-381-382 and
ITALY, JAPAN, KOREA, MEXICO,	)	731-TA-797-804 (Review)
TAIWAN, AND THE UNITED	)	
KINGDOM	)	

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Tuesday,
April 26, 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 STEPHEN KOPLAN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

STEPHEN KOPLAN, CHAIRMAN
DEANNA TANNER OKUN, VICE CHAIRMAN
MARCIA E. MILLER, COMMISSIONER
JENNIFER A. HILLMAN, COMMISSIONER
CHARLOTTE R. LANE, COMMISSIONER
DANIEL R. PEARSON, COMMISSIONER

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Staff:

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KARL TSUJI, INDUSTRY ANALYST
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CHANDRAKANT MEHTA, ACCOUNTANT/AUDITOR
MICHAEL HALDENSTEIN, ATTORNEY
DOUGLAS CORKRAN, SUPERVISORY INVESTIGATOR

Congressional Witnesses:

THE HONORABLE JOSEPH KNOLLENBERG, U.S. Congressman, 9th District, State of Michigan
THE HONORABLE DONALD A. MANZULLO, U.S. Congressman, 16th District, State of Illinois
THE HONORABLE BOB NEY, U.S Congressman, 18th District, State of Ohio
THE HONORABLE MIKE PENCE, U.S Congressman, 6th District, State of Indiana
THE HONORABLE GEOFF DAVIS, U.S Congressman, 4th District, State of Kentucky

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

On behalf of the Domestic Industry:

JACK W. SHILLING, Executive Vice President, Corporate Development and Chief Technical Officer, Allegheny Technologies, Inc.
TERRENCE HARTFORD, Senior Vice President, Commercial, Allegheny Technologies, Inc.
THOMAS O. LONG, Corporate Manager, Specialty Steels, Products and Marketing, AK Steel Company
THOMAS SCHMITT, General Sales Manager, North American Stainless
LEO W. GERARD, International President, United Steelworkers of America, AFL-CIO/CLC
ED BLOT, President, Ed Blot and Associates
PATRICK J. MAGRATH, Managing Director, Georgetown Economic Services
MICHAEL T. KERWIN, Economic Consultant, Georgetown Economic Services

APPEARANCES: (Cont'd.)

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

On behalf of the Domestic Industry:

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DAVID A. HARTQUIST, Esquire
KATHLEEN W. CANNON, Esquire
R. ALAN LUBERDA, Esquire
GRACE W. KIM, Esquire
Collier Shannon Scott, PLLC
Washington, D.C.

On behalf of Nucor Corporation:

ALAN H. PRICE, Esquire
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In Support of the Revocation of the Countervailing Duty Order, Antidumping Duty Orders and Suspension Agreement:

On behalf of Ugine & ALZ France S.A. and Arcelor Stainless USA, LLC:

JAMES WILLIAMSON, Executive Vice President and Chief Operating Officer, Arcelor Stainless USA, LLC
ROBERT CRANDALL, Senior Fellow, Economic Studies, Brookings Institution

ROBERT S. LARUSSA, Esquire
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APPEARANCES: (Cont'd.)

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JOSE-RAMON SALAS, Vice President Operative Planning, ThyssenKrupp Mexinox S.A. de C.V.
STEPHAN LACOR, General Manager, Mexinox USA, Inc.
JOHN JUNKER, Sales Manager, Mexinox USA, Inc.
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On behalf of Motor & Equipment Manufacturers Association (MEMA):

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APPEARANCES: (Cont'd.)

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MICHAEL J. LYNCH, Vice President for Government Affairs, ITW
PETER A. DOW, Director, Strategic Sourcing, ITW

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On behalf of Precision Metalforming Association:

WILLIAM MCKIBBEN, Vice President, Marketing and Research, Pridgeon & Clay

I N D E X

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.)

CHAIRMAN KOPLAN: Good morning. On behalf of the United States International Trade Commission, I welcome you to this hearing on Investigation Nos. 701-TA-381-382 and 731-TA-797-804 (Review) involving Stainless Steel Sheet and Strip From France, Germany, Italy, Japan, Korean, Mexico, Taiwan, and the United Kingdom.

The purpose of these five year review investigations is to determine whether the revocation of the antidumping and countervailing duty orders covering stainless steel sheet and strip from those subject countries 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 the time allocations should be directed to the Secretary.

As all written testimony will be entered in full into 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.

Madam Secretary, are there any preliminary matters?

MS. ABBOTT: No, Mr. Chairman.

CHAIRMAN KOPLAN: Very well then. Let us proceed with our first congressional witness.

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

CHAIRMAN KOPLAN: Welcome, Congressman. Your microphone?

MR. KNOLLENBERG: You do have to push buttons, right?

Chairman Koplan and members of the

Commission, I want to thank you for giving me the opportunity to testify at today's sunset review hearing for duties on stainless steel sheet and strip.

Commissioners, the duties that you're considering today are hurting the companies that consume stainless steel. When you look at the facts, I have no doubt that you'll agree that this is true.

Stainless steel is used in many ways. It's in all sorts of products that people buy every day from auto parts to kitchen appliances and many, many more. The companies that make these products are manufacturing companies, and, like all U.S. manufacturers, they're facing massive global competition.

Now, more than ever, these companies are struggling to stay competitive. The duties under consideration today are making them less competitive. Quite simply, these duties are distorting supply. Because of that restriction, supply is not able to keep up with demand, and that affects stainless steel consumers in a variety of ways.

As you'll see, lead times for stainless steel deliveries have increased from six to 16 weeks. That means increased inventory cost just to begin with. When companies have to operate in a just-in-time environment, increased lead times and unpredictable quality can kill their ability to compete. Their customers will look for other ways to get the products in a more reliable way. Ultimately their customers are forced to shift to offshore sourcing of finished products in order to remain competitive.

The duties you're considering today are exacerbating these problems, but I'm not here today just to simply go on and on about how these duties are hurting steel consumers. Like I said, if you look at the facts, I have no doubt that you'll agree.

What I'm concerned about is the extent to which you're going to take these facts into consideration when you make your decision. The reason I feel compelled to testify here today is because I believe, quite frankly, this Commission does not give steel consumers the consideration they deserve, and I believe this is a serious problem.

These steel consumers are American companies with American workers, and their livelihood is directly impacted by your decision, but the Commission is not even offering them their own panel to testify today.

It's true some steel consumers will be

testifying here today, but it's not because the Commission offered them their own panel to talk about how these duties are hurting them. Instead, the steel consumers here today have to testify on time however they can find it, so they're testifying on time given to foreign producers.

It doesn't make sense that the steel consumers have to rely on foreign companies for an opportunity to talk about their situation before the ITC. The Commission should provide consumers a full opportunity because your decision has a direct impact on them.

The reality is this Commission gives greater standing to foreign producers than our own American consuming companies whose employees are living and working here in the U.S. I think that's ludicrous.

In the future, I hope you'll give consumers their own panel. After all, there's nothing preventing you from doing so. I'm concerned the problem is deeper than just who gets to testify today. I'm concerned that the structure of the panels is an indication of the larger problem that the Commission does not give sufficient consideration to the effects of these duties on steel consumers.

The law may not require you to fully

consider steel consumers in this process, but common sense does, and nothing in U.S. law is prohibiting you from doing it. Most importantly, it's not too late. There's still time to prove that steel consumers can be heard and considered at the ITC.

I'm here today to ask you to prove that's true and ensure fundamental fairness as a part of this process. Listen to the steel consumers who are testifying here today and understand how these duties are affecting their companies. Study this information if you would and include a thorough analysis of it in your report. Let this information weigh heavily on you when you make your decision.

I've introduced House Resolution 84, which has 38 co-sponsors. These members of Congress have joined me in urging the Commission to fully consider steel consumers during sunset reviews. I hope you'll take our request to heart and give steel consumers the thorough consideration that they deserve

I thank you very much for allowing me to spend a few moments with you this morning. I'll respond to any questions if you have any.

CHAIRMAN KOPLAN: Thank you very much. I appreciate your testimony.

Let me see if any of my colleagues have any questions.

(No response.)

CHAIRMAN KOPLAN: If not, we appreciate very much your coming.

MR. KNOLLENBERG: Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: You're excused.

MR. KNOLLENBERG: Thank you very much.

CHAIRMAN KOPLAN: Madam Secretary, if you'd call the first panel?

MS. ABBOTT: Opening remarks in support of continuation of orders will be made by David A. Hartquist, Collier Shannon Scott.

CHAIRMAN KOPLAN: Good morning, Mr. Hartquist.

MR. HARTQUIST: Mr. Chairman, members of the Commission, Commission staff, I am David A. Hartquist of Collier Shannon Scott representing the Petitioners.

In 1999, the Commission found that due to growing consumption, improving productivities and falling cost "the domestic industry should have experienced both significant increases in sales and profit and profitability," but instead face the following: rapidly declining prices, falling market share and the need to lower its prices to compete and preserve market share. This led to the Commission's finding of material injury in the original investigations.

Once the discipline of the antidumping duties and countervailing duties were imposed, healthier pricing and profitability returned for a short period of time. Now fast forward to last year, 2004. After a difficult period for all producers of soft demand in the U.S. economy, the domestic industry again enjoyed a period of improving demand under the orders.

As a result of the orders, many of the subject producers had significantly reduced their volumes because they could not sell here in large quantities without dumping. Others, like Mexinox, continued to sell significant quantities, but were forced to compete at prices that are higher than those that generated the original 30 percent margins. The result was that the industry again reached modest profitability in 2004, but profits were still below the prerecession levels of calendar year 2000.

The prospect of losing these orders comes at a time when the industry now faces rising rather than falling raw material cost. Continuation of the orders is critical because the industry remains vulnerable to a return or continuation of the material injury if subject imports should again increase in the domestic market at low prices.

Stainless steel sheet and strip is still a commodity product that competes largely on the basis of price. If the orders are revoked, dumped imports will once again pour into the United States.

How do we know that? First, what happened in 1999 is a strong predictor of what will happen again absent the orders.

Second, the primacy of price in making sales, the continued presence of subject imports in the marketplace, the existence of long-established sales operations in the United States among the subject producers and increased productive capacity aimed at export markets all permit subject imports rapidly to vie their way back into this market.

Third, demand in the United States is for the moment relatively strong, and U.S. prices are high especially as compared to prices in China where exports of subject producers have been diverted recently.

To these general trends add the following: Chinese buyers to which ThyssenKrupp, POSCO and the Japanese mills claim commitments are already turning increasingly to local Chinese suppliers.

Mexinox was built to supply the U.S. market and will only increase its share of the market at low dumped prices if revocation occurs. Arcelor no longer has a production facility in the United States since J&L has gone out and must supply its customers and affiliated organizations in this market from France.

POSCO of Korea has told importers that it plans to increase its exports to the United States in 2005. POSCO has told the domestic industry it has its first opportunity in a decade to reap the benefit of the top of the demand cycle and to continue this fragile recovery.

The data in the staff report demonstrate just how quickly a return to material injury can occur. Indeed, the predicate conditions for this scenario are already in place -- thin profits, high costs, price-based competition, excess capacity in the subject countries and purchasers, some of whom are here today, hoping for access to a larger quantity of dumped imports.

The domestic industry is vulnerable, we believe, to a recurrence of material injury, and we respectfully urge the Commission to continue these orders. Thank you.

CHAIRMAN KOPLAN: Thank you, Mr. Hartquist.

MS. ABBOTT: Opening remarks in support of revocation of orders will be by Lewis E. Leibowitz, Hogan & Hartson, and Donald Cameron, Kaye Scholer.

CHAIRMAN KOPLAN: Good morning, Mr. Leibowitz and Mr. Cameron.

MR. LEIBOWITZ: Good morning, Mr. Chairman, members of the Commission.

CHAIRMAN KOPLAN: You may proceed.

MR. LEIBOWITZ: I'm Lewis Leibowitz of Hogan & Hartson. I appear today on behalf of the ThyssenKrupp Respondents from Mexico, Italy and Germany.

Petitioners portray their industry as vulnerable and weak, at the mercy of voracious foreign producers waiting with baited breath to flood the United States with imports as soon as the orders under review are revoked.

This is an industry that could not prove injury from increased imports in 2001, and this is an industry that has failed to submit to the Commission requested market analyses in connection with recent acquisitions and consolidations.

When you hear their testimony, keep in mind the things that they say here are not the things they say in other public places, places where investors and regulators listen. Our flat-rolled product segment is strong. It's strengthening. Solid pricing and excellent capabilities. We expect to execute better going forward. Not my words. Pat Hassey, CEO of Allegheny Teledyne, April 21, 2005.

ATI has addressed its cost problems and is enjoying robust growth. AK Steel has announced a record sales year in 2004 and a strong outlook for 2005. North American Stainless, the leader of the U.S. industry, is stronger and more profitable than ever. They have little to fear from imports in this market.

Outside of this forum, stainless steel producers in the U.S. don't complain about imports, nor have they mentioned that the upward march of their prices and profits requires protection for the domestic industry.

Respondents will demonstrate significant market changes in the last five years. Imports are not likely to pour into the United States after revocation. The U.S. is not the market of choice for the world's principal producers of stainless steel sheet. In fact, other markets are larger and growing faster than the U.S.

The nature of U.S. demand has also changed in the last five years. This is not now a market of fungible products competing solely on price. Another change is the market power of U.S. producers exemplified by the proliferation and expansion of surcharges and their acceptance by purchasers. These new surcharges mark a huge shift of risk from producers to consumers.

Even accounting for a tendency to rhetorical excess, Petitioners' descriptions of Mexinox are simply outrageous. Mexinox, a member of SSINA, is a fair and responsible participant in the U.S. market. Mexinox possesses neither the capacity nor the will to suppress prices in this market.

In summary, Petitioners describe an industry and a market that do not exist in a transparent effort to maintain the flow of duty payments for another five years. The reality is completely different.

MR. CAMERON: Don Cameron on behalf of Arcelor and Korean Respondents.

CHAIRMAN KOPLAN: Good morning.

MR. CAMERON: Mr. Chairman, members of the Commission, when you get down to it Petitioners' position in this proceeding is remarkably similar to their position in the stainless plate proceeding, i.e., there are no fundamental differences between

1999 and today. Basically the same industry. Conditions of competition fundamentally the same.

We don't think the record supports this position. In 1999, there were six producers, and the domestic industry was not globally competitive. Today, through restructuring, consolidation and massive investments this industry is highly concentrated and highly competitive.

The global market is also far different from the global market in 1999. In 1999, the global economy was suffering from the aftermath of the Asia financial crisis. As a matter of fact, that's all we heard about in 1999. A couple of weeks ago we never heard it mentioned. Today, the global economy is strong, leading to strong growth in this industry worldwide. China has emerged as a strong market for subject merchandise.

According to Petitioners, the industry is more vulnerable today than in 1999 because of a cost/ price squeeze that would occur if low-priced imports should again increase. But why would they? The global economy is producing at full capacity. Prices around the world are at the same high levels as in the U.S. market and driven by the same high raw material costs.

Simply put, the U.S. is not the magnet for imports that it was in 1999, and there is no incentive to export to the U.S. at lower prices. The domestic industry has restructured in a fundamental way. The global economy and global industry producing subject merchandise have changed radically since 1999. This industry is not vulnerable, and these orders should be lifted.

Thank you very much.

CHAIRMAN KOPLAN: Thank you.

Madam Secretary, if you would call the first panel?

MS. ABBOTT: The first panel in support of continuation of orders, please be seated.

Mr. Chairman, the witnesses have been sworn.

(Witnesses sworn.)

CHAIRMAN KOPLAN: Thank you.

Mr. Hartquist, you may proceed.

MR. HARTQUIST: Thank you, Mr. Chairman. Let me briefly introduce our witnesses today.

The first witness will be Dr. Jack W. Shilling, Executive Vice President, Corporate Development, and Chief Technical Officer of Allegheny Technologies. Following Jack will be Mr. Leo Gerard, International President of the United Steelworkers of

America, United Steelworkers.

Then Thomas Long, Corporate Manager, Specialty Steels, Products and Marketing of AK Steel; Thomas Schmitt, General Sales Manager of North American Stainless; Terrence Hartford, Senior Vice President, Commercial, of Allegheny Technologies; Ed Blot, President, Ed Blot and Associates; Dr. Pat Magrath, Managing Director at Georgetown Economic Services; and Kathy Cannon of Collier Shannon Scott.

We are also joined by Alan Luberda and Grace Kim of Collier Shannon and Alan Price of Wiley Rein representing Nucor, who will not present direct testimony, but will be available for the Q&A.

With that, if we may, we'd like to start with Dr. Shilling.

MR. SHILLING: Good morning, members of the Commission.

CHAIRMAN KOPLAN: Good morning.

MR. SHILLING: I'm Jack Shilling, Executive Vice President and Chief Technical Officer of Allegheny Technologies, a domestic producer of stainless steel sheet and strip.

To appreciate what is likely to happen if the orders against stainless sheet and strip imports from eight countries are revoked, you must begin by examining what occurred before the orders were put into place. Past events here are a strong predictor of the future.

I actively participated in the original investigation, and in the years leading up to the imposition of the orders demand for sheet was strong and growing, domestic production capacity was expanding and productivity in the industry was improving.

These market conditions are not ones that should provide a backdrop to deteriorating U.S. industry trade or financial data, yet that is precisely what occurred. As increasing volumes of unfairly low-priced subject imports penetrated the U.S. market, we saw our market share fall, our capacity utilization drop, our prices fall and our operating income decline from 8.4 percent to only 1.8 percent.

The strong market conditions did not insulate us from injury, and the Commission agreed that Respondents' behavior was materially injuring our industry.

Once the orders were imposed and the dumping behavior was offset by duties, the volumes of subject imports declined and prices in the market began to increase. As a result, the industry's financial condition improved substantially in 1999 and 2000. In fact, we chose not to seek relief in the massive Section 201 steel investigation relying instead on the effectiveness of these orders.

Unfortunately, a substantial recession hit the U.S. manufacturing industry in mid 2001 followed by the events of September 11. The Commerce Department's report on manufacturing has characterized this period as a severe recession for manufacturing marked by a slow pace of recovery.

In our market, apparent domestic consumption for stainless steel sheet fell precipitously in 2001 by an unprecedented 18 percent. You can see the effects of this recession on our industry in the data that you've collected. Operating profits fell from a strong 10.4 percent in 2000 to a negative 2.5 percent in 2001 and then returned to barely break even level in 2002, followed again by a decline to a substantial operating loss in 2003.

Not until 2004, as the economy began to recover, was the industry as a whole able to return a modest level of profitability at 6.3 percent. Even in the year 2004, however, apparent domestic consumption did not return to levels experienced in the year 2000.

Similarly, base prices for stainless sheet in 2004 were below 2000 levels, and as a result industry profits in 2004 were below 2000 levels as well.

So despite the initial beneficial effects of the orders, overall levels of profitability have been poor. Specifically, the industry's profitability over the last five years has not even come close to reaching a minimum threshold of 10 percent return on invested capital. Such a threshold is typically required by investors in U.S. financial markets.

This assertion is consistent with ThyssenKrupp's website which states that its top priority is to achieve an appropriate return on capital employed with a target ROCE of 12 percent. Even taken by itself, the industry's earnings in the year 2004 would not justify the level of investment that has been made in this capital intensive industry.

The ability to attract investment capital for future growth and expansion of the industry clearly requires improved operating performance. Given this financial situation, we are not in a position to withstand a resurgence in imports at unfairly low prices of the type suffered in the late 1990s, yet all available data indicate that is precisely what will happen if revocation occurs.

The foreign producers in the eight subject countries have not reduced capacity or stopped exporting since 1999. Instead, they have rapidly expanded capacity to produce stainless sheet and strip. Further, the foreign producers, unlike U.S. producers, are heavily export oriented and have increasingly sold much or even most of their stainless sheet outside their own home markets.

Notably, the foreign producers have expressly shown continued interest in the U.S. market by exporting stainless sheet here even after the orders were imposed. The difference is that with the orders in place they have not been able to sell at the low prices that had been true before the orders were issued.

Without the orders, however, there is nothing to prevent them from resuming their preorder behavior and every incentive for them to do so given their expanded capacity in the attractive U.S. stainless sheet market in terms of both demand and price.

Furthermore, after the orders were imposed foreign producers shifted exports from the United States to other third country markets where they were not subject to orders, particularly China.

As documented in our brief, however, the situation in China is changing rapidly. China is quickly expanding its own production of stainless steel sheet. The large quantity of sheet exports from subject producers that has been sent to China in recent years will have to find a new home.

The U.S. market, if freed from the discipline of the current orders, will soon become the target of the excess stainless steel production of subject producers. This belief is supported by current forecasts as discussed in our brief, which indicate that there is expected to be significant global oversupply of these products in the near future due in part to the rapid overexpansion of global capacity focused on serving the China market.

In sum, as past events indicate, the stainless sheet market and the condition of our industry can revert quickly from increasing strength to weakness. Respondents' references to the strong demand and improved industry productivity as conditions that will insulate us from many import related problems were not true in the late 1990s and are not true today.

Without the discipline of these orders to ensure that imports are fairly priced, the import pricing will quickly decline as imports from eight countries compete to regain market share. As a result, domestic prices will again fall, domestic market share will again decline, and the domestic industry's profitability, rather than gradually improved to a satisfactory level, will again deteriorate quickly and severely as it did before the orders were imposed.

We do not object to import competition. We only ask that it be fair. To permit fair trading conditions to continue so that material injury does not reoccur, we respectfully ask that you retain the orders in this case. Thank you.

MR. HARTQUIST: Thank you, Jack.

Mr. Chairman, we are delighted that Leo Gerard, who is a very busy man and represents hundreds of thousands of workers in and out of this industry, would take the time to join us today.

Leo?

MR. GERARD: Thank you, Skip.

Mr. Chairman, members of the Commission, I'm pleased to be here again I think. I'm Leo Gerard. I'm the president of a new union. The new union is called United Steelworkers now. We merged a few weeks ago with another union, and we have 850,000 members.

I want to say while I'm at it that many of those 850,000 members are working in places that consume the steel that we're talking about today, and not one of those members and not one of those employers have come to me or to anybody in our union and complained to us about the price of their specialty steel, for the record.

We represent the folks at Mansfield, at AK Steel. We represent the folks at it used to be at former J&L. We represent the folks at Allegheny Teledyne. I'm really here to tell you that it's essential to our members that these duties stay.

You heard I think a week or two ago from our new vice president, Tom Conway, about the massive changes that we've helped bring about in the steel industry, whether that's the carbon steel or the stainless steel industry, but the fact is that our members still haven't regained the measures of economic security or the measures of employment security that we had hoped for because, quite frankly, in the business cycle that I'll refer to over the last five years if you average it in these employers are still not making sufficient money.

We've demanded through our collective bargaining arrangements that there be massive investments in modernization and technology, and we've bargained pretty innovative and new collective agreements.

We have a provision where a chunk of our retiree health care is in what we would call a VEBA, voluntary employee benefit association, and a chunk of that VEBA gets funded by the level of profitability of the company so that we have current retirees who are really at risk if these duties were to be removed, and we had the flood of imports by what I continue to call the illegal importers. I hear a lot of crying from them quite often, and it's really quite simple. Don't violate our trade laws.

I always find it unique that we have to appear in front of the Commission to defend the fact that you're defending our trade laws and that people have been guilty of violating them. They've caused injury.

In the specialty steel industry, while these orders were on we've lost hundreds of jobs. We've participated in the consolidation of certain parts of the industry. We've modernized our collective agreements. Quite frankly, we've done everything that we can do as the representatives of the workers to make sure that the industry has a good shot at long-term survival. Our view is quite simply that for our members to have a shot at long-term survival and long-term economic and personal security with their work these duties play a crucial role.

Imports are not dropping. In fact, imports across the range of steel products both in carbon and in specialty are up, and the trend line continues to go up so contrary to what a lot of folks are saying this still is a preferred market, and should those duties be removed our members would certainly have not only their jobs at risk, but their economic well-being at risk.

You don't need any lectures from me about steel industry jobs are amongst the best jobs in the country. It kind of reminds me when I was growing up we'd have folks say if you don't smarten up you'll end up working in the steel mill. Now they say if you don't smarten up you'll never get a job in the steel mill.

We're proud of the fact that we've created family supporting jobs in the steel industry. We're proud of the fact that we have the most productive steelworkers anywhere in the world, but we certainly can't compete with subsidized and dumped steel.

I have not seen any indication anywhere in

North America and in particular in the stainless steel industry that that practice would stop if these duties were removed. Our fear is that we'd be flooded once again very quickly, and our members would be once again put at risk after having made the huge, enormous sacrifices that they've made.

I think we're developing a pretty mature collective bargaining relationship with pretty much all of the steel companies. We even get along with AK now, at least for now.

The role that the ITC has played, without being overly complementary, has helped to be a catalyst for change, but that change isn't finished yet. This is not an event. It's a process. This process is underway.

We need to have the support of the duties to make sure that the investments are made in the modernization that continues to be there, that our members' jobs and health care are supported and that we can have the shot that we need for a good future for these folks.

Let me close by saying, and I've said this as many times as I can when I come to this Commission, that when we talk about people losing their health care and losing their jobs these are not just statistics. These are real people who have lost everything.

We went through the crisis of retirees losing their health care and having people that are 60, 70, 80 and 90 years old having no health care and us having to go back and find a way to do that. Without the duties, we would have never been able to do that. If these duties are removed, I fear that we'll end up having to do it again.

I would urge you to keep the duties on. I would tell you that these are the right things. The business cycle isn't complete yet, and over the cycle the companies still haven't made, and I'm not their apologist, but the companies haven't made enough money to reward our members the way they ought to be rewarded so I want them to make lots of money so that our folks can have their health care protected.

Thank you.

MR. HARTQUIST: Thank you very much, Leo.

Tom Long of AK, you have your introduction.

MR. LONG: Thank you. Good morning, Mr. Chairman and members of the Commission. My name is Tom Long, and I'm Corporate Manager for Specialty Steels Marketing at AK Steel. I've been selling and marketing stainless steel since 1976 first with the former Armco and subsequently with AK Steel.

AK Steel is a leading supplier of stainless steel sheet and strip producing a broad range of grades, including 200, 300 and 400 series products, as well as more advanced precipitation hardening and duplex grades. While AK Steel also produces carbon steel and electrical sheet products, stainless steel sheet and strip is a core product for AK Steel and is critical to our overall market strategy.

Today, AK Steel operates stainless steel sheet production and finishing facilities in Middletown, Mansfield, Zanesville and Coshocton, Ohio, Rockport, Indiana, and Butler, Pennsylvania, and employs about 7,800 men and women. AK Steel is routinely cited by our customers for our superb quality and customer service.

Even during the short period of increased demand last year, we were able to supply all of our major contract customers with the quantities to which we were committed and our spot market customers with levels of shipments that we have historically supplied to them. Lead times were extended an additional two to three weeks for a short period of time, but have now returned to normal, and in fact we have excess capacity of stainless steel sheet and strip to book.

Since AK Steel acquired Armco for approximately $1 billion, we've significantly lowered our per unit conversion costs, as well as selling, general and administrative expenses. In short, we're diligently managing those factors within our control that help ensure our success -- our costs, our quality and our customer service. Despite these efforts, however, we have not experienced a period of sustained profitability from our stainless sheet product line for the last several years.

There are some things over which we have little or no control. For example, we cannot control raw material or energy costs, which have risen dramatically over the past several years. Like other producers, we use a surcharge mechanism in an attempt to recover increasing raw materials costs. We're not always able to recover all of our rising costs.

Thus, you can see from our questionnaire response AK Steel was not even able to do as well in the improved market of 2004 as it did in the strong market immediately following the orders, so higher prices due to raw material costs did not necessarily mean healthy profits in 2004.

With input costs rising, despite improvements in productivity we have to continually worry about price. Within each grade and finish, stainless steel sheet and strip is generally considered a commodity product with many suppliers competing largely on the basis of price.

The Japanese producers, the ThyssenKrupp companies, Arcelor and other subject producers all produce the same grades that we do, including the automotive grades of stainless steel. That means that regardless of whether we are selling on the basis of a short-term contract, a long-term contract or into the spot market, AK Steel must provide a competitive price that meets the market's expectations and still returns us a reasonable profit.

If the market perceives that there will be an influx of foreign product at lower prices, that perception will translate into an expectation of lower market pricing. We've already seen some weakening of prices in the first quarter of 2005 in the product mix that AK Steel sells.

I can assume that the purchasers here today urging revocation of the orders do so because they anticipate the result will be larger volumes of subject imports and lower prices to their benefit. Clearly, it will be to our detriment.

The high material and energy costs we are facing will become a much more serious concern if the industry loses the discipline of these antidumping and countervailing duty orders. If that happens, we'll again face a large increase in subject imports buying their way into the market at lower prices and creating significant downward pressure on domestic prices.

I saw this happen in the strong market in 1998 when raw material costs were falling. If it happens again this year while costs are high and rising the negative impact on our bottom line for stainless sheet will be swift and severe.

While we were modestly profitable in this product line in 2004, our success was significantly below the levels we achieved just after the orders were put into place in 1999 and 2000. This comes on the heels of several difficult years during the manufacturing recession.

AK Steel needs a sustained return to profitability to continue to justify our significant investment in this market to our board and to our shareholders. Removal of the discipline of these orders is one of the most serious threats to a sustained return to profitability this industry faces.

Thank you.

MR. HARTQUIST: Thanks, Tom.

Thomas Schmitt of North American Stainless?

MR. SCHMITT: Good morning, Mr. Chairman and Commissioners. It's nice to see you again. I am Tom Schmitt and have held the position of Sales Manager for Flat Products for North American Stainless since 1999.

Prior to joining NAS I was a marketing manager for Main Steel Polishing and the inside sales manager at Washington Steel Corporation. I've spent a total of 25 years of my career in sales and marketing of stainless steel flat products, including stainless steel sheet and strip.

North American Stainless, located in Ghent, Kentucky, has been producing stainless steel products since 1993. NAS is a world class manufacturer of stainless steel products and is competitive with any stainless sheet and strip producer in the world.

I am here today because revocation of the duties of stainless steel sheet and strip would be devastating to our company. In particular, these orders have helped give our parent company the confidence to carry out our vision and investment plans in the United States for NAS as opposed to directing our efforts to facilities elsewhere in the world.

Without these orders, NAS would not have been able to achieve the improvements in productivity or make important capital investments. We were successful in opening a new melt shop in 2002 and a third zenzimer mill in 2004. Our Z mill has the capacity to produce 120,000 tons or more of sheet and strip per year.

We have under construction another Z mill that will be ready in early 2006 with the same capacity as one we installed last year. If the orders were lifted, it is likely that we would not be able to make use of this capacity addition.

Even though there have been improvements in productivity and some consolidations in the U.S. industry producing stainless steel products since the time of the original investigations, the one thing that has not changed is the fact that stainless steel sheet and strip is a commodity product and competes in the U.S. markets on the basis of price.

Nickel and other raw materials are world traded commodities, so foreign producers' raw material costs are pretty much the same as ours. We are competing with them on a head-to-head basis, and the make-or-break decision of which producer to source from comes down to price. A small difference in price results in winning or losing of a sale.

We are told by our customers that the quality of our product is no different than the imported products; that is, completely interchangeable with subject imports. I do not know of any U.S. producer or even importer that has been unable to meet specifications for the subject product. Therefore, our foreign competitors are no different from us except in their unfair pricing practices.

In view of the pricing and raw material cost pressures we have faced, we have worked very hard to reduce our cost and to be an efficient producer of this product. Despite our continuing efforts to remain a highly efficient producer, I remain very concerned about the future because of what happened during 1997 and 1998 before the orders were imposed.

The downward pressure on prices of stainless steel sheet and strip as a result of the undercutting by subject importers during that time was unprecedented. Those import prices led to financial deterioration during the original period of investigation, and we do not want to revert to such conditions.

Unfair pricing pressures will undoubtedly continue if these orders are revoked. As a result, I am very concerned that without relief from the unfair pricing practices imports will resume their underselling practices. We have always tried to remain competitive, but when imports are unfairly underselling us and forcing us to lower our prices again our best efforts will be hindered.

I would also like to mention that most of our sheet and strip sales take place on the spot market. At North American Stainless, short-term and particularly long-term contracts are not common at all. The absence of contracts permits importers to increase sales of sheet and strip based on unfair low-price offerings.

Even short-term contracts allow for prices to be renegotiated, so the effect on even one low price cannot be overstated. Without the discipline of the orders, prices will quickly spiral downward.

Although NAS did not produce to full capacity during any year of the POR, there was a very brief period of controlled order entry in 2004. At the end of 2003, we were informed through our mutual customers that J&L was no longer taking orders. The result was customers panicked thinking they could not source enough material. This was a very temporary situation.

Allegheny purchased the J&L equipment in June of 2004, and, as I mentioned earlier, NAS installed a third Z mill in February of 2004. There is no current shortage of U.S. sheet and strip supply, and with the addition of our fourth Z mill next year there will be no future shortage either.

Let me add that NAS has exported a certain portion of our sheet and strip production, but this volume declines considerably in 2005 as the world markets become more saturated.

If we are not able to sell our sheet and strip in the United States, where else will we turn for selling this additional volume? The existence of the orders will continue to guard against sheet and strip being dumped into the U.S. market and thus will prevent imports from gaining market share and unfairly undercutting prices.

We believe the continuation of these orders is critical to the future of the United States stainless steel sheet and strip industry and urge you to continue the orders.

Thank you.

MR. HARTQUIST: Thank you, Tom.

We now turn to Terry Hartford of Allegheny Ludlum Corporation.

MR. HARTFORD: Good morning, Mr. Chairman and members of the Commission. I'm Terry Hartford, Senior Vice President, Commercial, Allegheny Ludlum Corporation. I oversee the marketing and sale of stainless steel sheet and strip, among other products, and I've been with Allegheny for 24 years.

In preparing for my testimony, I reviewed the staff report and the briefs of the foreign Respondents. In general, those briefs argue that the subject imports are entering the U.S. market in a very narrow array of niche products and that removing the orders would have little impact on the domestic industry. This is not the case.

My company continues to compete with the subject imports on a regular basis, and mostly what we see is standard issue commodity product. Your staff report backs up my experience because it shows that the majority of purchasers said that they bought commodity grades of stainless sheet and strip from the subject countries.

Further, the products that some of the foreign Respondents claim are their specialties are all made by the domestic industry. For example, Allegheny is a major producer of stainless steel precision rolled strip, which Outokumpu's U.K.

subsidiary claims is its focus in the U.S. market.

We compete with these U.K. imports and sell to many of the same customers. In fact, to my knowledge the only product that Outokumpu's mill makes that is not made by the domestic industry is razor blade strip, which we allowed to be excluded from the scope.

Another example is the claim of the French producer, U&A, that it focuses on niche products such as aluminized Grade 409 and bright annealed finishes. Again, Allegheny and other U.S. mills produce these products, and we compete with imports from France on the basis of price.

The domestic industry produces essentially the entire subject product line, and we have granted exclusions to the few products we don't make. If some foreign producers have chosen to specialize in one or two products in response to the unfair trade orders that does not mean they are not in competition with us.

Further, these mills continue to produce broad product lines and would ship the entire spectrum to the United States if the orders were revoked as they did prior to the orders.

Nor should you allow the foreign Respondents to mislead you into thinking that the unfair trade orders should be revoked because the domestic industry has been unable to meet demand. While it is true that the U.S. market faced some tightening supply in 2004, that occurrence needs to be placed in perspective.

As noted by Mr. Schmitt, concern in the marketplace early in 2004 as to the status of J&L resulted in some degree of panic buying in the U.S. market for sheet and strip. Adding to the panic buying mentality was the fact that cost spikes in key input material such as nickel, chromium and iron contained in scrap mandated significant increases in raw material surcharges during this period.

While over ordering may seem rational from the customers' perspective, it is extremely difficult for steel producers to deal with. Manufacturing works best when orders come in on a fairly regular schedule, and our capacity ratings are based on this assumption. Obviously if 80 percent of your orders for the year come in during a four month period, you're not going to be able to produce to your capacity.

While not nearly as dramatic as my example, we did experience this type of occurrence during early 2004. Orders began to come through on an accelerated basis, and in many cases we knew the customers were not buying this product for immediate use. We also had customers place orders to hold their place in line, only to cancel those orders before shipment which needlessly extended lead times.

Within a short period of time we were left with some tough decisions. In response to these developments, in March 2004 Allegheny established what we called controlled order entry or COE for some of the products within our stainless sheet line.

COE is a tool to manage our order book during periods of rapidly rising demand. Its purpose is to ensure that customer orders are entered into our system in an orderly way and commensurate with our customers' historic consumption plus reasonable growth.

COE is a very effective internal tool for managing our capacity in a systematic way in order to help ensure that our customers' needs are satisfied. COE does not put customers on allocation, but is a means of trying to get orders filed as expeditiously as possible and by keeping close track of orders, production and shipments.

Through COE we worked with our customers to try to avoid order cancellation and determine when they really needed their shipments. COE actually allowed us to keep lead times at a reasonable eight weeks, allowing customers to better order what they truly needed rather than speculating on what they might need. In fact, COE enabled us to do a good job of taking care of our customers.

It is important that the Commission understands that only part of our product line was covered by COE and that its peak usage only lasted from March through June of 2004.

With our acquisition of the capacity of J&L in June 2004, COE as a management tool became significantly less important. As of July 2004, COE covered less than 10 percent of our total capacity to produce stainless sheet and strip. All elements of our product line such as most of our strip products were never subject to COE. By the first quarter of 2005, we rescinded COE completely.

Given the short duration that COE was employed, the small portion of our capacity that it covered and its ultimately beneficial impact on our customers, I agree with what your staff report shows on this topic. The majority of purchasers said they had faced no supply limitations since 1999, and some of those that did said the effects were insignificant.

COE was a short-term phenomenon necessitated by the ordering habits of some of our customers. Such over ordering has now disappeared, and ordering practices are back to normal in 2005.

For Allegheny's part, now that the J&L facilities are fully integrated into our production and sales structure I can assure you that we have ample capacity to meet demand for our product line, including those niche products that subject producers say they focused on in the U.S. market.

There is no shortage of stainless sheet and strip, and there is no justification for removing these orders on that basis. Indeed, if revocation were to occur the result would be a massive oversupply of the U.S. market via increased imports from subject countries, which would have a devastating impact on pricing in the U.S. market.

Without these orders, we would once again face unfairly priced imports. This is a very chilling prospect given that base prices remain lower than they were in 2000 and our profitability remains suppressed.

Thank you for allowing me to address you this morning.

MR. HARTQUIST: Thank you, Terry.

We now turn to Ed Blot and his crystal ball.

MR. BLOT: Good morning, Mr. Chairman and members of the Commission. My name is Edward Blot, and I am president of Ed Blot and Associates.

My company provides consulting services and training seminars to North American producers, distributors and consumers of stainless and nickel alloy products, and as a regular part of these services I provide market analysis and forecasts concerning stainless products. Prior to opening my consulting business I spent over 25 years with Armco and Republic in various sales and marketing positions.

This morning I will review the consumption history of the U.S. stainless sheet and strip market and present my forecast for the next few years. I'm also going to discuss how the orders have led to product "form" shifting from coiled to cut sheet and how the economics dictate that those tons will likely shift back from cut to coiled sheet should the orders against the subject countries be revoked.

Now may I direct your attention to Chart 1 on the screen. This graph shows apparent consumption of stainless coiled sheet and strip from 1996 through 2004, along with my forecast through 2007. Consumption during the past 10 years averaged about 1.75 million tons, peaking in 1999 and falling drastically in 2001.

The apparent 12 percent growth in consumption last year was fueled by three major factors. First, the severe manufacturing recession in the U.S. ended in late 2003, and consumers began purchasing for many capital goods projects that had been on hold due to the recession.

Second, the entire supply chain was building inventory in addition to placing orders for their capital goods requirements and consumer goods requirements.

Third, as prices started to increase primarily due to raw material costs, the major purchasers of stainless sheet and strip -- distributors, pipe and auto exhaust manufacturers -- were placing additional orders to ensure that they could supply the end users at the lowest cost prior to implementing their increases.

As you can see from my chart, I am forecasting a six percent decline this year, a return to about the 2004 consumption level in 2006, followed by another slight increase in 2007. The decrease in consumption this year is due primarily to the destocking of inventories that are currently in excess at the distributors and pipe manufacturers along with a modest decline in consumer goods markets such as automotive and appliance. This is the same pattern that occurred after the apparent consumption spike in 1999.

I have further forecast a significant increase in subject imports if the orders are revoked. In their briefs, subject foreign producers have emphasized their commitment to their home markets in China. Those producers have gone to other markets where they have an opportunity to sell but don't have the pricing discipline of the antidumping order and not because those markets were better.

From the staff report you will note that non-subject imports have also been increasing in the U.S. market since implementation of the orders. Why? Because when you are unencumbered by an antidumping order the higher prices of the U.S. market particularly over those in China are preferred.

You have seen in Petitioners' prehearing brief the data showing that China is moving quickly from a net importer to a net exporter of stainless sheet. In fact, China was the second largest exporter of stainless sheet and strip to the U.S. last year, increasing -- and I repeat increasing -- by 535 percent over 2003.

You can take the growth in imports from

China and other non-subject countries as a predictor of what subject imports would do without the orders. There is every economic reason for the subject imports to shift back to the U.S. market and resume underselling this price sensitive commodity to get their market share back.

Note that most imports are sold through trading companies who seek out new, low-cost material when dumping duties are assessed against their current suppliers. Those traders will again seek supply from the subject countries if the orders are lifted.

Other companies like Arcelor and ThyssenKrupp have well-established sales networks in the U.S. and can immediately take advantage of any lifting of the orders. Given that all the subject countries have been adding capacity to produce stainless sheet and strip, they are very likely to do so.

Now I'd like you to address your attention to Chart No. 2 taken from the industry brief, Exhibit 19. This chart showed stainless sheet and strip in coil and cut length from the countries subject to these orders and cut length from non-subject countries for two years, 1998 and 2004.

The cost increase of producing cut sheet from coiled, including any yield loss, can easily be absorbed to offset duties in excess of five percent, but once the orders were issued coil shipments from the subject countries decreased as expected. However, there was a significant increase in cut sheet and strip from the same countries producing coil.

Now, if the orders are revoked, however, the economics revert to a preference for coiled sheet. Note that there was no such increase in cut length sheet from non-subject countries during this period nor has there been any such shift for the U.S. producers.

The shift from coiled to cut sheet solely by the subject producers shows the importance they place on staying in the U.S. market and belies their claims of indifference to this market.

The participation of ThyssenKrupp countries -- Germany, Italy and Mexico -- illustrates this point dramatically. As shown in Chart No. 3, total imports of coiled and cut-to-length sheet from these sources have risen since the orders, and the shift to cut sheet to avoid the duties is evident. This total increase shows that there has never been more interest by ThyssenKrupp in this market than there is right now.

If the orders are revoked, the tons of coiled sheet from these countries will likely increase significantly based on the shift back from cut sheet alone. This increase in subject import volume alone, over 100,000 tons last year or five percent of the market, along with the corresponding loss in pricing discipline, will have a negative effect on the domestic industry's profitability and return to recently invested capital.

Thank you.

MR. HARTQUIST: Thank you, Ed.

Dr. Magrath?

MR. MAGRATH: Mr. Bishop, could I have a time check, please?

MR. BISHOP: Seventeen minutes remain.

MR. MAGRATH: Okay. Good. Thank you. It won't be all me, I assure you, Commission. That's the good news.

CHAIRMAN KOPLAN: That may be good for you.

MR. MAGRATH: Good morning, Mr. Chairman, members of the Commission, ladies and gentlemen. My name is Patrick Magrath of Georgetown Economic Services. With me from GES is the same crew as in the Plate hearing, Mike Kerwin and Gina Beck. We also have Dave Rosner here, who is responsible for these charts.

My remarks today will be organized around two vital questions asked in your sunset proceedings always. What is the ability of each Respondent country to increase its exports of sheet and strip to the United States if the orders were to be revoked, and, equally important, the intentions of each country to resume exports and increased volumes at unfair prices. We will use some charts to illustrate imports on an individual and simulated basis.

First as to the ability of each of the producers to increase exports to the U.S. market, a number of factors on which the Commission and staff themselves focus and focus in the staff report are as follows:

First, additions to capacity. All eight of the Respondent countries have increased their ability to shift to the U.S. market by way of capacity increases or, in terms of Japan, improvements in productivity. Expansions in Germany, Italy, Korea and Taiwan are especially large and far in excess of domestic requirements.

Second, unused capacity, the ability to quickly reestablish a significant presence in the U.S. market. Individual countries aren't on this chart due to confidentiality constraints. However, there is significant unused capacity reported for a majority of Respondent producers.

One Respondent who claims full capacity utilization, POSCO in Korea, is reported to be installing 400,000 tons of cold-rolled capacity in Korea by 2006, and the site is in our brief.

Third, do these foreign producers have an established presence in the U.S. market as evidenced by affiliated end users or distribution networks that have the ability and the name recognition to reintroduce products upon revocation on a large scale? The staff report has especially comprehensive information on this important factor. All eight Respondent country producers have established affiliates in the U.S. market, importing both subject and other stainless products.

Our fourth and last export factor is the ability to product shift. The Commission knows from the record of the ongoing Coil Plate sunset investigations that many of the subject producers in this case were Respondents in that case as well, and all subject sheet and strip producers are integrated facilities producing the slabs, black band, coiled plate and, last, but as you heard from Mr. Blot certainly not least, cut sheet products as well either within the same facilities or in affiliated facilities in other countries.

So all eight countries test positive for the ability to increase exports by product shifting. Affiliation with major producers guarantees quick access to sheet and strip feedstock.

Finally on the issue of ability of these foreign producers to increase exports to the U.S. market following revocation, Kathy Cannon will stress the large overlap in product offerings and the overwhelming consensus of purchasers as to the interchangeability of the domestic and subject products. Again the staff report is particularly comprehensive on this important point.

In conclusion and thanking *Consumer Reports* for the format, this chart summarizes the ability of Respondents to cause to recur or recur material injury. This chart is the ability chart is what we call it. As you can see from the preponderance of red affirmative dots, Respondent countries both individually and collectively possess the ability to quickly increase exports to the U.S. market.

Next we have what we call the intentions chart to accompany the ability chart. That is, a chart that summarizes the several factors tipping us off, and hopefully you off, as to the intentions of Respondent producers to increase exports to injurious levels if the orders are revoked.

Again these factors are not made up by me. They are factors on which the staff report itself focuses. Criteria include the following: First, the increase in imports in the period of review. The current U.S. market for sheet and strip is a strong one, having rebounded in the cycle from the nadir of 2001.

U.S. imports from Respondents have increased right along with demand irrespective of the duties. Of the eight Respondent countries, imports of six increased from the bottom of the cycle, 2001 to 2004, despite the orders.

Another important indication of this willingness to increase imports is that five of the six have done so despite their currencies appreciating against the U.S. dollar. Most of those appreciations -- as a matter of fact all of them except Taiwan's -- were significant. Only the Mexican peso declined in relation to the dollar over the period. So much for the weak dollar.

A third indicator of subject producers' willingness to increase exports to the United States is the fact that they in essence already have in the form of the 274 percent increase in imports of cut-to-length sheet and strip over the POR, 1998 to 2004. That was Mr. Blot's graph, and Mr. Blot has emphasized the extraordinary and very cost-efficient tactics here to stay in the U.S. market at all costs despite the orders.

Still other factors demonstrate the willingness to increase U.S. exports. Six of eight of the subject countries are under one -- or in the case of Germany, Italy, Japan and Korea multiple -- dumping order restraints in other markets. Taiwan, although not under order yet -- they get a zero -- has been warned that such an action is forthcoming by China.

Finally, this chart shows all eight reporting countries to be export oriented. The exact data and proportions are confidential, but this is an easy conclusion based on Section 4 of the staff report.

Finally, the unprecedented investments to increase capacity and production of sheet and strip in China will, as Dr. Shilling has testified, permeate all the issues the ITC must consider in this proceeding. The additions in China will, within the foreseeable future, increase the vulnerability of the U.S. industry.

China is already the second leading source of imports to the U.S. market. China's huge production ramp up will increase both the ability and the willingness of subject producers to redirect exports to the United States as China substitutes cold-rolled imports with domestic production and prices for sheet and strip remain more attractive here than in either China or in the more low-growth economies of the EU and Japan.

In conclusion, we ask the Commission to ponder the sea of red that these two charts display, the sea of red which indicates the ability and the intentions of each Respondent to increase their U.S. exports to levels that will continue to injure the U.S. industry.

Then consider the impact of this on a cumulated basis, which is the subject of Kathy Cannon's testimony.

Thank you very much. We'll be happy to answer questions.

MR. HARTQUIST: Thank you, Pat.

Our last witness is Kathy Cannon.

MS. CANNON: Thank you. Good morning. I'm Kathleen Cannon of Collier Shannon Scott.

Before addressing the legal issues I'm going to talk about, I just wanted to add a legal overlay to the testimony Dr. Magrath just presented, which is that when you combine ability plus intention or incentive to increase imports you get a strong indication of the likelihood or probability, which is the legal standard that the Commission is to apply in this case, and we think that those two factors together clearly meet that legal standard.

Let me turn now to the issue of cumulation. In the original investigation, the Commission cumulated imports from all eight subject countries, finding a reasonable overlap in competition. No issues were raised as to the lack of common channels of distribution, geographic markets or simultaneous presence. Respondents argued there only that there was limited fungibility between the subject imports and the U.S. product.

The Commission rejected those arguments, finding that the domestic and imported products were produced in conformity with the same ASTM specifications and were sold in common grades and gauges.

In answer to Respondents' contentions at the time that they produced specialty or niche products that did not compete with the U.S. product, the Commission found that regardless of the production of some specialty products a substantial percentage of subject imports from each of the subject countries overlapped with the other imports and the U.S. product and cumulated all imports.

In this sunset review, Respondents again argue that the Commission should not cumulate imports based on alleged differences in the products. No record evidence establishes that subject imports would be any less fungible than they were preorder if the orders were revoked.

As Mr. Hartford testified, the U.S. industry produces bright annealed sheet and competes directly for such sales with the French imports, as well as selling other specialty products such as the precision strip identified by Outokumpu.

Information from purchasers establishes continued overlap in basic commodity grades among subject imports and the U.S. industry during the review period. In fact, the majority of purchasers reported that imported stainless sheet and domestically produced stainless sheet continued to be always or frequently interchangeable for all eight subject countries.

Despite the strong record evidence, the prehearing report suggests that substitutability of imports from certain countries may be slightly reduced due to limited sales in the review period, strong worldwide demand or transportation costs. These factors are not relevant to a fungibility finding.

Moreover, the Commission's task is to determine likely future competition and fungibility, and a reduced volume of sales during the review period does not indicate that future sales would be reduced.

Importantly, there is no indication of a fundamental product mix change at any of the foreign producers that would prevent it from selling the same type of stainless sheet found to be fungible and competitive with U.S. producers and other imports preorder. Indeed purchasers continue to stress the high level of interchangeability of these products.

Other arguments advanced by Respondents to avoid cumulation are equally unavailing. Every subject country appearing before you today claims that its imports would have no discernable adverse impact on the industry if the orders were revoked.

In support of this claim, they focus largely on low import volumes or higher prices after the orders were issued and ignore the preorder prices and volumes that led to the order's imposition. Here all of the subject producers have maintained or increased capacity to produce this product.

They also remain export oriented and have continued to demonstrate an interest in and an ability to export to the United States as you saw from Dr. Magrath's chart. There have been no closures or alterations in production capacity that would limit their ability to resume preorder behavior in terms of volume or basic types of products sold.

Respondents' alternative attempt to avoid cumulation by pointing to differences in post order volume levels or trends as showing different conditions of competition similarly ignores the sunset standard. The question is not what behavior Respondents exhibited post order, but what they would likely do if revocation occurred. If their volumes would likely increase as the record here indicates would occur, their trends will be the same.

Further, the fundamental competitive condition in this market, sales taking place largely on the basis of price, has not changed. The market is not any less price sensitive now than it was preorder.

When Respondents such as Mexinox tell you they will not trade unfairly or undercut U.S. prices, I urge you to look at the dumping margins that Commerce has projected in the sunset review as well as the underselling they exhibited before the orders were imposed.

If these orders are revoked, imports from eight countries with excess capacity and a demonstrated ability and likelihood to shift exports from third country markets, particularly China, to the United States will occur simultaneously. These common competitive conditions will have a collective devastating effect on the U.S. industry and strongly support cumulation in this review.

Finally, I just want to mention the role of consumers in this case. By statute, the Commission is to look only at whether the revocation of the orders would cause injury to the domestic industry producing this product.

Unlike a safeguard proceeding where the effects on consumers are expressly identified as a statutory factor to be considered, there is nothing in the statute or legislative history addressing sunset reviews that permits the Commission to consider the impact on consumers.

The consumers' purpose in this case, to permit demonstrably dumped imports to return to this market, is both transparent and directly at odds with the domestic industry's interest.

Thank you.

MR. HARTQUIST: That completes our direct testimony, Mr. Chairman. Thank you.

CHAIRMAN KOPLAN: Thank you, and thank you to all members of the panel who have participated thus far. We will begin the questioning with Commissioner Miller.

Before we do, let me just say because of the number of witnesses that we have at this table as you're asked questions if you could reidentify yourselves each time so that it's easy for the reporter to get that?

With that, we'll begin with Commissioner Miller.

COMMISSIONER MILLER: Thank you, Mr. Chairman, and let me join in welcoming all the members of the panel, those who were here less than a month ago and those who are back after longer periods of time but have been here before and to those of you who are new.

We might have perhaps one. Mr. Long, I

don't know if you've been before us before.

MR. LONG: No, I have not.

COMMISSIONER MILLER: You may be the only one on this panel who is new to Commission testimony, but welcome to all of you.

This hearing in some ways both poses some interesting issues because of the fact that you were here so recently, and I think many of the issues that we'll talk about today are the same. We'll probably have to talk about them again because it's a different investigative record so we have to get the information onto the record of this case as well. I'll try not to repeat myself too much, even though I won't promise I'll remember everything I learned on March 30.

I think actually I perhaps might want to begin by clarifying something in the record of this case that may actually go to a question to Mr. Gerard, who wasn't here.

It is because one of the things I notice, and this may be something that counsel has to help us with. There are some big differences in the record of this investigation and the record during the 1996 to 1998 timeframe. Something that struck me particularly was the decline in the number of production workers that it shows in our record, okay, a big drop between

1998 and 1999.

Now, I want to make sure whether that is reflecting an actual drop in production workers between 1998 and 1999 perhaps because of some of the consolidations or acquisitions that occurred or if there's something in our investigative record that means it's not completely consistent and we need to be aware of that.

That counsel will probably have to help with, but, Mr. Gerard, let me go to you first. Between 1998 and 1999, and our records show a drop in that earlier investigation. We showed over 8,000 workers in this industry, and then it dropped to under 5,000 in the course of one year. Productivity I want to say shot up commensurate, and the number of tons produced went up considerably as well. Can you help me?

MR. GERARD: Well, Madam Commissioner, I know that at that point in time we were doing a lot of improvements in productivity through our collective bargaining, but I would venture to tell you that we did a lot more after in particular with Allegheny Teledyne, J&L and AK. There was a period where a fairly substantial chunk of our membership wasn't working at AK, and I'm not sure that that would be that big a number.

The productivity improvements and our involvement came in two chunks, a chunk that is hard to explain in that 1998-1999. I don't think it was that big, but a much greater chunk that came after in our work with J&L and Allegheny Teledyne where we have specifically set targets and have accelerated enhanced retirement programs so that people are leaving the industry and then a lesser percentage coming back in, including having negotiated a substantial exodus of excess management that we believed was there.

Those numbers don't jive with what we know happened.

COMMISSIONER MILLER: Right, and the timeframe that you're talking about was probably after 2001?

MR. GERARD: Yes.

COMMISSIONER MILLER: Right. Okay. I think our records reflect some of that as well.

I know, for example, AK acquired Armco in September 1999? Is that right? Okay. Would that account for a significant decrease in production workers in that timeframe?

MR. GERARD: No, I don't believe so.

COMMISSIONER MILLER: And I know Allegeny had an acquisition of Washington Steel in the same timeframe, so.

MR. LONG: I don't believe that would account for it.

CHAIRMAN KOPLAN: Your microphone?

COMMISSIONER MILLER: Okay. Just pull it a little bit closer if you could, Mr. Long.

MR. LONG: I don't believe that would account for it.

COMMISSIONER MILLER: Okay.

MR. LONG: As Mr. Gerard referenced, the Mansfield force reduction would account for a small portion of it, but nothing like what you're talking about.

COMMISSIONER MILLER: Okay. Mr. Shilling?

MR. SHILLING: Yes.

COMMISSIONER MILLER: It might account for some decline, but not --

MR. SHILLING: Yes. That 3,000 employees between what timeframes did you say, Commissioner Miller?

COMMISSIONER MILLER: 1998 and 1999.

MR. SHILLING: Yes. Off the top of my head, I can't think of a cause for 3,000 people.

COMMISSIONER MILLER: Okay. Mr. Hartquist, maybe you all can take a look at the record that we have. Again, it's two different investigative records from the earlier investigation and this one.

You know, I think we believe we have the same company coverage so it's kind of hard to understand the big drop, but something. From what you're saying it doesn't sound like there was actually that big of a drop in the workforce, so maybe it's just our record in some way. You take a look and see if you can help me understand it.

MR. HARTQUIST: We'll try to trace that back for you.

COMMISSIONER MILLER: Okay. Let me go on to ask some questions about another big issue I know that we'll talk a lot about today is understanding the price increases that have occurred between 2003 and 2004.

You know, I think from our discussions and what I've heard in the record, I mean, I see some of this was driven by both raw materials and some by demand increases, and I guess to some extent I'd like to see if I could ask the companies to talk a little bit about how each of those things factored into those price increases and how the price increases were implemented in the market.

I mean to what extent they related to raw material surcharges, to what extent they were just price increases reflecting the perhaps tight supply that has been discussed in 2004 and high demand.

Anybody who wants to take a shot? I'll give everybody an opportunity who wants to comment. I see Mr. Hartford is grabbing for a microphone back there.

MR. HARTFORD: Yes. I'll start off. We did indeed see price increases in 2004 versus 2003, and they came both in the areas of increased raw material surcharges, as well as base price increases.

The surcharge increases were related to what I mentioned in my testimony, and that was precipitous increases in the prices of nickel, chromium, iron contained in scrap and other elements that we use in the production of stainless steel, so throughout 2004 we saw significant increases in our surcharges directly as a result of raw material increases.

In addition to that, for the first time in three years I believe we were able to introduce base price increases on our sheet and strip products, and this was a result of increased demand that we saw in the marketplace and the opportunity to finally begin to recover lost prices that we had experienced over the prior three years.

Throughout mostly the first half of 2004, really the period January maybe through August, we introduced base price increases in addition to the surcharge changes that I mentioned earlier.

COMMISSIONER MILLER: Okay. Mr. Long, can you respond to the question a bit?

MR. LONG: Yes. I'd agree with what Mr. Hartford said. Of course, the raw material surcharges is just an attempt to pass along increases that we see in our production due to the rapid rise in raw material rates, and the base price increases, base prices had fallen for years prior to that and the demand in 2004 was the first opportunity to try to get a little bit of that back.

COMMISSIONER MILLER: Okay. Mr. Schmitt?

MR. SCHMITT: Yes. Tom Schmitt, North American Stainless. The first raw material increases were huge in 2004, and I believe that was the extent of the majority of the price increase, but we too raised our prices a couple times in the first quarter I believe of 2004 trying to make up for how they deteriorated the previous two years.

COMMISSIONER MILLER: Okay. The yellow light is on, but let me ask one question that relates to this price issue.

Mr. Shilling, it sounds like you want to make a comment too, but let me add this as you do and that is as I understand it, you know, you have 300 and 400 grade products and how the product mix affected price increases. As I understand it, raw materials or some of these specialty alloys and such affect the prices of what, the 300 series more than the 400? Would that be fair?

MR. LONG: Yes, that would be fair. Yes.

VICE CHAIRMAN OKUN: Okay. So does that mean those products -- I think our record reflects, and I'm just trying to understand it. Is it the raw material cost increases that would create greater increases in those products? I see heads nodding in affirmative.

MR. HARTFORD: Yes, pretty much because of the nickel content.

COMMISSIONER MILLER: Because of the nickel content.

MR. HARTFORD: The nickel price jumped so high. There's much more nickel in the 300 series.

COMMISSIONER MILLER: Okay. Mr. Shilling, did you want to add anything? I know the red light is on, but perhaps you wanted to add a little bit there.

MR. SHILLING: Thanks, Skip. It'll be quite brief.

Just again to put the pricing issue in context, the prices rose slightly from 1999 to 2000. Then they fell with the market, the base prices did, and stayed at low levels until 2004, falling even more so in 2003.

They rose, as they said, a little bit, the base prices, a little bit in 2004, but most of what you see in the total price in 2004 on the authenticity grade, 300 grade, is raw material related.

COMMISSIONER MILLER: Okay. I appreciate that. I appreciate the answers to my questions. Thank you.

CHAIRMAN KOPLAN: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you, and I too would join Marcia in welcoming all of you back to the hearing, those of you. Mr. Long, I would welcome you for the first time as well. We very much appreciate your testimony.

I guess if I could I wanted to follow along with exactly what Commissioner Miller was just asking, but from my perspective I want to try to get some sense of what portion of the price increases you attribute to the raw material surcharges as opposed to what portion of these price increases you think are due to this issue of getting a base price increase.

More specifically, I want to understand how these work. Are the surcharges fairly automatic? In other words, you've already had a negotiation for a contract that suggests that there's an index base of raw material costs and that they will simply be relatively automatically passed through, or do each one of these increases involve a further negotiation with your customers in terms of what portion of those cost increases can be passed on?

Go ahead. Go ahead, Mr. Hartford.

MR. HARTFORD: I'll take a shot at this. The raw material surcharges that Allegheny uses are tied to a formula. The formula is well known and well understood. It's on our website, and it involves a series of triggers of threshold prices for a variety of raw materials and a formula that compares a current raw material price for nickel and chrome and iron and some other elements compared to the threshold price.

Those elements are put into a formula, and the raw material surcharge is generated of so many cents per pound.

COMMISSIONER HILLMAN: So in essence your customers have already agreed to accept those surcharges?

MR. HARTFORD: That is correct.

COMMISSIONER HILLMAN: There isn't any debating about it or any negotiating? The formula kicks in, and those surcharges are added to their invoices?

MR. HARTFORD: That is correct.

COMMISSIONER HILLMAN: Okay. And what portion of your sales would be subject to that kind of an automatic surcharge mechanism?

MR. HARTFORD: Virtually all of the grades that we produce receive a raw material surcharge. I can't think of any that don't.

COMMISSIONER HILLMAN: Okay. I'm trying to understand spot versus contract. You're saying all of your sales get subject to this same kind of surcharge?

MR. HARTFORD: That's correct.

COMMISSIONER HILLMAN: Mr. Long?

MR. LONG: Yes. I would agree with what Mr. Hartford said as well.

COMMISSIONER HILLMAN: Okay.

MR. SCHMITT: At North American, 100 percent of our product is covered by surcharge.

COMMISSIONER HILLMAN: Okay. And then again to try to get some sense of we obviously have a lot of data on what happened on prices, but it's a little hard for me to understand the portion of the price increase that was due to surcharges as opposed to this issue of base price increase. Can you help me with that?

Mr. Hartford, if you want to start?

MR. HARTFORD: I have a chart in front of me. I don't have data in front of me. We can probably get you the actual data, but certainly more than 50 percent of the amount that prices rose in 2004 would be attributable to the raw material surcharge as opposed to the base price increase.

COMMISSIONER HILLMAN: Okay.

MR. HARTQUIST: Commissioner Hillman, may I jump in here just to clarify one thing and ask my colleagues here to correct me if I'm wrong?

I wouldn't want the Commission to get the impression that there's sort of a laid back acceptance of these price increases in the marketplace. By far, most of the sales are spot sales rather than contract sales in this business, so while the customers have a surcharge formula available to them that is made available by the companies individually that doesn't mean the customer will necessarily accept the price.

They understand the content of the price, but they're going to shop around for the best price they can get.

COMMISSIONER HILLMAN: I appreciate that, Mr. Hartquist. You're touching on where I'm trying to understand next because obviously you all have clearly made the argument that if these orders are revoked and imports come back into the market that it will have an effect on prices and yet obviously if I look at the data for 2004 we do see a fairly significant increase in the volume of imports and a huge increase in prices.

So it does to some degree beg the question of if this increase in volume did not have the effect of holding down prices in 2004 why should I assume if the orders are revoked and there is additional volume that it will have any particular effect on prices?

If the current volume didn't in 2004, why would it be different in 2005 in terms of an impact on prices of an increase in volume of imports?

MR. MAGRATH: Commissioner Hillman, first, and we presented proof here with the orders. The 2004 price increases were under the orders, under the constraining effects of the orders.

Second, we've emphasized here that despite these price increases, which once again we emphasize are mere pass throughs, you have the market of a decade here in 2004, the highest consumption at least over the cycle, perhaps the top of the cycle, and you're only managing six percent net operating profit to sales. You've lost money in the three years previous to that, and you still have two producers out of seven who are losing money on an operating basis.

This performance at the top of the cycle we characterize as anemic so it comes back to the effect of the price, how much of the price increase they could get, the lag of the base price increases and the majority of the price increase just being a pass through of the increased raw material cost.

COMMISSIONER HILLMAN: All right. I appreciate those responses.

Mr. Shilling?

MR. SHILLING: At the risk of being a little redundant, it's a good question but to me the answer is very, very simple.

First of all, again the actual increase in prices in this timeframe is predominantly raw materials related, but more importantly to the latter question that you ask the eight subject countries are operating under order and so their pricing behavior is totally different in my opinion than it was before the orders were present and that it will be afterwards.

If you take Mr. Hartquist's comments into context then what will happen is with that surge of imports, which will happen if you revoke these orders, then all bets are off with regard to what the customers are going to be willing to pay. That's were the points get made.

It's a much more orderly, disciplined environment today where these huge increases in raw materials costs are being able to be passed on by the producers who have to absorb them. That environment will not exist, in my opinion, based on past experience in my 30 years in the industry if these orders are revoked. It won't happen, and they have the capacity to do so and will.

COMMISSIONER HILLMAN: I appreciate those answers.

Let me go then to this issue of the attractiveness of the U.S. market because a number of you have commented that you think again if the orders are revoked that we will see the significant increase in imports, and you specifically discussed the attractiveness of the U.S. market both in terms of demand and in terms of price.

It's on the price side that I want to make sure I understand your testimony in light of the data that we have on the record. I mean, we do have data in our staff report that compares transaction prices across four series of products in the U.S. market and in a number of foreign markets, and the U.S. is clearly not the high price in any of those product lines.

In fact, again the home markets for a number of these products or other markets would have significantly higher prices shown in that data than the U.S. market would so I'm trying to make sure I understand from your perspective why you think the U.S. market is currently such an attractive market for these imports. If prices are better elsewhere, why won't the product go elsewhere?

MR. MAGRATH: This would be me. We have put the staff through a lot in the last couple of months and also some of the --

COMMISSIONER HILLMAN: You're not alone, Mr. Magrath, I'm sorry to say for our poor staff.

MR. MAGRATH: As a former member of the Commission's staff, I know the truth of that statement, Commissioner.

The chart to which you refer in the staff report, which is from MEPS, one of the consultancy firms, one of the several consultancy firms that have price series on the U.S. industry, was for one month, December 2004, and we feel strongly that it was not representative.

Now, we understand the problems about publishing confidential data, but several other sources are available, including a source of both price series for specific products in all these markets plus forecasts from a consultancy that the ThyssenKrupp brief raves about as reverential.

Those price series are in our confidential exhibits to our brief and in ThyssenKrupp's confidential exhibits to their brief. They will show the U.S. prices, first of all, always to a large degree higher than China, the supposed market where all this increased capacity from Respondents is going to go.

Second, against the euro countries the U.S. prices many times in many other months, both before and after this snapshot of December 2004, are higher than those European prices despite the declining dollar.

There are other series besides that. There's the *Metal Bulletin Reports* also has prices by product and gives forecasts out for six months. Those are much more accessible to the staff, and I know the staff is familiar with those. Those also show quite consistently the U.S. prices as being higher.

Finally, in and around those price series, the source that we all use but we can't mention, *Metal Bulletin Reports*, has a lot of interesting material. Once again, this is in the exhibit of ThyssenKrupp and in our exhibits as to which market currently is still experiencing strong demand and which market that is.

The European market is more on this I said in my testimony and Japan more, so that would be our answer to this brief, one month snapshot of prices, and we hope that the staff can elaborate on it in the final report.

COMMISSIONER HILLMAN: I appreciate those responses. Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Lane?

COMMISSIONER LANE: Good morning. I apologize for all of my coughing fits, and if I have to stop asking questions please forgive me, but rest assured I will listen to whatever you say.

My first question deals with Mr. Long. In talking about the raw material surcharges, is this a new way of pricing or is this something that has happened in the past?

MR. LONG: Raw material surcharges have been, at least in my experience in the industry --

CHAIRMAN KOPLAN: If you could move that microphone closer to you?

MR. LONG: -- since 1988 I believe was the first time that I remember raw material surcharges, so they're well established.

COMMISSIONER LANE: And are the subject imports also subject to surcharges for raw material costs?

MR. LONG: The subject imports would certainly be subject to the cost of the raw materials, but how they do their pricing I guess I wouldn't be the one to comment on that.

COMMISSIONER LANE: Several of you have talked about the huge increase in Chinese production. Will most of that be used internally for the Chinese own needs, or will a large percentage of that be shipped to other countries?

Mr. Shilling?

MR. SHILLING: Commissioner Lane, in my opinion, and based on the analysis we've done, there's no question that China is going to switch from being a net importer to a net exporter of this subject product.

We operate a joint venture in Shanghai that actually makes a very small part of this subject product mix, but that takes to me to China on a regular basis and we do a fair amount of market analysis in China as a result of that. Over the last year or so, China has increased its capacity by 50 percent of this subject product and is forecasted based on planned installations to increase its capacity by another 50 percent, which will take the total capacity of China for subject products by the end of this year to a level twice the size of the U.S. capacity and then by the end of 2007 to a level that is close to three times the size of the U.S. market. And this very rapid increase in capacity, based on all of our analysis, will at a minimum meet demand in China and quite possibly exceed demand in China.

The importance of that is that the market is currently being served by imports from subject countries and so as China adds all this huge amount of capacity, even if China's demand keeps up with the amount of capacity being added, the current imports flowing into China will have to go somewhere and we're convinced that if these orders are revoked they'll go right back to where they were before the orders were in place, which is right back into the U.S.

So in any event, it's this huge increase in capacity addition in China that's going to, at a minimum, force out the current imports and they're going to have to find some place to go.

MR. MAGRATH: Commissioner Lane, you know, two things we said in our testimony, a number of us, that China is already the second largest import source of the subject products in the United States, which have come out of nowhere to substantial quantities now, and, second, that China has dumping orders or other kinds of restraints, and that's in the record, against two of these subject products already, Korea and Japan, and they are threatening Taiwan, a third. That seems to us a clear indication that you have a viable and vibrant and growing industry in China that's going to want to serve its own market, not imports.

COMMISSIONER LANE: Okay. Thank you.

Now, I think I read that the demand for stainless steel strip and sheet is down in this country. Could somebody explain to me why that is?

MR. SHILLING: As I said in my testimony, the recession that hit the United States in 2001 was characterized by the Department of Commerce's really excellent report on U.S. manufacturing. I don't know if you've seen that. I read it again recently. It was published in the beginning of '04 by Secretary Evans.

That report characterizes this recession that the U.S. manufacturers experienced as one of the most severe in the history of the country and it was particularly hard on manufacturers, much more so than on retail or real estate, for example.

In our case, that recession resulted in a drop in the domestic consumption of 18 percent. Unprecedented. I looked back over the history of these data. As I said, I've been in the industry for a while, there never was a year on year reduction in apparent domestic consumption of 18 percent. I remember at the time I was the head of a trade association and we tried to understand what this was due to back in 2001. We though there was something wrong with the numbers originally.

How could a market for stainless steel cold-rolled sheet fall off by 18 percent in one year?

We studied it and studied it and studied it and we came to the conclusion that it was a combination of end-use demand falling off by somewhat less than 18 percent and a big inventory correction in the system as people just worked out of existing inventories, as opposed to ordering additional metal from the industry. But nevertheless, from a mill standpoint, we faced an 18 percent reduction in shipments.

That recession was long lived. It lasted a long time here in the country. People kept going to Wal-Mart and buying things and they kept buying new houses and so most Americans didn't realize how deep this recession was for manufacturers, but our data clearly shows that apparent domestic consumption, low levels of that, lasted through 2003, maybe gradually increasing, the staff report shows, and then taking an up tick in 2004, but even in 2004, the apparent domestic consumption of the U.S. market has still not returned to the levels that existed at the time of this original investigation.

COMMISSIONER LANE: And how would you characterize what you see the demand in the foreseeable future?

Well, I happen to agree with Mr. Blot's report and we should ask our commercial people, actually, who are involved in this every day to comment. I'll just state very briefly that there is very likely to be a correction, an inventory correction, this year, followed by gradual growth of the ADC market, but perhaps it would be better to have the other folks here comment further if you wish.

COMMISSIONER LANE: Okay. Does somebody care to comment?

MR. WALLS: I'll make a comment on that.

COMMISSIONER LANE: Mr. Walls.

MR. WALLS: I would agree with Mr. Blot's chart as well. Coming into 2005, we thought the demand this year would be flat, pretty much the same as it was in 2004. There has been, though, an inventory correction and so the overall mill shipments in 2005, I believe, will be down slightly and looking for a rebound up to the 2004 levels hopefully in 2006.

MR. SCHMITT: Tom Schmitt, North American Stainless. Just looking back on our first quarter, our demand for the product has been down from 2004. I can't say substantially, but it's definitely down and we expect 2005 demand to be a little bit less than 2004.

MR. MAGRATH: Commissioner, one comment. The future for consumption of stainless steel looking out is we feel bright. The SSINA has stated and also INCO has data on the per capita consumption of stainless steel. Now, this isn't sheet and strip particularly, but sheet and strip is the largest component of that, the per capita consumption of stainless steel. And you'd be surprised to see in this consumer-happy country that the per capita consumption is relatively low and well behind the European countries and even well behind countries like Taiwan, so there is room for growth here and, of course, everybody knows that.

COMMISSIONER LANE: Okay. Hopefully, I'm going to have time for this question. If the demand is down, and you see that it's going to be relatively flat, how does that fit into the overall picture of this case?

Mr. Chairman, can I have a minute to have Dr. Magrath answer that question?

CHAIRMAN KOPLAN: Yes. I'd like to see Dr. Magrath do it in a minute, actually.

MR. MAGRATH: First of all, I'm sorry, Commissioner, we don't agree with the premise; we think demand is going to be growing. If demand is flat and you can see by the import statistics that you've got that imports have increased here very recently, in 2004, there's been sort of a surge from the subject countries, plus you have China coming into this market in a big way and you can see the increase in sustained vulnerability of the U.S. industry.

Was that a minute, Mr. Chairman?

COMMISSIONER LANE: I think so. Maybe I'll come back to you all in the next round. Thank you.

CHAIRMAN KOPLAN: He left me speechless with that. I'm just trying to get back.

Commissioner Pearson, if you would.

COMMISSIONER PEARSON: Thank you, Mr. Chairman.

Welcome to the panel.

I am interested in understanding more about the effect of the Asian financial crisis on what happened in stainless steel sheet and strip. I was not paying any particular attention to the steel industry in the late 1990s, but I was very much involved with some other markets in which some of the Asian countries were more importers than exporters and I observed the total collapse of demand as the currencies went into free fall and it was very difficult to trade anything when you don't know what the currency is worth. I mean, you start pushing the traders back almost to a barter where you've got some physical commodity on each side, you can do an exchange there. When the currency is worth nothing, it's very difficult to use it as a measure of value.

So it's very easy for me to understand the pressures that would have led to very aggressive pricing of steel coming out of Korea, for instance, that they must have had a real need to unload it for whatever hard currency they could get and so the pressures that came on your industry at that time, to me, are totally clear.

What is going on in the world today that would lead to similar pricing pressures if the orders are revoked?

MR. HARTQUIST: We're hesitating because I'm not sure we quite are clear on your question, Commissioner Pearson. You're asking given current exchange rate relationships?

COMMISSIONER PEARSON: Relative volatility among currencies so that one country knows what its currency is worth relative to another country.

MR. HARTQUIST: Right. What is the incentive of subject producers to ship into the U.S. market if the orders are revoked?

COMMISSIONER PEARSON: Well, particularly to dump product at a relatively low price into the U.S. market. I think in the testimony this morning there has been that allegation or the expectation has been expressed, that if the orders are revoked that there will be a return to quite aggressive pricing and I'm trying to understand why that would be the case.

MR. HARTQUIST: Let me make a general observation and then ask my colleagues to fill in here. I think we discussed this, as I recall, in the coiled plate sunset hearing as well.

My observations over the years have often resulted in bafflement as to the lack of impact of changes in currency relationships on shipments into the U.S. market because normally you would think when the dollar has greater buying power imports would be more likely to come in and when the dollar is weaker imports would not be likely to come in.

But it appears to me, and I think the European example that we discussed, as I recall now in the coiled plate case, was interesting. When you track their level of shipments versus the variations in the relationship between the Euro and the dollar, the logical explanation doesn't seem to hold. And to me, what that indicates is that these companies have business plans to stay in this market one way or the other, essentially whether they're making money or not making money in the market and that's been one of our problems, frankly, in these antidumping cases, is that they stay in the market and they price very competitively even when they're dumping significantly in order to do that and you would think as a businessman that's not a very good strategy.

COMMISSIONER PEARSON: Mr. Gerard?

MR. GERARD: I guess sitting here thinking about it, I want to hope on what Skip has said. Our experience has been that almost all of the major industrialized countries, certainly the ones that were on the chart, the ones that we're talking about today, have an export-based economy in steel. And they want to be in this market and they want to bring dollars home if they can and they'll sell at whatever price keeps them in the market or they'll product shift to stay in the market. That's been our experience certainly over the last ten years, both in stainless steel and in carbon steel. They will do what it takes to be in the market and they've got an export-based part of their economy.

If you go back to their home country and check what goes on in their home country, which you probably don't do from here, but they get cheap interest rates, they get cheap inputs, they get cheap energy, they get every thing subsidized and they get into this market and if they can sell at any price they'll do it. And the only thing that's brought any price discipline in the steel industry in the last ten years has been this commission.

COMMISSIONER PEARSON: Mr. Shilling?

MR. SHILLING: I would just maybe illustrate with an example that might help. Not so much talking about currencies, but just maybe following up on what Law enforcement officer said. If you look at Posco as just an example, Posco in this intervening five-year time period has continued to add huge amounts of capacity, primarily focused on serving the Asian market, not Korea, because their capacity far exceeds the domestic requirements of Korea.

I've been to their facility, just the port that exists at their facility is unbelievably huge. It's built to take large ships in and out of Korea. It's an export-oriented economy.

Once they make that huge capital investment, and it is huge, to manufacture these products, they have to ship them somewhere. They lose a lot more money by not operating the facility than they do by operating it, even if they have to sell at lower prices. Cash flows are still positive compared to shutting it down. So the real problem then becomes, well, what will happen -- so where is all that product going today?

Most of it is going into China and that's why we're so concerned that as China builds up its own domestic capacity, interestingly enough some of which is actually being built by Posco, they will have a surplus of capacity in Korea and have to have some place to ship it.

I really believe that will happen and when that happens, and it will happen soon, that product will go to whatever markets it can go at whatever prices it has to keep the facilities running.

COMMISSIONER PEARSON: Mr. Hartford?

MR. HARTFORD: Just a further comment there. In terms of your question why would they sell it here and why would they sell it here at a lower price, I think it's also important to remember a couple of things. These are very fungible products. They compete primarily on the basis of price and the fact that they have some inherent disadvantages to the U.S. market, primarily lead time, longer lead times, and a product that competes on price and if they have excess capacity, excess production capacity, they will be more inclined to sell it here at whatever price they can move it at.

COMMISSIONER PEARSON: I hear what you're saying, but looking back to the mid 1990s, I assume that these subject countries were not dumping product into the United States in a way that was causing damage to the domestic industry because I have great confidence in Petitioners' counsel and if that had been happening I think you would have been here sooner. I have the mind set that there was a period of time in which there was normal trade that was going on that was not causing material injury, financial crisis comes, material injury occurs, orders go into effect.

Aren't we now in a situation where if the orders were lifted that we would expect once again some relatively normal trade pattern in which there might not be dumping and there might not be these large flows of imports that have been discussed?

MR. HARTQUIST: No, Commissioner. And I would beg to differ with your premise.

COMMISSIONER PEARSON: Okay.

MR. HARTQUIST: Because you mentioned the mid 1990s. That was part of the period of investigation that the original case was based on. When we filed the cases in 1998, we were looking back into the mid to late 1990s and that was a period when the dumping was occurring and the injury developed when we filed the cases.

COMMISSIONER PEARSON: The point is still clear. You would have filed cases earlier if you had thought there was something going on that was actionable earlier, yes?

MR. HARTQUIST: Yes.

COMMISSIONER PEARSON: That's what I thought. I'm right to have confidence in you.

MR. HARTQUIST: Thank you.

Mr. Gerard?

MR. GERARD: Skip's getting old, maybe his memory is going. We had a VRA period as well that was in place for the early part of the '90s and so there's a very narrow window. Excuse me, but one of the problems with trade laws is not what the congressmen said, one of the problems with trade laws is you've got to show that you've been injured and that you're hurting and you might die before you can get any relief in this country. And the fact is we had a period of VRAs, we had then a period of where we had to let ourselves get hurt so we could come back and make a case that we were being hurt. So any window you're looking at has got to be very, very narrow.

MR. MAGRATH: Commissioner, we still have the original point that we showed in our charts, that for almost all these countries the dollar has weakened considerably over the last 18 months, two years, and imports in general and imports from many of the subject countries have gone up. Those are facts. And I know you can't explain that with economic theory, I can't explain it either, but there is just a disconnect here between the theory and the behavior of multi-national corporations with excess capacity.

COMMISSIONER PEARSON: Okay. Well, I don't want to have a disconnect with the chairman. My light has turned and so I'll pass.

Thanks.

CHAIRMAN KOPLAN: Thank you, Commissioner Pearson.

I thank the witnesses for their answers to our questions thus far. Let met follow up a bit on some of the areas that my colleagues have already been probing. I'm going to stop for a minute. I apologize for that, but we have a congressional witness that just came in and I hate to break this up, but since I haven't asked my first question yet, I'll have the Congressman come in and testify and then I'll get with it.

Madam Secretary?

MS. ABBOTT: The Honorable Bob Ney, United States Congressman, 18th District, State of Ohio.

MR. NEY: Thank you for your courtesy and

I apologize to the witnesses here.

CHAIRMAN KOPLAN: Thank you for coming.

MR. NEY: I want to thank you very much. I want to thank the chairman, Chairman Koplan, and the other commissioners of the International Trade Commission. I was here recently, I think in the last three weeks. I know you've put in a lot of time and have a busy agenda. I want to thank you for providing the opportunity for me to testify today regarding stainless steel. I was here for hot-rolled steel the last time.

I appreciate the efforts of you and your staff in examining the problems of the industry and the problems it's faced and continues to face in this sunset review of unfairly traded stainless steel sheet imports from eight different countries. The continuation of these orders is critical to the continued viability of the domestic industry.

During my time in public office, I've been a strong supporter of the domestic steel industry and its workers who are so vital to our country. As a member of the Congressional Steel Caucus, I have worked with my colleagues in support of numerous efforts to strengthen our steel industry. I believe then and I continue to believe now that keeping antidumping orders imposed is extremely vital to the future strength of the industry and the livelihood of the thousands of workers who are its heart and soul.

As you're aware, in 1998, unfairly traded imports of stainless steel sheet and strip surged into the U.S. market at low prices causing severe injury to our domestic producers and workers. Countless workers in my district and affected areas in other states close to Ohio were among those affected by this flood of imports, as nationally.

The devastation that was caused to the producing companies and the workers by these imports that were benefitting from government subsidies and dumping their product into our market was keenly felt in our communities.

Notably, this damage occurred despite the strong demand for stainless sheet in the U.S. market that existed at that time.

Once the orders were imposed, the import volumes declined and the prices increased, permitting the U.S. stainless steel producers to regain some measure of profitability. Unfortunately, these positive effects were short-lived, as weak demand led to significant losses for the industry in spite of the orders.

It was not until 2004 that this industry returned to even modest profits and those profits on the heels of three years of losses or poor financial performance are insufficient to permit the industry to undertake sufficient capital investments to remain competitive in their own home market.

While the domestic industry has struggled to continue to be viable in the stainless sheet market, foreign producers have not been idle. Even after the orders were imposed, foreign capacity to produce stainless sheet continued to grow.

We are now facing global over capacity in this product and the inability of the foreign producers to absorb this over capacity in their own home markets. As a result, foreign producers must look to export markets to sell their increased production. Our market in the United States has historically been and will continue to be a prime target of those exports as it is for so many other products. Only the antidumping and countervailing duty orders will prevent imports from increasing and underselling U.S. prices as they did before the orders were issued.

As a strong supporter of the antidumping and countervailing duty laws, I cannot overemphasize the need to maintain fair trade conditions in the U.S. market. In this case, the Commerce Department has found that it is likely that imports from all of these countries will continue dumping and will continue to be subsidized if the orders are revoked. The U.S. trade remedy laws remain a critical means of offsetting these illegal practices when they injure our industries.

Because the conditions giving rise to these orders continue to exist, the American stainless sheet industry will once again be injured by these imports without the continued discipline of these orders.

We will see U.S. jobs lost and a decline in domestic production of a product critical to our U.S. manufacturing base and, I may add, most importantly, our national defense.

One Ohio producer that would be affected is A.K. Steel, a leading supplier of stainless steel sheet and strip. Since interreign the stainless steel market, A.K. Steel operates six stainless steel sheet productions and finishing facilities including those in Zanesville, one in Coshocton which I just toured in the last two weeks, and employees about 7800 men and women.

Unfortunately, A.K. Steel has experienced significant reductions in its workforce in the last few years. However, A.K. Steel continues to provide pension and health care benefits to all of its retirees, I may note.

Keeping these measures in effect will ensure that American steel makers, like A.K. Steel and others, remain globally competitive.

The United States today has a healthy steel industry, something we haven't been able to say for decades and something, frankly, I didn't think was going to occur at one point in time in the last six or seven years, but it has become healthy and that's good.

Yet, I know from personal experience in Ohio that such optimistic proclamations can be tenuous and can be fleeting. Revocation of antidumping measures would likely result in foreign producers once again shifting their exports back to the United States at illegally dumped and subsidized prices, which is the problem we have with it. Such a surge of unfairly traded foreign imports would have a devastating effect upon the tremendous progress that our domestic steel industry and its steel workers, its employees, have made in the last several years.

It is clear, then, that I believe we must continue to protect the American marketplace and American workers from foreign competitors who do not play by the same rules. We cannot have trade unless it is fair trade.

On behalf of my state and the U.S. domestic industry and all of its employees and people that depend so much on it and our national defense, I urge the commission to maintain these orders against the unfairly traded imports from all eight countries.

I thank you, Mr. Chairman and members, so much for allowing me to do this.

May I answer any questions if you have any?

CHAIRMAN KOPLAN: We appreciate your coming and I understand you're in a busy schedule. Let me see if any of my colleagues have questions, if not, thank you very much.

MR. NEY: Thank you so much for your time.

CHAIRMAN KOPLAN: You may be excused.

MR. NEY: Thank you, sir.

CHAIRMAN KOPLAN: I'm on the clock.

Mr. Hartquist, at page 49 of your post-hearing brief, when discussing conditions of competition, you state, and I quote, "while the improvement in demand experienced by the domestic industry in 2004 was welcome after three years of weak demand, such a continued degree of expansion is not expected to continue in coming years."

However, on page 113, when discussing likely impact if the orders are revoked, you state that, and I quote, "The commission now must evaluate the future effects of subject imports on an industry that is again on the upswing of cyclical demand."

I'm confused by what appear to be conflicting statements with respect to your projects for future demand and I also would appreciate it if you could detail for me exactly what the business cycle is in this industry. I remember Mr. Gerard said in his direct testimony that the cycle is not complete yet.

I ask you that because it relates to what I look at in terms of what constitutes a reasonably foreseeable time for me to look into the future. So if you could begin by reconciling for me those two statements that I just quoted and then go on.

MR. HARTQUIST: I think the reference on page 1 --

CHAIRMAN KOPLAN: 13?

MR. HARTQUIST: 13. Essentially is to the record in this case, which indicates that near the end of the period of investigation there has been an upswing in demand. And, as we indicated this morning, we may be at the top of that cycle now. It remains to be seen, but it appears that there is either a leveling off or perhaps a softening of the domestic market and that's why we indicate our projection that we think the market is not going to continue to increase as it did in 2004, but rather as Mr. Blot indicated in his testimony soften somewhat and then perhaps increase in future years to a modest extent.

CHAIRMAN KOPLAN: I'm trying to understand, what is the business cycle in this industry? I mean, when I had the cattle industry in front of me, there was a defined business cycle that you could look at. Is there a similar type of cycle here? How do you define for me the business cycle, this business cycle?

MR. HARTQUIST: Ed, do you want to comment on that?

MR. BLOT: Commissioner --

CHAIRMAN KOPLAN: You understand that the reason I'm asking is I'm trying to -- in the sunset case, I'm looking into the reasonably foreseeable future and so I'm trying to understand the beginning and end to a business cycle.

MR. BLOT: Commissioner, to give you one answer to say there is an exact business cycle, there really isn't.

CHAIRMAN KOPLAN: Okay.

MR. BLOT: We do go through different periods of times and we get -- unfortunately, what happened with the severe manufacturing recession, which nobody was forecasting, even as good a job as I think I do, I wasn't forecasting that deep a recession.

CHAIRMAN KOPLAN: No, I remember you mentioned that in your briefs and also the 911. But this is a different period of time we're looking at now.

MR. BLOT: And keep in mind that a lot of this product is not going right to the end user every time. It goes through a channel of distribution. Some of that channel of distribution might be a service center, it might be a pipe and tube manufacturer. Even the automotive exhaust manufacturer is not the actual automobile going out the door. So you go through those things where there can be some inventory build up in particular years and therefore you have the adjustments like I'm looking at for this year.

CHAIRMAN KOPLAN: And more of it's going through distributors now as opposed to directly to end users, correct?

MR. BLOT: That's correct, Commissioner.

CHAIRMAN KOPLAN: All right. Does anybody else want to add to that? That covers the answer?

Mr. Magrath?

MR. MAGRATH: Mr. Chairman, we put Mr. Blot's chart back up there and you san see --

CHAIRMAN KOPLAN: If you could stay with the microphone?

MR. MAGRATH: Yes, sir. And you can see a softening in 2005, but then beyond that, you see growth. In terms of the general economy, I remember in the plate case we put on the record the new projection in the European community. This forecasting thing is an imprecise thing and the European community, which Respondents had in their brief was confident that it was going to grow has now cut back their forecast to practically dead even. So you see a softening but as a general trend, stainless consumption is going up in the United States.

CHAIRMAN KOPLAN: Okay. Thank you very much.

I understand from staff that none of the U.S. producers have submitted business plans or market forecasts despite having been requested to do so in the questionnaires. I consider business plans of particular significance because they're created in the regular course of business of a given company.

I'd just like to know from the representatives of Allegheny, A.K. Steel and NAS whether that material will be submitted.

And, of course, you understand that your business plans will be afforded business proprietary protection.

Let me hear first from Mr. Shilling and Mr. Hartford.

MR. SHILLING: Yes. We can do that. Just recognize that those plans, when they're created, are not terribly specific and, more importantly, or as importantly, they're created, at least at our company, in a business planning cycle that occurs primarily in the third quarter of the previous year, which would have been third quarter of '04, we're forecasting an '05 business plan. So you just have to take that into account.

CHAIRMAN KOPLAN: I will. And I thank you for that.

Mr. Long?

MR. LONG: Our business planning was done in the August-September timeframe. We don't put together a formalized business plan, but I can certainly send you documents that we were putting forth as relative tonnage levels that we thought we would see in 2005.

CHAIRMAN KOPLAN: That would be very helpful. I appreciate that.

Mr. Schmitt?

MR. SCHMITT: Sir, the same. We don't have a formalized business plan, but just a general forecast of how we see the market. It's a constant changing one.

CHAIRMAN KOPLAN: Okay. Thank you. Anything, as I say, that comes forth for purposes of the post-hearing would be appreciated.

Let me come back to you, if I could, Mr. Hartquist, and this is a follow-up to a line of questioning I think that Commissioner Hillman was asking.

At page 105 of your brief, you state that, and I quote, "Prices for SSSS in other major consuming markets tend to be lower than those in the United States."

Now, the data that you cite on that was bracketed.

You also state, and I quote, "The data are borne out by the observations of one purchaser," and that was from a questionnaire response and that purchaser's identity, of course, was also bracketed, I think rightly so.

You conclude by asserting that in the event of revocation, prices for SSSS sold in the U.S. would very likely fall to levels at or below those in the lowest markets in the world. And then I turn, and you all have alluded to this, I turn to the confidential staff report at pages IV-33 and 34. The staff report states that, "With respect to negotiated transaction prices, prices per metric ton of stainless steel, cold-rolled coils in the subject countries generally were higher in December 2004 than prices in the United States."

That's as shown in a tabulation for grades 304, 316, 409, and 430, comparing bracketed prices for each of the subject countries in those grades to those of the United States.

I can't get into what's bracketed, but I can say that 22 out of 26 of those comparisons, about 85 percent, each subject country's price was higher.

Now, I heard you talk about problems with just looking at December 2004, but it appears to me at this particular time in the investigation that the commission's data is more appropriate for me to use in my analysis and I would ask you to respond to that.

MR. HARTQUIST: May I ask Dr. Magrath to comment on that?

CHAIRMAN KOPLAN: Absolutely.

Now, my yellow light is on, Dr. Magrath.

MR. MAGRATH: Yes. Mr. Chairman, while I would refer the commission to our former answer, you've said this, it was one month, it was one price series. There are at least two other price series, one of which is held in high regard by Thyssen Krupp that show -- now, I can't remember December 2004, but in and around those months, the U.S. prices were higher. And with the Euro prices, it's sort of a dog fight. In some months, U.S. prices are higher, in some months Euro prices are higher. But generally, we stand by that statement. U.S. prices are higher than the subject countries looking back over the last 12 months.

CHAIRMAN KOPLAN: Can you take that statement and create a table of your own that you would submit?

MR. MAGRATH: We certainly will, Mr. Chairman. Using these multiple sources.

CHAIRMAN KOPLAN: Okay.

MS. CANNON: Chairman Koplan?

CHAIRMAN KOPLAN: Yes?

MS. CANNON: Kathy Cannon. Could I just add, too, that you asked why you shouldn't simply rely on the December 2004 data.

CHAIRMAN KOPLAN: I said at this point in time.

MS. CANNON: At this point in time. And one comment I would make, and we can amplify on this in our brief as well, is that I believe the additional more recent pricing data we have received for 2005 is corroborating our point better, showing that the prices in the United States are higher in 2005 than they are in other countries and since in the sunset review you're trying to look forward, I think that might be very helpful to you as well, so we'll try to submit that in our brief.

CHAIRMAN KOPLAN: I appreciate that very much.

That concludes my questioning right now and we do have another congressional witness, so I again apologize for interrupting, but, Madam Secretary, if you would call the next congressional witness?

MS. ABBOTT: The Honorable Mike Pence, United States Congressman, 6th District, state of Indiana.

CHAIRMAN KOPLAN: Good morning. I can still say that.

MR. PENCE: Just barely, Mr. Chairman. Good morning.

I'd like to thank Chairman Koplan and Vice Chair Okun and members of the commission for the privilege of addressing you today and for the public service that's represented in this room.

I am grateful for the chance to speak to the Internal Trade Commission and offer a few remarks concerning the issue before you today, the antidumping and countervailing duties currently levied on certain stainless steel sheet and strip imports from France, Germany, Italy and other nations. And I would ask, Mr. Chairman, that the full text of my remarks be entered into the record.

CHAIRMAN KOPLAN: Without objection.

MR. PENCE: Members of the commission, I'm here today really on behalf of steel consuming manufacturers across the state of Indiana and the midwest, but specifically in the 6th Congressional District of Indiana. Over the past few months, I've had the opportunity to hear directly from a number of them concerning the impact that the current steel market is having on their businesses and the news has been difficult, to say the least.

They have shared with the struggles that they've faced in relation to rising costs, lack of availability of material and increased lead times and I urge you to consider and assess all of the information offered by U.S. steel consumers, be it through testimony or through written questionnaires and briefs as a part of this case.

The commission is directed, as you all know, by the statute to consider all relevant economic factors that bear on a particular case before them and it is my belief and my urging today that the impact on U.S. steel consumers of the continuation of the orders is consistent with this definition and would offer that as an interpretation of the rules.

In my remarks today, I would like to focus specifically on automotive parts and component manufacturers in eastern Indiana, where the auto supplier industry employs just about 11,000 people, operates 16 plants and facilities. In Indiana, we're good at growing things and we're good at making things and we know how to make cars in Indiana and we're proud of that great tradition.

One form of stainless steel sheet in particular that is of importance to automotive suppliers as an industry is type 409, also known as the faradic stainless steel. This type of steel, I'm informed, serves as a primary material in the manufacture of automotive exhaust systems, for manifolds, exhaust pipes, catalytic converters, mufflers, tail pipes and other components. Another form is the type 301 stainless, which is covered by the present duties and is used by automotive suppliers to manufacture automotive trim, hose clamps and wheel covers on vehicles.

U.S. companies like Vestion Corporation, Delphi, Tenneo, Eagle Picher, Wolverine, and others rely on a steady supply of this material to meet their customers' demands and to remain a competitive player on the global stage.

Of these companies, Arvin Meritor and Vestion are in my district. Another one of my constituents, a new member of the business community in my congressional district, Metaldyne, purchases stainless steel by way of components from lower tier suppliers.

The current steel market situation in the United States has had a direct and notable impact, I am informed, on these companies and their ability to compete. In February of this year, Arvin Meritor announced that its earnings from the most recent quarter had fallen from the figures reported a year ago. Among the primary reasons cited for this decrease by that major employer was the rising cost of steel.

Arvin Meritor, unfortunately, also announced at the time that it intended to decrease its workforce by 400 to 500 jobs, once again citing as one of the primary reasons the costs and other losses associated with steel.

In the latter half of 2004, several automotive suppliers, including Vestion Corporation, were also required to revise and lower their third quarter earnings, citing steel costs as a result. And I offer more detail on these issues affecting industry.

This additional cost increase seems to come at a time when Vestion and so many other automotive suppliers are struggling to remain competitive in a global market as it is and further demonstrates the market power of the U.S. stainless steel producers who are able to press such increases forward with little opposition and seemingly competition under the current environment.

Now, by way of full disclosure, I would say to the commission that the last time I had the privilege of speaking in this room some three and a half years ago as a freshman member of Congress, I voiced my support for the application of Section 201 tariffs on imported steel in order to, I believed then, and continue to believe at the time that it was appropriate to allow our domestic steel industry to restructure and recover.

At that time, we of course had a very different domestic steel industry. The industry I see before me today and that we all see is fortunately a much healthier one. Domestic steel noted earnings in 2004 that were of a record nature, some gains as high as 45 percent increase over 2003 figures. In addition, the steel manufacturing industry's capacity utilization figures have risen dramatically, reflecting a strong demand for its product.

As we often say south of Highway 40, that was then, this is now. I come before the commission in the hopes of encouraging a reconsideration of the current status of tariffs and duties because in assessing the situation of those on the opposite side, namely consumers of stainless steel, I believe the situation, while it has improved for our domestic industry steel industry, it has become very, very difficult for domestic steel consumers and users.

The industry has been plagued, as you know, with multiple bankruptcies and job losses in the past 15 months. In addition, the auto parts industry has witnessed a significant increase in the number of foreign finished and semi-finished components coming into the United States.

Imports of automotive parts increased more than 12 percent in the first 11 months of 2004, and this also is reflected in the automotive supplier industry's trade imbalance, which increased more than 270 percent to $28 billion from '98 to '04.

I'm concerned that the rising cost of steel and the lack of availability of steel in the U.S. is contributing to the growth of imports in the auto parts sector and thus placing jobs in my district and in communities all across heartland America at risk.

In closing, I would say again, Mr. Chairman and members of the commission how grateful I am to have the opportunity to address you on this issue today. I would urge that the commission expand the scope of your considerations in this case to include the impact on steel consuming industry sectors in the U.S. as a part of your final decision. It is the essence of my reason for appearing before you today, to encourage you to expand the scope of your considerations to look at those end users.

The consumers of stainless steel sheet and strip that are participating in this case I know have provided the commission and will provide evidence that bears directly on the primary question before you, which is the likelihood of injury to the domestic industry if orders are revoked. I'm concerned that if these orders are not withdrawn that demand for stainless steel in the United States could decline because these barriers will drive steel demand offshore as companies shift their production even or as rising foreign imports contribute to the decline of jobs that we'll see even a greater hardship worked on places like Muncie, Indiana, Newcastle, Indiana and Columbus, Indiana; communities I serve.

I ask you respectfully to consider the information provided by steel consumers as a part of the decision and, again, to expand the scope of your deliberations to take into account the impact of the commission's work on that part of the American economy in particular.

To the chairman and members of the commission, I thank you for the privilege of testifying before you today.

CHAIRMAN KOPLAN: Thank you for coming. Let me see if any of my colleagues have questions. If not, you are excused. Thank you so much.

MR. PENCE: Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: We'll resume the questioning with Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you, Mr. Chairman, and let me join my colleagues in welcoming back most of you on the panel.

To you, Mr. Long, welcome for the first time.

We very much appreciate you taking the time to be with us here today and to help us better understand your industry. I think Commissioner Miller had remarked earlier that I think a number of questions I probably would have asked at the previous hearing I will ask again, just to make sure that the record is complete, but I appreciate everything I have heard today.

I guess my first question, in light of the testimony from Congressman Pence and Congressman Knollenberg would be to you, Mr. Hartquist, and you, Ms. Cannon, that for purposes of post-hearing if you will again, as I think I requested in the other hearing, address the issue of what the commission is permitted to do, prohibited to do, with regard to impact on consumers, as it's been presented today, if there's any legislative history in particular you'd call our attention to and if there have been any previous commissioners that you would be aware of who have taken it into account in what may have not been a majority view or any views, if you know that, Mr. Hartquist.

You've been a long-time practitioner here and sometimes I like to hear what those with much history have seen come before them.

So for purposes of the post-hearing, I would appreciate that and I will direct the same question to Respondents as well.

MR. HARTFORD: We will be pleased to do so, Madam Vice Chairman.

VICE CHAIRMAN OKUN: Okay. Thank you.

I'll start with this question and maybe a little bit of a follow-up of where Commissioner Pearson was going, but, again, in a sunset hearing, we are instructed to look back at the original investigation and we are performing this counter-factual analysis to look forward. When I was reading your brief, there was a statement in the summary and I think I've heard it today, too, saying the commission can predict the likely effects of revocation of the orders because the events of 1998 and 1999 provide a perfect model.

And I guess I read that again and again and I keep thinking, well, okay, we're talking about a period in time when there was an Asian financial crisis that was affecting a huge amount -- making what I can see demand dislocation. Russia was affected. And what I'm asking is looking forward, do I see anything that would cause that same demand dislocation that we saw during the original investigation. So not focusing so much on whether the currencies are the same or different, what about just demand in these regions and there's the stability of the regions, looking forward. And I'd love to have --

Mr. Hartquist, you're ready to answer and also from the industry's perspective, I want to come back to Mr. Shilling, who I know does business in China, but I'll start with you, Mr. Hartquist.

MR. HARTFORD: Thank you. Thank you, Commissioner. Let me start and then pass this on to others.

Economic conditions are not a perfect parallel to what was going on in 1998, 1999. I certainly agree with that. But our major point is that the underlying factors, the willingness, the ability of foreign producers to ship in here at dumped prices continues.

Global excess capacity continues and, in fact, I would argue, has gotten worse and is going to get worse as additional stainless capacity is built around the world.

The U.S. was then and is now a very attractive market to ship into and we've had some discussion this morning about U.S. pricing recently versus foreign pricing, so we think there are a number of factors, which as Dr. Magrath's ability and incentive charts indicate, really set the stage for a recurrence of what we saw at the time the original investigations were undertaken.

MR. MAGRATH: Commissioner Okun, there is a second crisis and we've briefed it in both coiled plate and this and that is the second crisis for these subject producers and that is their overbuild capacity and production is going into China now. It will not be going into China in cold-rolled in the foreseeable future. These consultancy studies that we've been referring to, that even Respondents have in their brief, make that point perfectly clear. China will be a net exporter by the 2006-2007 timeframe.

I was reminded since this point we keep emphasizing, they're the second largest import source now in the United States, the last hearing you said, you know, you people are always bringing up the China spectre, sometimes that happens and sometimes it doesn't. Well, China is in the United States competing with our industry and competing right now in this product. Their obvious strategy of building capacity, building home grown production will force the second demand crisis, as you've characterized it, on these subject producers and they will come to the United States, especially if the orders are revoked.

VICE CHAIRMAN OKUN: I'll go back to the industry folks, but let me just ask you, Mr. Magrath, because right then you said 2006-2007. When I look through the data in your brief antidumping the CRU data, I mean, there's a lot of references to 2008 as being a time when China becomes a net exporter. Your argument is not 2008, you're saying before that because of the exports that you currently see from China?

MR. MAGRATH: No. On that particular statement, I relied on my review of CRU documents and of the metal bulletin documents, metal bulletin reports that I've also been referring to today. The forecasts vary, as of course forecasts will. We may be disagreeing -- or not disagreeing, but the real question may be what the commission sees as the foreseeable future. But I have seen references to 2006, 2007. I've also seen references to 2008.

VICE CHAIRMAN OKUN: And just on that, your reasonably foreseeable future that you would have us look at would be what time period?

MR. MAGRATH: I'm not an attorney, so I defer to my betters, but I would say -- just because I'm not an attorney, it never keeps me from shooting my mouth off -- the period of review is the five-year period and foreseeable future should be a five-year period, in my opinion.

VICE CHAIRMAN OKUN: Actually, I don't think it's a legal question. I'm not going to ask Mr. Hartquist.

Your business plans -- I mean, Mr. Blot, you're talking about 2007 in your demand forecast. That looks to me like -- you know, again, to the extent any of this is reasonably foreseeable and we are supposed to look at evidence that's currently on the record to extrapolate what's going to happen in the reasonably foreseeable future, what period should we be looking at? And then I'm going to go to the industries. What period do you look at when you're making your plans and what you see on the horizon?

MS. CANNON: At the risk of jumping in ere as a lawyer, I'm sorry. Let me just --

VICE CHAIRMAN OKUN: Let's hear from Mr. Blot first, Ms. Cannon.

MS. CANNON: Okay. All right.

VICE CHAIRMAN OKUN: Okay. He was ready to go.

MR. BLOT: I think that that varies. I've got several of my clients that really talk about forecast and they're really just concerned about the next six months or 12 months and trying to get a good handle on that. They call that the foreseeable future. Others may talk about three years, others talk about five years. I don't know too many people who talk about beyond that when you talk about any kind of business plans that they have, short-term or long-term. So there's different variances. I've got some that work it two years. I've got one year, two years, three years. I don't have anybody with four, then five. So I don't know how else to answer you. It varies, you know, in terms of what you want to say is foreseeable future.

VICE CHAIRMAN OKUN: Ms. Cannon?

MS. CANNON: Okay. Let me just add legally, the commission has recognized that the reasonably foreseeable future certainly goes beyond the imminent timeframe you look at in threat and I think that's one of the sort of guidelines that the commission has established in past sunset cases and from my review of the commission's sunset analyses to date, the commission appears to be looking at at least a couple of years out in every case, which is very reasonably foreseeable and consistent with exactly the forecast that we've presented to you going through 2007. So I think that that much at least is what the commission has looked at and we would argue that it would depend on an industry and where you can reasonably forecast beyond that to three or four years out tat that isn't beyond the timeframe that's permitted legally, but at least two years out is clearly within the realm of what the commission has looked at in the past.

VICE CHAIRMAN OKUN: Mr. Hartquist?

MR. HARTQUIST: If I can add just very briefly, obviously you need to look at this industry by industry and in a capital intensive industry like this, where the planning to build capacity takes place over a period of a number of years, three, four, five years, you can project pretty clearly what the capacity situation is going to be in the future globally and in individual countries and then you're into more guesswork as to what the demand is going to be for the product during those periods.

VICE CHAIRMAN OKUN: Perhaps when we see the business plans from the companies that will shed some light on what you see.

Mr. Schmitt?

MR. SCHMITT: Tom Schmitt. you know, you look at what you're saying your forecast is, look at last year. China wasn't even on the map as far as importing into this country, the specialty sheet and strip, and today they're number two I think Ed said that they're up 535 percent. So I think it's an ongoing forecast of what we're looking for.

VICE CHAIRMAN OKUN: I have some follow-up questions on China, but I see my red light has come on, Mr. Chairman.

Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Miller?

COMMISSIONER MILLER: Thank you, Mr. Chairman.

Because I was interested in the same question that Vice Chairman Okun and Commissioner

Pearson asked, just now, Vice Chairman Okun sort of framed the question, are global demand conditions the same. And essentially that's the question heard Commissioner Pearson ask. Vice Chairman Okun put it to you kind of a second time and only Mr. Hartquist and Mr. Magrath had a chance to answer it and not the industry folks, so you did in response to Commissioner Pearson to a certain extent, but she framed it again and I want you to have another chance as well.

Mr. Schilling and Mr. Hartford are both shaking their heads. Either one of you, you guys can decide. The boss takes the lead?

MR. SHILLING: Yes. I was just going to say -- we've known each other for a long time, so it really wouldn't matter.

I made a series of points, let me see if I can run through them quickly. First of all, I think Vice Chairman Okun raised an interesting way to look at this and Commissioner Pearson the same. Is there an Asian crisis?

I have to tell you personally, quite independent of this hearing, I do believe there is an impending one and it's sort of our job here to convince the commissioners that that may be true and, if so, how does it apply to this particular situation.

And the reason that I believe that is that these tiger economies of Korea, Japan, Taiwan, specifically with regard to this industry, have become heavily dependent -- this is well documented -- on China, on the economic success story that China represents.

But it's equally evident, if you read the newspapers like everybody else does, that China is changing rapidly. Witness the reaction of the U.S. Congress recently to concerns about how fast China is changing.

But one other thing that's clear to anybody who reads and spends time in China is how rapidly China is increasing its manufacturing capacity in general, but certainly in this product line.

To me, it's crystal clear that in this particular product line China is rapidly increasing capacity. As I mentioned before for stainless steel sheet and strip, they will have tripled their capacity by the year 2007. They've come from a period of virtually non-manufacturing a product in, say, for example, at the time of the original investigation, didn't make the product, to making so much of it by, say, 2007, that it represents just the China domestic manufacturing capacity is three times the size of the entire U.S. apparent domestic consumption.

And what you're seeing is a gradual transformation of that and in terms of them now starting to export they have some excess capacity and, by the way, the other reason they do that is the prices are higher here than they are in China, so you're starting to see some of that excess capacity. Even if it isn't excess, I should correct myself. Some of that capacity now coming into the United States.

But getting back to the point of the Asian crisis, if you're sitting in Korea and you're the prime minister of Japan and you're worried about how to develop your export oriented economies, which they are, right? No question about it. And you see your biggest customer growing its technology base and adding capacity at these alarming rates, you have to be asking yourself where am I going to ship, it's a lot of things, but in this particular case, where am I going to ship this product? I've spent billions and billions of dollars building these steel plants and stainless steel facilities specifically to make these products in Korea, in Taiwan and in Japan, where am I going to ship this product when China reaches their stated objectives of being self-sufficient with regard to their own manufacturing in general and stainless steel specifically?

So there will be an Asian crisis and I personally think it will happen faster than people realize and it will happen within the next several years as these economies adjust.

If I could just add one other thing to help you understand our industry, because it is a difficult job you have, trying to separate stainless steel from electronics, let alone stainless steel from carbon steel.

I made this comment, I think, at the last testimony but maybe not because we're talking about a different subject product. The entire U.S. market for this product is relativelys small on a global basis. Again, the numbers have been up here. Forget about the trends for a second, its around 1.7 million tons a year. It's a tiny number, really. Compared to carbon steel, China will be making 300 million tons of carbon steel. So this is just 1.7 million tons is the whole U.S. apparent domestic consumption.

If you look at that number, what percent of the entire global apparent domestic consumption is 1.7 million tons? Small. Relatively small. I mentioned China is going to be three times as large. It's smaller than the European apparent domestic consumption.

The reason I bring that up and I think the reason you need to think about that is because it is therefore very sensitive, the success of the few U.S. manufacturers for this product, their success and financial success, is very sensitive to small changes in the flow of imports and exports around the world. It doesn't take much to completely upset the pricing structure here in the United States for these products because again our ADC is so small compared to Posco's capacity to make the product, at least from a melting standpoint.

COMMISSIONER MILLER: Okay. I appreciate that.

Does anybody else want to add anything?

Mr. Long?

MR. LONG: Yes, I'd like to comment, add a little bit more to what Jack just said. The 1.7 million ton market in the U.S. is accurate and I've heard and read Chinese producers, specialty sheet and strip producers, stainless sheet and strip producers, talk about putting in cold-rolling capacity, just one million in particular, of 2 million tons by 2010. That's more than our whole market. So I think there is a coming crisis. That's just an additional comment on China.

And then your question about are there any factors in the world market right now that might bring about a return of a flood of imports if these orders are revoked. Europe right now, the Europe stainless sheet and market is flat and I totally believe based on their past behavior that those European producers would love to ship that product over here and I think their sales forces are being encouraged right now to ship as much of that product over here as they can, be that cut sheet or coils.

COMMISSIONER MILLER: Mr. Hartford, I saw your hand up back there.

MR. HARTFORD: Yes. Just one additional comment to what Dr. Shilling said and we had made this point, I think, at the coiled plate case. That is I think it's important not to become too focused on when China becomes a net exporter of product.

That will happen at some point in time and it might be '07, it might be '08, and people could debate that endlessly. I think what's important, they won't suddenly add 3 million tons of capacity in 2008, they will build it over the next three years and as they gradually reached the point of becoming a net exporter, during that period of time, imports that today go into China, some portion of those imports will go to other countries.

And so I think it's important that when you look at the period of time in the review that you don't put a big red X on 2008 because that's when China is a net exporter. We see subject imports that today go into China coming to this country before China is a net exporter.

MR. GERARD: I wanted to make the point that Terry just made, but before I do that, one of our staff got some information on your earlier question and this clearly is not the full load, but in the timeframe that you had asked for, we had close to 1600 members who lost their jobs through bankruptcies of five companies. And we'll get you a more detailed report on those. I guess it's hard to keep track of 50 bankruptcies, some of them had left my mind, but we've got those ones in stainless and we'll get you the follow-up and get that to you.

COMMISSIONER MILLER: I appreciate that.

MR. GERARD: On Terry's point, the point I wanted to make is that the pattern is being set in China to grow their capacity throughout the whole range of steel products and what's happening as they grow their rate in stainless, others that were going to China are already starting to look for a different place to go, so we ought not look for a trigger point that's going to snap the wire and all of a sudden it's going to reverse, it's already underway.

I said this at this same room a few months ago. There is a crisis in the steel industry right now, but it's being disguised by price. Imports are up. Global expansion is on everywhere but America. Everyone of the countries that are the subject countries of these duties have increased their capacity to produce the products that are under discussion and the thing that has sustained the price, quite frankly, is China's demand for raw material and, as they've been able to increase that, they're now looking for new homes from all the countries that were exporting to China.

And last but not least, I want to tell you, I was a bit offended, and I know you guys don't ask questions of them very often, don't come crying to me about auto parts that are being brought into America when you voted for PNTR and NAFTA and most of those auto parts are coming from China and Mexico. Auto parts aren't getting shipped offshore because of the price of steel, stainless are otherwise. I just wanted to get that off my chest.

COMMISSIONER MILLER: Understood, Mr. Gerard. Thank you.

CHAIRMAN KOPLAN: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you. I want to turn, if I could, to the issue, though, that is underlying some of this testimony and that's the issue of whether there is or was or any lack of availability of product during 2004.

I know, Mr. Hartford, you testified at some length on your controlled order entry. I just want to make sure I have it on the record from all of the companies in a way that I can add it all together or put some comparisons in place, so if I could ask all of the company witnesses to give me a sense of, again, whether you had any customers on a controlled order entry or allocation system, during what period of time, what months, and what portion of your product, of the subject product, would have been subject to any kind of those mechanisms.

Mr. Long?

MR. LONG: Yes. As far as A.K. Steel is concerned, we did not have a formal program in writing to customers as far as our order book was concerned. We had an internal program called mill order management in which we looked at our order book, but we were 100 percent able to satisfy our contract customer needs and we were also able to support all of our spot business in their historical type volumes during that timeframe.

The only business that we were not able to support would have been new customers and those with which we would not have had a history.

COMMISSIONER HILLMAN: Thank you.

MR. LONG: Now, our lead times were extended, as I said, two to three weeks, but we were able to --

COMMISSIONER HILLMAN: Again, just to be precise, when were the lead times extended? When did they come back to what they had normally been?

MR. LONG: I would say they were extended in the March to July timeframe.

COMMISSIONER HILLMAN: Mr. Hartfod, you put a lot of this data on the record in your original testimony, I don't know if there's anything you want to add to it. You gave us a lot of this controlled order entry. The only thing I didn't get a sense of from you was the portion. You had said that these controlled order entry mechanisms did not affect all of your product mix of the subject product. Can you give me a ballpark sense of what portion of it was affected by it? How much, what product range, what portion of your product would have been affected by it?

MR. HARTFORD: It was less than 40 percent for a short period of time, a shipping period of about three months. And after that, it was below 10 percent.

COMMISSIONER HILLMAN: Okay Mr. Schmitt

MR. SCHMITT: Commissioner, as I mentioned before, when J&L stopped taking orders, telling their customers that, a rush came to us probably in March of 2004 and we saw customers who were ordering two and three times what they would normally order because they were panicked. So what we did was we said we'd look at your historical ordering pattern, we increased it by somewhat of an amount we kept confidential internally, because we had the excess Z mill starting up in the first quarter of 2004 and we monitored that amount.

I don't know that we ran anyone out of metal. We kept that control -- and, again, we don't like doing that. I mean, it's not a pleasant thing to tell your customer, he wants to give you X amount of tons and you say I can only accept so many. That goes against my nature. But we worked through that. And it was a painful time for us.

COMMISSIONER HILLMAN: Okay. And when did you begin doing it and when did you end?

MR. SCHMITT: Probably in March. We, again, like Mr. Long said, we have nothing documented. We never sent anything to the customers saying absolutely -- it was done over the phone. Most of our customers are on the spot buy and the majority of our customers are repeat customers. One thing we did not do was take on any additional new customers, satisfying the customers that we did have. I would say -- and, again, I'll have to go back and look exactly and maybe we can do that in the post-hearing brief, but we started it in March and pretty much by the end of 2004 we were certainly out of that.

COMMISSIONER HILLMAN: And that would have been for our entire product mix of this product or were there only portions of the product mix?

MR. SCHMITT: Our product mix is more of the general 304 general type, so it covered a pretty good percentage of ours. I don't have an exact percentage.

COMMISSIONER HILLMAN: I appreciate those answers. Thank you.

I'm trying to now then square that with the data that we have on record for the total amount of capacity of this industry to produce this product and your capacity utilization figures. Again, I think the ultimate numbers, the bottom line for the industry, is your capacity utilization numbers are quite a bit lower than your total capacity. They're in the mid 60s range. So part of me says, okay, if you're only operating at 60-some percent of your capacity and you get all of these additional orders, why not just produce more rather than put everybody on this allocation system or go through any of these marketing orders?

If you've got 35 percent unused capacity, why not use it?

MR. HARTFORD: I'd like to comment, if I could, and let me spend a little bit of time and just describe the background, the economic or the business environment at the time that these activities began to occur.

First of all, our capacity utilization is based upon 12 months worth of data. That's what we presented, that's what we were asked to present. But when we talk about controlled order entry, you almost have to shrink the period of time under which the supply/demand issues are taking place and early in 2004 we saw a couple of things begin to change. We saw some supply disruptions. Arcelor had announced their intention to sell J&L and J&L at that point in time was in consistent in their ability to accept orders and melt orders. And so there was a significant supply disruption there.

We saw the beginnings of an increase in demand in the marketplace and we saw the spike, a continued escalation in raw material costs. And so there were a couple of economic drivers out there that caused our customer base to start to launch a lot of orders.

At this point in time, Allegheny had not yet purchased the J&L assets. J&L was not in a position to accept orders at their full capacity and so as far as Allegheny is concerned, our response to that was two-fold. One was in March announcing for April and beyond the beginnings of the COE program so we could manage our order book.

In addition to that, although we didn't yet own the J&L assets, we did an arm's length conversion transaction to have the J&L melt shop melt for us so we could supply and satisfy some of this additional demand that we saw. So even prior to the asset purchase, we utilized some of the J&L capacity to melt additional material to satisfy our customers to a greater extent.

Once we acquired the J&L assets and we had those fully deployed and had our capacity fully deployed, I think we saw a lessening in this panic buying situation because the full installed capacity of the market, of the U.S. market, I think was available.

COMMISSIONER HILLMAN: Okay. Mr. Long?

MR. LONG: In the period of peak demand, we were utilizing just about all of our melt capacity. The small portion that wasn't being utilized would have just been due to maintenance outages or what have you. And then as far as finishing capacity, we had some finishing capacity in Butler, Pennsylvania. It was inefficient finishing capacity that we had shut down. I'd have to go back and research the timeframe, but I'm going to say probably in 2003. When this period of peak demand came on, we had the decision to make of whether or not to, as you say, turn that back on.

Well, turning that back on is quite involved. Number one, it was inefficient capacity. We had to look at staffing requirements and did it really make business sense, did we think that this boom in demand was sustainable at profitable levels, and we made the determination that there was more panic buying going on than anything. And so we elected not to restart that capacity, but all of our other facilities we ran pretty much full out.

COMMISSIONER HILLMAN: Okay. Mr. Schmitt?

MR. SCHMITT: Commissioner, I just checked with counsel and in 2004, I believe that we reported that we were at 98.6 capacity. Now, part of that reason that we were so strong is when the panic started with J&L what they got out of the industry is what we made, the 304 to 316, the 430, that was our strength. So we jumped right to that point.

Fortunately for us at that time, we had a third zenzimer starting up, which was just started in the first quarter, in February, I believe, of 2004. As the year progressed, we got up to more and more full capacity. That market helped us.

As I said in my testimony, in 2006, in the first quarter, we're going to add an additional 120,000 tons of capacity to make sure this doesn't happen again.

COMMISSIONER HILLMAN: Okay. Perhaps to you, Mr. Hartquist. What I'm hearing from the industry and it strikes me as more consistent with kind of anecdotal information that we have, both from

Respondents and from other information, that at least in 2004 people are running relatively close to flat out. Obviously staff in the staff report has tried very hard to understand where the constraints on capacity are, whether they're at the melt end, the annealing and pickling end, the cold-rolling end. I mean, we've tried to collect a lot of data on this. Flat out running is not very consistent with the numerical data that we have on the record in terms of overall capacity utilization.

I would only ask for the post-hearing brief if you can help me understand or square what I'm clearly hearing from people in terms of, yes, demand was high and people were producing what they could, with the numerical data we have in terms of capacity utilization. And, obviously, like I said, we've collected the data a lot of different ways, but it does not add up to anything close to full capacity utilization and yet I'm hearing that at least for some periods of 2004 the industry perceives that they were reasonably close to those numbers.

To me, 65 percent capacity utilization is not close to 100 percent or full utilization, so in the post-hearing, whatever you can do to help me understand how to square the data that we have with the testimony that we've just heard I think would be much appreciated. Thank you.

MR. HARTQUIST: We will do so. Thank you.

MS. BECK: And Commissioner Hillman, if I could just add briefly, this is Gina Beck from Georgetown Economic Services, commission staff has since the publishing of the pre-hearing staff report requested that not only domestic producers but also foreign producers go back, double check the numbers and make sure that the capacity figures are consistent, so there have been some revisions made to the record and I think you'll notice that the capacity utilization figure will be higher than as published.

COMMISSIONER HILLMAN: I appreciate that, Ms. Beck. Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Lane?

COMMISSIONER LANE: I'd like to start with Mr. Gerard and allow you to maybe expand upon your last statement with answering this question.

Recognizing that we will be receiving a legal analysis as to how we are to look at the effects on the consuming industry, I would like for you to give me your perspective of exactly how you think the continuation of these orders -- what effect it will have on the consuming industries.

MR. GERARD: I think it will have absolutely no effect on the consuming industries except that they won't be able to squeeze more profit out of the system. I think that it has had no impact on jobs that I can see. Impacts on jobs that we've observed, as I said, we now have 850,000 members. Not one employer, and they know that we represent workers in the steel industry, not one employer, not one local union has contacted us, any of our staff, any of our researchers, any of our economists, to tell us that they're being hurt in a real job sense by the price of specialty steel.

They will complain about the price, as they complain about our wages and our benefits. We see most of the job loss that has occurred primarily in manufacturing escaping to China, in fact, to the point where even the jobs that we were losing to Mexico are no longer happy going to Mexico, they're off to China and other parts of Asia.

So I would think that not being a lawyer and also proud of that --

COMMISSIONER LANE: Now, be careful.

MR. GERARD: I understand. They're everywhere. The fact of the matter is that I think that the commission ought to spend zero time on that consumer issue. The fact of the matter is I can't give you any information that would say that we've had anyone tell us that the cost of steel has put them out of business. And in fairness to the industry, and to our members in the industry, because we represent so many folks, we benefit in many cases from the surge in input prices. We represent most of the workers that are in the North American nickel industry. Our folks just got a $3000 quarterly bonus in the nickel industry because nickel is selling at over seven bucks a pound. They've had a 130 percent increase in their price.

Our members at the specialty steel industry haven't seen that kind of a benefit and, in fact, as I made the point to the chairman's point, probably my comment about the business cycle, in my head the business cycle is our collective bargaining cycle. In our collective bargaining cycle, our business cycle, our members haven't seen there results of a profitable industry and we need to because a big chunk of our retirees' health care for the future is based on that.

I understand why politicians got to come and do what they did, but it's just not relevant.

MR. HARTQUIST: Commissioner, may I make one brief comment about this? Anticipating the appearance of Respondent companies in the auto business, yesterday, I asked my clients to calculate the percentage of the cost of a typical American automobile represented by stainless steel. It's about .25 percent. In fact, I think I'm exaggerating, .22 percent, less than one-quarter of one percent, which may help to set up some questions this afternoon as to why they're here.

COMMISSIONER LANE: Mr. Gerard

MR. GERARD: Skip rang a bell with me. My accent is not necessarily a Pittsburgh accent. I come from a place that has national health care and the difference between what the auto industry puts into their car for health care versus what they do in Canada is about $1100 per car. So rather than coming here an whining about auto parts, they ought to help us get national health care.

COMMISSIONER LANE: Okay. Thank you.

Does anybody else have anything they would like to add to my question?

(No response.)

COMMISSIONER LANE: Okay. Let me see if I can find my other questions.

The record in this case shows that the

domestic industry sales to distributors as opposed to end users have increased over the period of review. Why has this trend of increased sales to distributors developed?

Mr. Shilling, do you want to answer that?

MR. SHILLING: I think you would get a more accurate answer from our commercial guys who are dealing with it on a daily basis, so Terry?

MR. HARTFORD: I would comment that the United States has a mature and growing service center or distribution network and they are an efficient way to buy product and get it to end users and so it's not surprising to us that the percentage of our product that goes to the market goes through distribution.

MR. SCHMITT: On the case with North American Stainless, by far our largest customer base is the distribution network and we supply them, again, material -- 304, 316 -- on a regular basis and they in turn send it to the end users in a much timelier fashion than we can handle.

MR. HARTFORD: I might just add to my earlier comment and that is the service center distribution path is not our only path to our customers. There are certain products that we produce, many products that we produce, that we sell directly to end users, but clearly the largest portion of our output is sold through service centers.

MR. MAGRATH: Commissioner, one of the endemic problems making this industry vulnerable to unfair imports is this, as Mr. Hartford said, this mature and very large independent service center network that shops around the world and brings in the cheapest product possible. You won't see that in other countries.

And also as we said in our testimony and it's on the record the large amounts and total -- all Respondents have affiliated importer distributors set up in this country, so if the orders are revoked, these unfair imports will be able to permeate the U.S. market at a rapid pace.

COMMISSIONER LANE: Thank you. Most of the prehearing briefs supporting the revocation of the order cite recent consolidations, modernizations and capacity additions throughout the domestic industry when arguing that the United States stainless steel sheet and strip industry is healthy and not vulnerable.

How do you respond to these arguments? And please specifically explain why these consolidations, modernizations and capacity additions over the period of review have not reduced the vulnerability of the domestic industry.

MR. HARTQUIST: Thank you, Commissioner. I'll be happy to begin this discussion. There have been disagreements in this hearing and also in the coiled plate hearing among Petitioners and Respondents as to the characterization of the changes that have occurred in the industry with, if I may say, Respondents arguing that there are major, very significant changes, our arguing that, of course, there have been changes, we don't think that they are quite as significant as Respondents have indicated.

In my view, from a legal point of view, I don't think the characterization is particularly important. The industry, we believe, has improved its competitiveness. It has lowered its costs. It has become more productive.

It's certainly clear from the number of companies that there has been consolidation in the industry.

But having said that, even with these changes, and looking, for example, at the degree of profitability in 2004, which was a reasonably good year for the industry, profits are still very small and as Pat indicated, I think two of seven companies are still losing money and overall the industry is not earning its cost of capital.

So, yes, it's improved. Yes, it is ore efficient. Yes, it is more productive. But in our view, it still remains highly vulnerable to dumped imports if the orders would be revoked.

COMMISSIONER LANE: Okay. Thank you. My time is up.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Pearson?

COMMISSIONER PEARSON: Since the last round, I've been able to do just a bit of research. To the best that I know, the last VRA that affected stainless steel sheet and strip ended sometime quite early in the 1990's. You may know specifically. So, then there was a several-year period before these orders went into effect. Is it unreasonable for me to assume that during that time that trade went on in a way that wasn't particularly troublesome to the U.S. industry? Wasn't this a situation with relatively normal trade? Mr. Gerard?

MR. GERARD: I don't know what the industry's position is, but I can tell you, the union's position is that the trade has never been fair, it's always been, for the last 30 years, an industry that's been targeted on a sustained basis by dumping, a sustained basis by countervailing and subsidy, that the union has fought against this certainly since -- I would go to the mid-eighties, with the VRA, in my opinion, because the trade laws are inadequate that you have to go through a period of extreme suffering to the edge of destruction and crisis before you can come and ask for relief. So there have been periods when the pain was bad but maybe not bad enough to get relief.

I could tell you that you could not find a leader in our union who has been active for the last 30 years who would ever say that we went through a period of fair trade. This industry has been targeted with subsidies and dumping for more than 30 years, and I would refer you to the secretary of commerce's report that laid out how the industry had been targeted for more than 30 years as part of what we used through the overall debate we had, I guess, -- I lose track of time -- back in around 2003, 2004.

COMMISSIONER PEARSON: Okay. Thank you.

Mr. Hartquist, did you have something that you wanted to say?

MR. HARTQUIST: I really couldn't say it better. I think Mr. Gerard has captured the situation very clearly. Commissioner, I would simply observe, from a legal point of view, that while technically you might assume that when there is no antidumping order in effect, that trade is fair because there is no order in effect, and there has been no finding that it's unfair, we monitor prices of these products around the world and compare them with what's going on in the U.S. constantly, and my observation is whether the industry is in a position to file a trade case, when the injury has become severe enough to warrant the expense and the time involved in filing a trade case, it's an endemic problem, and dumping is a function of foreign government subsidies, it's a function of the targeting of this market, and it just goes on all of the time.

CHAIRMAN KOPLAN: Mr. Luberda?

MR. LUBERDA: I guess if I could just add, one thing that has changed significantly since the mid-nineties is how much capacity has come on worldwide, and in the subject countries, in particular, the record shows very clearly how much new capacity. Huge capacity has come on in Europe at POSCO, in Asia -- a lot of consolidations of companies there, making them more efficient, more aggressive in the market, and then the Chinese market as well. Just huge, yes, growth in demand as well, but huge growth in capacity, and when those capacity chunks come on, they come on in huge pieces that have to be absorbed.

We've got an article here that we can submit for the post-hearing that talks about a new, 1.5 million-ton mill just approved in China. It's already begun construction. It will be done by the end of 2006, and they are projecting that this plant alone will substitute all of China's imported demand needs right now. So that has been a huge change since that term.

COMMISSIONER PEARSON: What prompts me to raise this issue is I'm trying understand the situation well enough so that I can make some sense of it because it seems to me that part of your argument is that you fully expect the managers of businesses in subject countries to act in ways that are economically irrational and to sell product in large volumes at lower prices than one would think they need to.

I have some direct experience with businessmen from some of the subject countries. My experience has been that they are very hard-headed businessmen. They like to buy their inputs as low as possible. They like to sell their product for as much as they feasibly can get. Given that we have now a global market that demand is relatively strong, the prices are relatively robust, if the orders are lifted, why would foreign businessmen suddenly start to act in ways that are irrational and might have the effect of not maximizing their revenues?

MR. LUBERDA: Commissioner Pearson, this industry, of all of the industries that we represent and, I think, probably of all of the industries that come before this Commission, is characterized by a lack of basic capitalism around the world. You see what's going on in China now, and you see what's happened in Europe for --

COMMISSIONER PEARSON: China isn't a subject country here.

MR. LUBERDA: Understood.

COMMISSIONER PEARSON: We do need to focus some on the subject countries, too.

MR. LUBERDA: Understood. And you see what has happened in Europe for decades, where their producers were subsidized by their governments. You know, I used to give the example of British Steel, now gone. British Steel lost $5 million a day for years, and the taxpayers paid for it, and so when they priced their products, they didn't have to price their products based upon the cost of capital or going into the market to raise funds, and much of the capacity that we compete with day in and day out around the world in country after country is capacity that has been built with World Bank money, with European Union money, with money from the army in certain countries that's funneled into these countries.

I spent a couple of decades working with colleagues like Alan Price behind me and others in trying to develop an international subsidies agreement through the OECD mechanism. We can't do a deal because they want their subsidies.

So when you would speculate that a businessman would make a rational decision, he is making that decision not on the same basis that an American company must do in pricing its products.

COMMISSIONER PEARSON: I understand that there can be subsidies that play some role here, but as a practical matter, if a businessman has got a cost structure, and he has got a product he is trying to sell, he is not going to try to sell it for a lower price just because he has a subsidy. He still wants to get as much as he can for it. His compensation package, no doubt, is related to that, just like for a businessman in this country.

MR. GERARD: You've got to be kidding me.

You've got to be kidding me.

MR. MAGRATH: Commissioner?

COMMISSIONER PEARSON: Yes. Mr. Magrath?

MR. MAGRATH: Commissioner, it's a declining-cost industry. Each marginal ton you produce costs you less for that marginal ton than the ton before. So it's quite rational behavior. You combine that with what dumping is all about, which is a protected home market -- don't forget, dumping couldn't exist -- if there really was free trade, and there was no trade protection anywhere, dumping couldn't exist because you would have equalization of prices between the countries in a rather short amount of time.

So they have a protected home market. It pays them to utilize their capacity to the fullest because the more tons they produce, the less cost per ton it costs. And down at the end of it, as long as you're covering your variable cost, hopefully making some contribution to fixed costs, you're all right with producing that ton. The problem is, where do you sell it? You don't sell it in your protected home market and ruin your own price structure; you export it to the United States, along with your unemployment, as Mr. Gerard would say.

MR. GERARD: Yes. I was going to jump on the point. I think, with all due respect, that you're thinking that the global steel industry operates in a capitalist environment. It doesn't. It operates, as Skip said, in a totally different environment, and different countries want a steel industry for all kinds of different reasons.

One of the largest steel companies in the world until recently, Arcelor, became one of the largest steel companies in the world through a huge consolidation supported by a number of countries in the European Economic Union, giving them all kinds of cheap loans, giving them cheap energy, giving them cheap transportation, building ports for them, all the kind of stuff that we don't get.

To make the point that Mr. Magrath said, we can't get into their protected market, and they will put that steel into this market at any cost that they can get because they get their return on keeping the volume up.

We went through a period of time, again, when you made the point to Skip that this isn't China, the fact of the matter is, China isn't one of the countries, but all of the countries that are the subject countries are into China, and as soon as China meets its own demand, they will be into here at any price because they have got to maintain their volume so they can keep their business at home serving their market. It's not a capitalist environment for the global steel industry.

COMMISSIONER PEARSON: Mr. Chairman, let me just observe before I turn it over that as I would define capitalism -- look at the list of subject countries. It's only Germany, where eastern Germany was under central planning, ending in 1990-1991, that we would see a centrally planned and not subject to capitalist pressures, and I understand that subsidies exist in steel, but set that issue aside and look at the pressures on the person running the business and deciding how to price --

MR. GERARD: You can't set those pressures aside, with all due respect.

COMMISSIONER PEARSON: Mr. Chairman, my time is done.

MR. GERARD: With all due respect, you can't set those pressures aside. We're competing with Arcelor, and Arcelor was given almost a free hand. They picked up all of their environmental costs. They have got no legacy costs for the workers that have lost their jobs. So what they have done is transfer their employment to us.

With all due respect, you're operating in the wrong environment.

CHAIRMAN KOPLAN: Well, it's my turn to question, and I'm going to stay with you, if I might, for a moment, Mr. Gerard. I'm going to stay with you for a moment, if I might. Have you got your microphone?

MR. GERARD: Got it.

CHAIRMAN KOPLAN: Okay. I remember three things that you talked about earlier. One, you mentioned, I think, in your direct presentation that you developed what you termed a "mature relationship" with these companies, and that included AK, at least for now.

MR. GERARD: (Laughter.)

CHAIRMAN KOPLAN: The second thing that you referred to when I had been asking about the business cycle is that you think that the business cycle tracks the collective bargaining cycle.

MR. GERARD: For our purposes.

CHAIRMAN KOPLAN: Okay. So picking up on that, between now and 2008, will you be involved in any new negotiations or agreements with U.S. stainless steel sheet and strip producers? My guess is the answer is yes.

MR. GERARD: We hope to be involved in renewed negotiations. We just recently signed an extension with AK. We're coming up to a negotiation in another facility. We've got an ongoing negotiation, with all due respect, to Allegheny Teledyne because of our collective agreement.

Our collective agreement, when I talk about being a modern collective agreement, we have ongoing negotiations about investments, about technology improvements, about training, and all of those things. I made the comment that to get from where we were to where we're going is not an event but a process, and, clearly, with Mr. Schmitt, I'm looking forward to being involved in negotiations with him at some point.

CHAIRMAN KOPLAN: I can tell from Mr. Schmitt's facial reaction that he can't wait to get started.

(Laughter.)

MR. GERARD: We're getting tired of carrying them, you know.

But part of why I'm so passionate about this is that we were encouraged, through a number of events, including the foresight of the trade commission, to really take a lot of risks with our membership and go into an area of collective bargaining that was very new for us and innovative.

We live in an environment where certain of our benefits are difficulty to maintain in an environment where we're getting killed by subsidies and getting killed by dumping. So what we did, in view of what the ITC in the 201 had done, is we bargained innovative collective agreements so that we could protect the retiree benefits of our retirees, and we put certain of the companies' profits into a trust fund that could be used to offset some of the cost of that.

CHAIRMAN KOPLAN: Does that include discussions with regard to automation and its effect --

MR. GERARD: Yes, yes.

CHAIRMAN KOPLAN: -- and consolidation?

MR. GERARD: All of those things. We have reduced the number of job descriptions. We have reduced the number of jobs. We've got an accelerated retirement program that tracks, and I give the companies credit. They have also reduced their management manning levels so our people are working much more independently. We've done everything we can do.

CHAIRMAN KOPLAN: Let me make a request of you, if I could, --

MR. GERARD: Sure.

CHAIRMAN KOPLAN: -- following up on what you're saying. If you could provide for the record a list of negotiations that you think are likely to occur and when you anticipate those agreements, new agreements or renewed agreements, whatever, might go into effect, and, if possible, based on the past history of your negotiations with these companies, as you've been describing, their likely effect on your members. You could do this as a post-hearing submission.

MR. GERARD: Okay.

CHAIRMAN KOPLAN: That would be helpful.

MR. GERARD: We'll do that.

CHAIRMAN KOPLAN: Thank you very much.

Now, I'm afraid I do have a question with regard to China. Let me turn to you, Mr. Hartquist. You argue, at page 54 of your brief, that China's status as a major export destination will not last much longer. Melting, hot-rolling, and cold-rolling capacity are all expanding in China at a breakneck pace, and China will not need such imports within three to four years. You indicate that recent trade data show that China's imports of this product have already reached their peak, indicating that China's share of consumption of the world's exports of the product is already in decline.

Now, I cite that because when I look at Hogan's brief, that states, at page 8, that according to the Commodities Research Unit, world apparent consumption of this product has grown by six and a half percent annually since '99, but a significant portion of the world's net growth in this product's capacity and consumption since the late 1990's has grown 62 percent and 55 percent, respectively. That occurred in China. And it projects China's demand for cold-rolled, stainless, flat products will grow at almost 10 percent a year through 2009, an increase of 64 percent, and that global demand is expected to increase 27 percent in the same time period.

Hogan's brief asserts that the CRU data are an appropriate data source because both the domestic and foreign producers rely, at least in part, on CRU studies in their business planning, and that's in footnote 10 in that brief.

Given CRU's demand projections for major foreign markets without an accompanying projected increase in worldwide capacity and capacity-utilization rates, why would I anticipate the U.S., rather than other markets in Asia and Europe, receiving a great influx of subject product, particularly when negotiated transaction prices in the subject countries were generally higher in December 2004 than U.S. prices?

MR. HARTQUIST: Let me --

CHAIRMAN KOPLAN: You don't want me to do that again, do you?

MR. HARTQUIST: No, sir.

(Laughter.)

CHAIRMAN KOPLAN: Good.

MR. HARTQUIST: Let me respond in a couple of ways, if I may, and then suggest that we deal with this further in the brief, Mr. Chairman, if we may.

CHAIRMAN KOPLAN: I would say you would have to because I think you would be getting into BPI, --

MR. HARTQUIST: Exactly.

CHAIRMAN KOPLAN: -- to an extent, but whatever you can give me now, I would appreciate.

MR. HARTQUIST: We would, and also, frankly, we're a little sensitive about talking about the CRU data publicly --

CHAIRMAN KOPLAN: I know you are.

MR. HARTQUIST: -- because it's a

copyrighted document, and we've treated that confidentially.

CHAIRMAN KOPLAN: I know. It's bracketed in your brief, yes.

MR. HARTQUIST: So, yes, and also I would refer to Dr. Magrath's comments earlier about the global pricing levels and, if you will, the snapshot of December 2004, which is contained in the staff report, and we would like to elaborate further on that as well. So if I may for post-hearing purposes?

CHAIRMAN KOPLAN: Absolutely. I look forward to that. I thought you might need to do it that way.

MR. MAGRATH: Mr. Chairman?

CHAIRMAN KOPLAN: Yes, Mr. Magrath.

MR. MAGRATH: Briefly, what Hogan has set up there -- I read their brief -- what they have set up there is really beside the point, strawman. Yes, CRU and others project this large increase in consumption in China and elsewhere, but it's not the consumption growth; it's who is going to service that consumption growth.

We are saying, with ample proof already on the record, that it will be Chinese indigenous production that will service that consumption growth plus have enough left over to export to world markets. It is the subject producers' current, very large exports to China that will become homeless and will have to go somewhere, and it will go to the United States.

CHAIRMAN KOPLAN: Thank you.

This is for Mr. Shilling or Mr. Hartford. Allegheny Technologies reported an operating profit of 61 and a half million dollars on sales of $1.6 billion for its flat-rolled products segment in its 2004 10-K. The financial performance for its subject stainless sheet and strip operations doesn't appear to me to resemble the operating performance of the flat-rolled products segment. Can you explain why, either now or in your post-hearing submission, depending on how you want to handle that?

MR. SHILLING: The details -- I can explain it, certainly, in the post-hearing brief. To make just a simple comment, the segment results that we report publicly are not operating earnings, and I can elaborate more specifically on what the difference is so that there is complete alignment between the questionnaire and what our actual operating earnings are for subject products.

CHAIRMAN KOPLAN: Thank you very much. I

look forward to that.

I see my yellow light is on. I do have another couple of questions, but I'll wait until the next round.

Vice Chairman Okun?

VICE CHAIRMAN OKUN: Thank you, Mr. Chairman, and just a follow-up on the chairman's earlier question with regard to the CRE data, and without getting into confidentiality, Mr. Magrath, to me, the point is broader than what the China number shows in here because, again, I understand the point that it doesn't matter for purposes of this investigation when China becomes a net exporter and whether this industry brings a case on China. It's where is all of this increased capacity going to? If you look at the CRU data, I think it's not just about China. It's subject countries. Many of them are selling into the European markets, many of them selling into Asia generally, and those numbers are big, and they are growing.

To differentiate, and I don't want to get into the confidentiality part, but, I think, for purposes of the post-hearing, my question remains the same, which is, in the reasonably foreseeable future, do we see demand disruptions where these subject countries have to seek other markets when I don't see an Asian financial crisis, but, again, to take Mr. Shilling's point and others, of what you see the crisis being? Again, just looking at what's on the record with regard to demand forecasts in the markets where these subject imports are, I would like additional analysis for purposes of your post-hearing brief.

Mr. Hartquist, you're shaking your head, so I'm sure you're doing that, and Mr. Magrath is going to help you.

MR. HARTQUIST: Yes, we will.

VICE CHAIRMAN OKUN: Okay. A couple of other China questions, but I think I will -- I'll do my other post-hearing one, and, Ms. Cannon, I'll put it to you because you addressed cumulation earlier, and I know, in your prehearing brief, you have gone through the different countries.

But for purposes of post-hearing, I am particularly interested in the arguments with regard to Mexico, France, and the United Kingdom, both looking at pricing products, mixed trends in the original investigations and volume trends and then also looking at Mexico's continued presence in the market, and obviously I'm looking at that under the discretion the Commission has to decumulate, and if you would address that, I would appreciate that.

MS. CANNON: I would be happy to do so.

VICE CHAIRMAN OKUN: Thank you, Ms. Cannon.

And then, just to go back briefly on a question that Commissioner Lane posed about the changes in the channels of distribution and the information collected at Table 2-1, I believe, in our staff report because I just wanted to make sure that I understood whether it's your impression -- in other words, if I look at this chart, it seems to me there has been a change in the channels of distribution from the original investigation to now, and I wasn't sure what drove that, if that's just become the way the market works, or it's because you're producing products that have always gone more to distribution, and what that means in our analysis, and does it make any difference -- a two-part question -- does it make any difference that not all of the subject countries selling -- we have the channel-of-distribution information under the order. We have preorder as well, which, obviously, we'll evaluate, but my question is how I should evaluate the channels of distribution and the changes in it.

Mr. Hartquist, do you want to do that here, or, for post-hearing, is that a fair question?

MR. HARTQUIST: Let me ask our commercial witnesses whether you have any observations to make about this change.

VICE CHAIRMAN OKUN: Mr. Hartford?

MR. HARTFORD: I'll give it a try. I think, a couple of points. First of all, the end-use markets that were traditionally served by the service centers have continued to grow, and perhaps they have continued to grow at a rate that's greater than the rest of the stainless flat-rolled consumption. I don't have facts in front of me to support that, but I think that may be true when you look at the increased use of stainless steel in kitchens. Most of that type of product is sold from the mills through distribution, so I think that may be a driver behind the increase channel to the market being the service centers.

Secondly, maybe a repeat of what I said before, but the U.S. service center industry is mature. I would say it's sophisticated. It's in many, many locations, and it has the ability to add value to coil products that we send to them, and so I think they bring value to an end-use market, and those customers are attracted to that, and so I think that may drive more of the product through distribution.

VICE CHAIRMAN OKUN: Mr. Long, you have something to add?

MR. LONG: I agree with what Terry said. I also think that the end-use customers themselves have more of an expectation of what they would like to bring into their door. In other words, they might be more prone to bring in first-operation blank, a piece of steel that's actually had something done to it, and I don't think that they were looking for that perhaps 10 years ago. So I think that there is probably some shift in the demand expectation from the customer.

VICE CHAIRMAN OKUN: Ms. Cannon, you had something you wanted to add?

MS. CANNON: Yes. I was just going to add, in terms of the significance of the shift to this case, I think what's important is that you see most of the subject imports sold through that distribution channel, and so what's happened is there has been increasing direct competition between U.S. producers, as U.S. producers have also been selling more and more to distributors. Although you see both also selling to end users, you see most of each now selling to distributors, and I think that's true for all of the subject countries. So it has actually intensified some of the direct competition that you're seeing in the market.

VICE CHAIRMAN OKUN: The information is probably in the record, but did it change the amount? From what I've heard and what I've read at this point, this is mostly an industry that sells both on a spot basis or short-term contracts. Did the channels-of-distribution change affect that, or was that always the case? I don't recall right now. In other words, in the original investigation, did we also have an industry that sold mostly on spot and short-term contract?

MS. CANNON: Yes. As far as I know, that was also true at the time of the original investigation.

VICE CHAIRMAN OKUN: Okay. I appreciate those answers.

MR. HARTFORD: One thing, if I could add to that, Commissioner, --

VICE CHAIRMAN OKUN: Yes, Mr. Hartford.

MR. HARTFORD: -- I wasn't involved in the original investigation, but we have seen an increase in -- I would say long-term contracts but maybe three-month or six-month contracts between service centers and their end-use customers, and, I think, as we have seen service centers' willingness to do these three-month or six-month or, in some cases, 12-month contracts, that has invited more customers to go via that channel as opposed to buying from the mills on a spot-price basis.

VICE CHAIRMAN OKUN: Interesting. At this point, I may have a question left, but I'll wait, Mr. Chairman, for the next round because I need to find it.

CHAIRMAN KOPLAN: Sure. Commissioner Miller?

COMMISSIONER MILLER: I just have a couple of things I would like to put to you, probably, I think, both for the post-hearing briefs because they are mostly clarifications, and I think they are both for Mr. Magrath.

One is your circle charts. Could you either resubmit them or submit something that explains what the time frame is on each? Unless you can tell me there is a very simple answer, these all represent all the same.

MR. MAGRATH: We will. That was in my testimony, though I specified the time periods. For example, --

COMMISSIONER MILLER: And I thought I might have missed it. When you talk about the cycle?

MR. MAGRATH: Yes. That was 2001 to 2004, --

COMMISSIONER MILLER: Okay.

MR. MAGRATH: -- the bottom of consumption to the top of consumption.

COMMISSIONER MILLER: Okay. Is that just for the particular bullet that references increased imports over the cycle?

MR. MAGRATH: That's for that column.

COMMISSIONER MILLER: Okay. Then is that the same time frame that would apply for all of the other bullets?

MR. MAGRATH: Everything else is taken out of the staff report. One of them is over the period of review, 1998 to 2004, and I believe I specified that in there, too.

COMMISSIONER MILLER: Okay.

MR. MAGRATH: I know I specified it in my testimony.

COMMISSIONER MILLER: Okay. All right. Well, I just probably didn't follow it closely enough, and I want to make sure --

MR. MAGRATH: We'll go column by column in the post-hearing brief.

COMMISSIONER MILLER: If it's not the same across the board, then I would like --

MR. MAGRATH: It basically is the same.

COMMISSIONER MILLER: Okay. All right.

Now, the other question I wanted to ask you, Mr. Magrath, is, at one point, I think, in responding to questions, you talked about per capita consumption in the United States of stainless steel and made a comparison to Europe and Taiwan. And I will tell you that I tried to find it in what I had here, and I didn't find it, so if you could lead me to it, either now briefly or, if not, in a post-hearing submission.

Let me add, it would be interesting to hear, but we've kept you a long time, and we have a lot more to hear, I would love to understand why this difference. So in some kind of post-hearing submission, perhaps you could provide or direct me to the information on per capita consumption of stainless steel and explain a bit why the U.S. is lower than the other countries you referenced.

Mr. Shilling?

MR. SHILLING: Yes. We can skip the details here, as you're requesting, and put it in the brief, but just a general comment. The SSINA, Stainless Steel Industry of North America, has published these statistics for years and tracks it, and traditionally the U.S. has lagged behind many parts of the world in terms of stainless steel consumption per capita.

I think there are two simple reasons to understand that. Number one, the consumption data reflect -- that statistic reflects, to some extent, the fact that the U.S. is a net-importing country, and so a lot of things that are made out of stainless steel, either as fabricated articles of manufacture or whatever, they come in from outside the United States. And so the consumption of the mill product itself, if you will, can occur in another country like Japan or Korea or Europe and appears in their consumption per capita of those people, but the end user actually consumes it in the United States. So that's one distorting factor about the statistic.

The other is the tastes of the American consumers. American consumers, in architectural applications, for example, have just traditionally not had as much of an interest in a stainless steel look as other societies do. One of the recent changes, of course, is the appliance market, but that's been the case in Europe, for example, and in Asia for years. Stainless was a much more preferred architectural finish for appliances. So that's a quick example.

COMMISSIONER MILLER: I appreciate that. You can submit anything else that would be useful in the post-transmission.

Mr. Hartquist?

MR. HARTQUIST: Let me just note that we're also fortunate that you will have before you this afternoon, unfortunately, speaking for Mexinox in this proceeding, the very effective chairman of the Specialty Steel Industry Market Development Committee, Stephan Lacor, who has a common interest with all of the rest of us in increasing per capita consumption in the United States, and he may wish to comment further.

COMMISSIONER MILLER: Thank you. I appreciate that.

I have no further questions. Mr. Schmitt, I wanted to just reassure you, I've watched Mr. Gerard sit next to Mr. DiMicco in endless, endless hearings at the ITC, and, to my knowledge, he has not yet -- correct? -- had any success at that company. Maybe he'll have more success with you, Mr. Schmitt. I don't know. (Laughter.)

Thank you. I appreciate all of the testimony this morning. Thank you.

CHAIRMAN KOPLAN: Commissioner Hillman?

COMMISSIONER HILLMAN: I have only one quick question, I hope.

Mr. -- you put up this chart, and you're commenting on this issue of the shift from coil product to cut-to-length product. I just want to make sure I understand, from the industry perspective, why does a purchaser prefer coil versus plate, and if they made this shift between purchasing product in coil versus product in plate, can they readily shift back? Why would one prefer one over the other? Help me put this data into some context in terms of end use, purchases, prices, anything that you can help me understand about the relationship between product in coil versus product that has been cut to length.

MR. HARTFORD: I'll comment on that, Commissioner. We commented earlier that our biggest channel to the market goes through steel service centers, and the steel service center industry has an investment in cut-to-length equipment. They have polishing equipment, slitting equipment, cut-to-length equipment that is effective at handling a coil and then turning it into typically a cut-to-length sheet.

So with that as our largest customer base, their preference is to buy coil. It gives them more flexibility. They can cut a coil to varying lengths, whatever their customer needs. They can polish that coil. They can have more flexibility with that than they can if they buy a cut-to-length sheet product.

COMMISSIONER HILLMAN: Who is buying the sheet, the cut-to-length product? Is that an end-use purchase?

MR. HARTFORD: Typically, the customer of the service center is buying a cut-to-length product, or, in some cases, service centers will buy a cut-to-length sheet product also.

COMMISSIONER HILLMAN: Okay. Same application, same end use; it's purely an issue of what form you're buying it in.

MR. HARTFORD: Correct.

COMMISSIONER HILLMAN: Okay. Price-wise, is there a difference between the coiled product versus the cut product?

MR. HARTFORD: The cut-to-length product is more expensive.

COMMISSIONER HILLMAN: How much, percentage?

MR. HARTFORD: Four or 5 percent.

COMMISSIONER HILLMAN: Mr. Blot?

MR. BLOT: Commissioner Hillman, in my testimony, I say it's about 5 percent. When you take into account the cost of processing and yield loss that you get, you can figure a cost of about 5 percent.

COMMISSIONER HILLMAN: Okay. All right. I appreciate those answers.

I have no further questions, Mr. Chairman. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Lane?

COMMISSIONER LANE: I don't have any further questions.

CHAIRMAN KOPLAN: Commissioner Pearson?

COMMISSIONER PEARSON: Mr. Chairman, I would like to thank the panel for their contributions, but I also have no further questions.

CHAIRMAN KOPLAN: Thank you.

I have a little bit left. First, let me turn to these charts.

Mr. Blow, with respect to Chart No. 1, it appears to me that you used staff data for the years '96 through 2004, but I would ask you, with regard to 2005 through 2007, those forecasts, could you provide, post-hearing, the input data for your projections? I say that because it doesn't seem to track other data that we have that I can't get into here, but I think you all probably are aware of what I'm referring to.

MR. BLOT: I'll be happy to do that in a

post-hearing brief, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you.

Then, with regard to Chart No. 4, -- this is a follow-up to Commissioner Miller's request -- the chart that deals with the ability to continue or cause to recur material injury, Mr. Magrath, if you could submit for the record the relevant material in the Metal Bulletin directories and Stainless Steel Directory, 2004 Edition, that you used to help prepare that chart, unless we already have it.

MR. MAGRATH: Yes, sir. And the only reason I had to use that was to verify the affiliations of the Japanese and Taiwanese producers with organizations in the United States since they did not respond to your questionnaires.

CHAIRMAN KOPLAN: So you can submit that?

MR. MAGRATH: Yes, sir.

CHAIRMAN KOPLAN: Thank you very much.

Now, then, if I could stay with you, Joint Respondents France and Korea's brief includes, as Exhibit 1, Dr. Crandall's economic analysis which points out, at page 4, that, and I quote, "the U.S. export data for stainless steel sheet and strip in the prehearing report are substantially lower than the data reported for virtually the same product by AISI.

The AISI data are more than double the level shown in the prehearing report in Table 3-2 --" that's at page 3-7 of the staff report "-- for the 1999-through-2004 review period." And there is a figure there; it's Figure 4. "It is not clear why there should be such a large difference in these export data, particularly given the fact that the prehearing report's data on U.S. shipments of stainless steel sheet and plate are actually substantially greater than those reported by AISI over this period." Can you reconcile this apparent discrepancy for me, Mr. Magrath?

MR. MAGRATH: We will try. We don't have access to what goes into the AISI data. The member companies report to AISI, and I would urge the Commission, on all of these secondary sources, especially that Dr. Crandall relies on, the touchstone of data for any of these investigations is the record that has been developed by the staff in the staff reports, a general comment. When someone has to go to secondary sources to make points, -- I don't know -- I think that's a bit weaker in terms of, you know, the quality of the data. You have the best-quality data in this investigation in your staff report.

CHAIRMAN KOPLAN: I hear your response. I'm requesting, then, that Dr. Crandall submit the information that you don't have access to for purposes of the post-hearing so that you can better respond to my question. Okay? I appreciate your answer.

The last thing I have, and this is simply a follow-up with regard to the surcharges that Commissioner Hillman discussed, TK Respondents argued that, in addition to base price increases, the domestic producers of this product impose surcharges for raw material price increases.

They cite to our April 6th prehearing staff report, which mentions that over the period for which data were collected, the cost of iron scrap, the principal component of stainless steel sheet and strip, increased significantly, as did the price of manganese and that, as a result, some firms added new surcharges for these imports in addition to the surcharges already in existence in '99 for nickel, chromium, and molybdenum.

The staff report indicates that the average surcharge for all types of products increased between 1999 and 2004, noting that the increase has been steady since the last quarter of 2002. They also note that information on these newer surcharges was not available when the report was done. So I would appreciate it if, for the post-hearing, each of the domestic producers would provide that kind of detail for us.

I remember, Mr. Hartford, you had a chart with you when this was discussed earlier. Perhaps you might include in response to this putting that chart on the record for us. Is it already on the record?

MR. HARTFORD: It's not on the record. We can provide the chart and the data behind the chart.

CHAIRMAN KOPLAN: Okay. If each of you could do that, each of the companies could do that, it would be appreciated. Maybe you could get together with staff post-hearing for some additional guidance on that. And with that, I have no additional questions.

So I would like to thank all of you for not only your direct presentation but your responses to our many questions today. Let me say if any of my colleagues have changed their minds and have anything in addition.

If not, let me turn to Mr. Corkran and see if staff has questions of this panel before we release them.

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you, Mr. Chairman. One very brief question for Dr. Magrath.

Very early on in the question-and-answer session, there was some discussion of the MEPS data, which, at the time, the staff report included one month's worth of data, it was the most recent month that was available to us at the time. Since then, we've collected data that now extend over a series of months and go through February and, we hope soon, through March of this year.

So the question I had on the MEPS data was, you expressed some discomfort with it. Was it because it was a single month? Was it because it wasn't current, or was your concern more with the MEPS data itself?

MR. MAGRATH: First and foremost, and Ms. Beck may have some comments, it was a single month's snapshot. I realized that it was December 2004. That's when you were putting this report into review, so, you know, the data has got to stop somewhere, but that it was a single month; and, secondly, that other data that you may have in your possession from these other consultancies we've talked about may show a different picture and different levels before and after December of 2004.

I mean, this is a huge job for the staff. Once again, we know that, and we look forward to you further developing and giving a broader picture in the final staff report.

MR. CORKRAN: Thank you very much.

The staff has no further questions.

CHAIRMAN KOPLAN: Thank you for that question, Mr. Corkran.

Let me ask Respondents' counsel whether you have any questions of this panel before we release them.

MR. CAMERON: Commissioner, Don Cameron. No questions.

CHAIRMAN KOPLAN: Thank you.

Well, with that, we will recess until two-fifteen, when we'll resume with the next panel. I'll remind you that the room is not secure, so any business-proprietary information that you have with you, make sure you take it with, and I'll see you all back here at two-fifteen.

(Whereupon, at 1:27 p.m., a luncheon recess was taken.)

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CHAIRMAN KOPLAN: This meeting of the U. S. International Trade Commission will again come to order. Madame Secretary, I see the new people have been seated. Have the witnesses been sworn?

MS. ABBOTT: Yes, Mr. Chairman.

CHAIRMAN KOPLAN: If so, Mr. Leibowitz, Mr. Cameron, you may proceed.

MR. LEIBOWITZ: Thank you, Mr. Chairman. Mr. La Russa will lead off.

MR. LA RUSSA: Thank you, Mr. Chairman, I am, for the record, Robert La Russa, representing Ugine & ALZ France, and also Arcelor Stainless USA. With me is to my left Robert Crandall, a senior fellow at the Brookings Institution, who will give an overview of the U. S. industry, followed by James Williamson, the executive vice president and COO of Arcelor Stainless USA, LLC, who will speak about the French presence, the long-standing historical and very consistent French presence in the U. S. market.

Thank you.

CHAIRMAN KOPLAN: Thank you, Mr. La Russa.

You may proceed.

MR. CRANDALL: Mr. Chairman and members of the Commission, it is a pleasure to appear before you again today, this time talking about stainless steel, sheet and strip, as opposed to steel plate.

We are talking about basically the same industry as we did in the stainless plate case and, as I testified in that matter, it is quite clear to me that the industry itself has undergone a rather fundamental transformation caused by: consolidations, mergers, acquisitions, and, of course, a substantial amount of expansion in capacity by NAS.

And also that the domestic market conditions, as a result of world-market conditions, are really quite different from what they were in 1997, 1998.

Now, we have heard today that we, of course, have four U. S. producers, one of whom is a rather small player in the stainless business: Nucor Steel. But three have gone through rather substantial changes since 1997-1998. NAS, of course, has spent a cumulative total of about $2.5 billion on its plant in Ghent, Kentucky, more than half of which has occurred since the initial investigation.

Just last year, it reported sales in the United States of $1.7 billion and profits of $168 million on all of its stainless flat-rolled operations. It has not yet reported first quarter results through Acerinox to my knowledge.

Alleghency Technology has also been returned to profitability, and last year earning about $61.5 million in operating profits on $1.6 billion of sales in its flat-rolled division. Now, last week, we didn't hear this morning, but last week, Allegheny Technology announced its first quarter results; and in the first quarter, it announced that its operating profits had soared from a negative number in the first half of 2004 to $39.2 million in its flat-rolled division. Again, this is for the whole flat-rolled stainless division. It doesn't break it out, obviously, by product.

AK Steel is principally a card-and-steel producer, but it, of course, acquired Armco and has made major new investments in finishing facilities, and stainless and electrical steel now accounts for about a sixth of its total output. In 2004, it reported a net income of $238 million, and it just reported today a profit of $59 million on all of its operations. It also reported, and I think that this might be of interest to the Commission, that maintenance outages at the company's Middletown and Mansfield facilities -- of course, the Mansfield facility I am sure is the stainless facility in Ohio -- adversely affected first quarter 2005 shipment.

That AK, apparently, could not ship as much as it wanted to because of an outage. This suggests that they were up against a capacity constraint.

Now, let me turn to conditions in the domestic industry and conditions in the world industry since the latter feed into the former and caused the problem in 1997-1998. First of all, that Figure 1 up on the screen there shows you, from the report, the information on U.S. shipments and apparent consumption of stainless steel in the United States since 1996.

What you can see is what you heard this morning, namely that shipments declined, consumption declined during that 2000-2001 recession, a recession which wasn't so bad by traditional standards, but was bad in the manufacturing sector. But they rebounded rather sharply from that period and are now back, over the last three years, above what they were in 1996-1998, although they are not back to 1999 peak.

It is important to note that this growth continues. There is no evidence of any decline in such consumption. In fact, Allegheny reported slight increases in shipments in the first quarter, which would seem to suggest that demand continues to expand and that there is not going to be a retrenchment of the sort that you heard about this morning.

Import volumes on Figure 2. This is imports as a share of apparent consumption. You can see that in 1996-1998, they averaged somewhere around 19 percent. They declined substantially down to about 13 percent in the recession. They have come back a little bit in 2002-2003, and now a bit more in 2004, as the industry is reaching full capacity and as demand for stainless continues to grow in the United States.

CHAIRMAN KOPLAN: Excuse me. I hate to do this, but we do have a congressional witness who has arrived, so we would suspend the time and I would allow the congressional witness to appear.

Madame Secretary?

MS. ABBOTT: The Honorable Geoff Davis, United States Congressman, 4th District, State of Kentucky.

CHAIRMAN KOPLAN: Welcome.

MR. DAVIS: Thank you very much, Chairman Koplan, Vice Chairman Okun, Commissioners Hillman, Miller, Pearson and Lee. I thank the Commission for allowing me to appear before you today to make a statement concerning the facts of this case on my district in Kentucky.

I come to you from a professional background in manufacturing, helping strengthen American manufacturing companies, improving competitiveness and keeping our jobs in our communities. There are approximately 2,700 of my constituents in Kentucky's 4th District who are employed by 14 steel-consuming companies, which is: Mitsubishi; Electric Automotive American in Maysfield, Kentucky; Saks Automotive in Florence, Kentucky; and Arvin Meritor, which has four facilities and 55 employees in the district; just to mention a few by name in addition to many small, locally owned fabricators, machine shops and tool makers.

In addition to these consumers, there are also large producers in my district, such as AK Steel in Ashland, Kentucky. Those steel producers also employ a large number of people. I want it to be clear that my attention in being here today is not to take one side over the other. A strong steel industry is critical to the economy and our security.

In fact, I urge the Commission not to revoke these duties if it finds that injury to the domestic steel industry would result from such action. My understanding is that the general expectation is that steel prices would moderate in the United States following the termination of the Section 201 Steel

Tariffs in December 2003.

Apparently, that has not happened because steel prices have continued to climb. I also understand that there are currently 188 anti-dumping and countervailing duties in place on various types of steel. I ask the Commission to carefully consider whether or not all of those 188 are still needed. For those for which there is demonstrable data that points to the need to keep them, I urge the Commission to do that.

My concern is that perhaps some of those 188 could be distorting the U. S. market for steel, and unnecessarily damaging steel-consuming companies in the form of: decreased availability, quality, delayed deliveries and higher prices. Those price increases can now be passed along to the automotive suppliers' customers, the manufacturers, because they have more option of resourcing these products from competing off-shore automotive suppliers.

Speaking as a former manufacturing professional, along with some other members of Congress, I voiced my support for House Resolution 84, which urges the Department of Commerce and the International Trade Commission to take into account the impact of anti-dumping or countervailing duties on steel-consuming manufacturers and the overall economy in the five-year sunset reviews of those duties.

Those duties affect more than just the domestic and foreign steel producers, and the Commission should consider that fact. Our auto-part suppliers and other steel consumers employ an estimated 830,000 Americans. It is simply a matter of fairness that the ITC consider their views as part of the process; and it is my belief that it would ultimately be harmful to the steel producers if their domestic customer base continues to shrink.

Demand for domestic steel will be weakened and jobs will be lost if automotive suppliers are forced to move production out of the United States. Likewise, the U. S. auto-supplier industry recognizes the importance of a strong domestic steel industry, which is an essential component of their future success. I urge the Commission to consider both views before deciding this issue.

Thank you again for your time today.

CHAIRMAN KOPLAN: Thank you for your testimony, Congressman. Let me see if any of my colleagues have questions. If not, thank you. You are excused.

MR. DAVIS: Thank you very much.

CHAIRMAN KOPLAN: Madame Secretary, I understand that we have another congressional witness as well.

MS. ABBOTT: Mr. Chairman, the Honorable Donald A. Manzullo, United States Congressman, 16th District, State of Illinois.

CHAIRMAN KOPLAN: Welcome, Congressman.

MR. MANZULLO: Thank you for the opportunity to be here. Mr. Chairman and distinguished panel members, the 16th Congressional District of Illinois that I am privileged to represent is the home to many small and medium-sized manufacturers.

In fact, it is a city of 160,000 people that has over 1,400 industries; an overwhelming number of these manufacturers are consumers of steel. Therefore, I have become quite familiar with the U. S. steel market and its effect on small manufacturers, especially those that are involved in fabrication and in the fastener business. As Chairman of the House Small Business Committee, I have discovered that the problems facing small manufacturers in the 16th District are not unique to Illinois, but are representative of many other congressional districts throughout the country.

Unfortunately, the steel consumers,

especially the little guy, often have little voice in formulating U. S. steel policies. The little people, they just are not listening to. I am here today in support of these manufacturers, who are significantly harmed by the current anti-dumping and countervailing duties on stainless steel, sheet and strip imports.

The fate of U. S. manufacturers is dependent upon a manufacturer's ability to purchase raw materials, including steel at internationally competitive prices. Rockford, Illinois, the largest city in the 16th District, and the second largest in Illinois, was hard hit when the Section 201 steel tariffs were imposed in March 2002. We have just come off double-digit unemployment.

In fact, Rockford saw an unemployment rate in 2003 which nearly doubled the nation's rate of 6.1 percent, demonstrating the direct link between high raw material prices and the loss of manufacturing jobs in our country. In 2002, as Chairman of the Small Business Committee, I held two hearings documenting the negative effect of the Section 201 tariffs on small manufacturers.

The decision to impose these tariffs created extreme instability. Manufacturers were caught with a tight squeeze between higher raw material costs and demands from the customers to lower prices. That's great. We get the orders from the manufacturers to lower prices and, at the same time, the cost of manufacturing goes up and they get squeezed.

Not many are concerned about the 72-percent increase in the price of iron ore, a basic ingredient in the making of steel and how that cost will be passed along to consumers in the United States. The tariffs on stainless steel, sheet and strip imports, which are under review today, are having very similar effects on small manufacturers today.

Once again, domestic producers are: increasing prices, imposing allocations, lengthening lead times, delivering less than the quantity promised; and five, not meeting timely shipping commitments.

Let me say that again, let me say this again. Domestic producers of stainless steel are: increasing prices, imposing allocations, lengthening lead times, delivering less than the quantity promised and five: not meeting timely shipment commitments. U. S. domestic producers have even declined to accept new customers or renew existing customers, yet they are back here again wanting to keep these tariffs on.

Large companies, who are the Tier 1

purchasers of stainless steel, are intervening on behalf of their suppliers who use stainless steel to insure that they have an adequate supply. The large companies choose to source U. S. products, but could easily ship their supply chain to a foreign country in order to escape the volatility and uncertainty of the U. S. steel market.

Unlike the raw material, finished components made of stainless steel are not subject to any duty. Now that really makes sense. I mean that really, really makes sense. You have a duty on the raw material, but you can bring in the finished product with no duty. Do you know what that does? That encourages imports. This doesn't make sense. These are just little people. I visited over 300 manufacturers since I have been a member of Congress.

Two weeks ago, I was in Nashville, in St. Louis, and in Tucson talking to different trade groups: the cast-iron industry, the heat-treated industry, people that make one or two parts for the Defense Department. These guys are all struggling. They say: Congressman, doesn't anybody understand what is going on in Washington? Why are we having these incredible tariffs and countervailing duties on the basic raw materials of stainless steel, and yet you can import the finished product with no duty?

It encourages off-shoring; it encourages U. S. manufacturers to close up their shops and go overseas. You know what General Motors did? They sent out a directive to the OEMs that said: By the way, how about moving your fastener shops to China. It's cheaper to manufacture there. So what do we do? We make it more expensive for the little guys, for the people who need stainless steel to stay in business, and we penalize them, and we reward those who make the very same product, and the finished end product to say: Here, just ship it to the United States. Just ship it here.

And now, the domestic guys are back again saying to the domestic steel producers: Well, we need those tariffs. If they need those tariffs, then No. 1 why are they increasing prices, imposing allocations, lengthening lead times, delivering less than the quantity promised, and not meeting timely shipping commitments?

I get impassioned about this. My city led the nation in unemployment in 1981 at 25.6 percent, worse than the great depression. When you are in fasteners and machine tools, you are the first to get hit and the last to recover. And now there is a little bit of light out there, just a little bit of hope, just enough to hang on after four years of these guys just clawing at the wall just waiting, and hoping, and praying for the opportunity for the manufacturing economy to turn around; and now it is on the verge of doing that.

So what do they face: tremendous increases in the prices. This was in today's Wall Street Journal: Auto parts maker ready to file for Chapter 11. You know what is going on in the auto industry? GM and GM Shanghai are going to manufacture the Cherry in China. That's their car and they are going to export one million Chinese-made automobiles to the Unite States next year.

Now, Dimeler-Chrysler is going to do the same thing. We should be doing everything possible here to make it so that our manufacturers can succeed, and these tariffs don't help. It says: Meridian, a closely held company with 23 major plants in three countries is expected to join a growing list of auto parts makers. Those are my people, they are little people, hundreds of shops, that have sought bankruptcy protection to cope with rising raw material prices; and, of course, declining auto production because of the high cost of gasoline.

Now, I would implore you to take a look at the impact that these tariffs are having on the little ones out there, the ones that I represent. They come to the Small business Committee because we are the committee of last resort. They have no clout, they have no big lobbies here in Washington. They are just little guys just pecking away at the edges, desperately trying to hold on.

So eliminate these tariffs, get rid of these countervailing duties because all they do is they will cause more of these, and if you don't side in with those little guys, the next time you see an article like this, you can say: We had the opportunity to stop these companies from going under and we didn't seize it.

Thank you.

CHAIRMAN KOPLAN: Thank you very much for your testimony, Congressman. Let me see if my colleagues have any questions. If not, we appreciate your coming.

MR. MANZULLO: Thank you very much. I appreciate it.

CHAIRMAN KOPLAN: I take it that we can resume with the panel. Let me just note that the additional congressional witness will not be coming, so I think we will be able to go straight through now without further breaks like that.

Mr. Crandall, you are back on the clock, so they say.

MR. CRANDALL: I know who my draft pick will be. I just talked about imports and imports have strengthened somewhat in the last year, but they have not come back to 1996-1998 shares of apparent consumption.

Give me the next slide, please.

What has really changed, however, and this is true in the plate case as well, is that the U. S. industry, which has revitalized itself both through the expansion of NAS and consolidations and cost cutting, is exporting, and these are the numbers from the pre-hearing report, at substantially higher levels than in 1996-1998.

As a matter of fact, over that three-year period, 2002-2004, they about doubled their 1996-1998 levels. Now, a question was raised this morning about a matter in my report in which I compared these with AISI numbers. I do not know why the AISI numbers are so much higher, but the panel in front of you should have known because it is their companies who report those to AISI. They are not third-party numbers.

They all come from the industry and are the same producers that you saw this morning.

Let's turn now to prices. The world stainless-steel market is operating essentially at full capacity today; and, as a result, running up against a capacity constraini and prices have begun to soar. These are the numbers from the pre-hearing report for unit values. They show a decline in the 2001 recession, sort of flat performance through 2003, a sharp increase of 40 percent in 2004.

Now, part of what you heard this morning was that maybe it was caused by J&L not being sure that J&L was going to ship, and a variety of accidents. In fact, Allegheny Technology reported last week that its first quarter earnings, which were up sharply as I mentioned, they also reported, as far as I can figure out, that prices were up another six percent from the fourth quarter.

Price rises of this magnitude, and that's for all of their flat-rolled product, which was up 28 percent last year and is running at about a 25 percent this year, the average makes running last year somewhat below the price increase shown here. So it may be that price increases, so far this year, are running at greater than at a 25-percent annual rate.

This suggests an industry which is running up against a capacity constraint.

Let me turn now to raw materials. There was some discussion of that this morning. Looking over the last three years, the unit values have increased essentially more than raw material costs. Raw material costs have gone up. They don't go up by accident or randomly. They go up because there is tremendous increase in demand for these materials that go uniquely into stainless steel, stainless steel scrap, chromium, *et cetera*; and, as a result, they have been bid up. But the prices have been bid up even more. The difference is about $180 a ton. That is about an 8-percent profit margin by itself.

I will not talk my report. My written testimony has some comments about domestic-capacity utilization. I think you heard a great deal this morning about how essentially there is a capacity constraint. I pointed out how AK reported today that outages at Mansfield caused it to ship less than suggested. It is up against a capacity constraint. We are talking about an industry that is very close to full capacity.

Let me now turn to the world situation. This is a chart showing: what has happened in 1997 and

2004, the world GDP growth, and stainless-steel production growth. Last time when you were considering this matter in the investigation of 1997-1998, there was: the Asian crisis, very weak economies in eastern Europe, and the former Soviet states. And you see that there as a one-third decline in world GDP growth. As a result, stainless steel production fell in 1998 after growing rather substantially in 1997.

Now, notice what has happened in 2002, 2003, 2004. You had very, very rapid growth of stainless-steel production in response to ever-expanding world GDP, accelerating growth of GDP.

The condition in the Asian economies, and in the Asian currency crisis, are shown here in this graph which I also showed in the plate proceeding. In 1998, there was a sharp decline in growth to negative levels for many of the Asian economies and for the former Soviet Republics.

Fast forward now to 2003 and 2004, and you see accelerating growth in 2004 and rather stable growth predicted for 2005. Now, that prediction contrasts with some of the speculation you heard this morning about how there could be another Asian crisis of some sort. I know of nothing anywhere in the economic evidence that would suggest a forthcoming

Asian crisis.

The only concern these days seems to be about a further depreciation of the dollar, not a collapse of Asian currencies. The Asian economies are very strong. In fact, the Chinese economy, which has been growing over the last 12, 13 years at 9 to 10 percent a year, grew at 9-1/2 percent the first quarter of this year, which hardly suggests a decline.

Finally, in terms of China's role, everybody is forecasting that China will expand its capacity more rapidly than its consumption of stainless steel. The rest of the world's producers have taken note of that, and they are not expanding their capacity nearly as rapidly as consumption is expected to expand elsewhere.

And in my report appended to Respondent's brief, I showed that the projections for consumption growth, over the next five years, are exactly equal for the projections for capacity growth, meaning that there is going to be excess demand in the non-Chinese part of the market and an increase in capacity relative to consumption in China.

So to summarize about the world's situation: I know of no credible evidence that there is a 1997-1998 currency crisis coming. If anything, the only crisis we see coming is a further depreciation of the dollar, which, of course, is bad for our standard of living but hardly bad for domestic producers of stainless steel, sheet and strip.

So, in conclusion, given the strength of the world economy, given the fact that the projections for consumption are at least as great as the projections for capacity growth, given the very strong behavior of prices, and the rising profits of the domestic industry, this seems to be a particularly opportune time to lift the anti-dumping and countervailing duty orders.

CHAIRMAN KOPLAN: Thank you.

Mr. La Russa?

MR. LA RUSSA: Yes, if you don't mind, we turn it over it to Mr. Williamson.

CHAIRMAN KOPLAN: Sure. Thank you.

Welcome.

MR. WILLIAMSON: Good afternoon, Mr. Chairman, members of the Commission and staff. My name is James Williamson. I am executive vice president and chief operating officer of Arcelor Stainless USA LLC, headquartered in New York City.

AS USA is the U. S. marketing arm for the Arcelor Group's stainless flat products. Our sales to the United States include subject merchandise produced by Ugine & ALZ France, which is part of the Arcelor Group. We have been selling stainless steel from France in the U.S. market since the mid-1960s. I have been with the company since 1990 and in the stainless steel business for 35 years.

AS USA's approach to the market is simple. We don't compete, but instead complete the market with our specialty niche products. We sell high-margin specialty products and focus on long-standing customer relationships, and have never pursued a sales strategy based on volume. We sell products that are not domestically produced; we sell products that have a limited supply for which customers want a second source; and we sell products for which we have a technical or quality advantage.

The subject merchandise, at issue today, falls into the last category: products that offer technical and quality advantage. As a result, we have occupied a consistent, yet marginal part, of the U. S. market, about one percent of consumption in specialized products. This chart outlines a six-year consistent history of our market share compared to consumption.

Our imports into the United States have

fluctuated slightly with demand and the swings of the U.S. economy. There are several reasons for this. First, as I noted, Arcelor and U&A France have implemented a business strategy that focuses on high-margin niche products rather than less profitable high-volume commodity products. Margin over volume.

Second, Arcelor is a global company whose principal markets are in Europe. As you can see from the attached chart, the U.S. represents a very small percentage of Arcelor's global sales of subject merchandise, three percent. AS USA cannot increase volumes of stainless steel, sheet and strip in the United States because our mills will not allocate any more steel to this market. These mills are operating at essentially capacity and the United States is not their priority.

Finally, given the Euro dollar relationship, it is far more profitable for Arcelor to sell stainless steel in other parts of the world. Within the U. S. market, we have focused our sales on: 400 Series stainless steel and bright-annealed finishes. U&A France is known world-wide for its expertise in these products. Our products are purchased for their finish aspect, for their ability to be fabricated, and for their appearance after fabrication.

Very few companies world-wide can match U&A France's quality for these products; and for this reason, we are often paid a premium for our products. In particular, we have concentrated on Type 430, Type 434 and Type 436 in bright-annealed finish for: auto trim, transportation, decorative applications in food service, appliance and architecture.

In addition, for the pst several years, we have been developing another niche product for the U.S. market: Aluminized 409, which historically has been available from very few suppliers. This is an expensive product compared with standard 409. It is used in the cold end of the automotive exhaust application. It prevents what's known as red rust and there is no substitute for it on the market. These specialty products meet U&A France's margin management objectives. Focusing on our core 400 Series competencies has always been our marketing strategy and always will be.

As part of our post-hearing brief, we will submit to the Commission a U. S. market overview presentation that we use for sales purposes, which will illustrate these points. We have followed this strategy in the United States before the anti-dumping order on stainless steel, sheet and strip, and we followed it for the duration of that order. We will follow it if the anti-dumping order is lifted.

In defining this strategy, Arcelor has made a corporate decision about the U. S. market that has nothing with do with this anti-dumping order. The company has focused, and will continue to pursue the growing, expanding European market because Arcelor is a European company. Beyond this, our mills will continue to look for aid to Asia because we have made a strategic decision to focus on that market.

Arcelor is a global supplier of stainless steel, sheet and strip and this is a global market. Given the testimony that you have just heard from Dr. Crandall about the strength of the U. S. market and the U. S. industry, there is no reason to maintain this order. Arcelor will not be changing its strategic marketing focus if the order is lifted, and there is no chance that such an act will lead to continued, or recurring, injury to the domestic industry.

Thank you very much for your attention.

CHAIRMAN KOPLAN: Thank you. Just for the record, the attached chart that you referred to in your statement that those charts did not actually accompany --

MR. WILLIAMSON: Okay. We will get you those charts.

CHAIRMAN KOPLAN: Thank you.

Go ahead.

MR. LEIBOWITZ: Mr. Chairman, our next speaker from ThyssenKrup is Jurgen Fechter.

CHAIRMAN KOPLAN: Mr. La Russa.

MR. LA RUSSA: I just wanted to add one thing. It is about France, if you don't mind.

CHAIRMAN KOPLAN: Sure.

MR. LA RUSSA: There was a lot of rhetoric spouted today about subsidies, whether fictional, real or imagined, things that may have happened 20, 25 years ago. I just want to point out for the record and you have this information. There is no countervailing duty order on France.

The countervailing duty order was revoked last year, so I thought that, given what was said today about subsidies in Europe and elsewhere, that is a very important point to make.

CHAIRMAN KOPLAN: Thank you.

MR. FECHTER: Good afternoon. I am Jurgen Fechter. I am the chairman of the executive board of ThyssenKrupp Stainless, the stainless-steel and specialty-steel unit of ThyssenKrup. I am responsible for the world-wide operations of ThyssenKrup in the stainless-steel sector. Prior to this assignment, I was the chairman of the executive board of ThyssenKrup Nirosta in Germany; and prior to that, the president of ThyssenKrup Mexinox.

When this Commission conducted the original investigation, I was the president of Mexinox. When the case was filed, we reassured our customers with a letter published in the *American Metal Market* newspaper, promising that we would be in the market and would trade fairly in accordance with the law. We have kept that promise.

Our customers have recognized our efforts by allowing Mexinox to grow with them and by considering Mexinox a local producer. Going forward, Mexinox will continue to stand by this commitment. I decided to appear personally before the Commission in this case because a number of serious inaccuracies by the Petitioners need to be corrected as forcefully as possible.

I am also here in the hope that my perspective as the chief executive of the world's largest complex of stainless-steel production and distribution assists the Commission in this case.

The first of the Petitioners' grievous

inaccuracies is their claim that they see the industry as not changing significantly in structure and market power, in comparison to the original investigation in the 1996-1999 period. That is quite simply an astounding statement. The consolidation in the U. S. industry has been substantial and dramatic, and this has changed the U. S. industry in many important ways. From a total of six-significant mills in the mid-1990s only three remain. They are larger and more efficient than they were and, for the first time in at least 20 years, U. S. stainless-sheet production is vertically integrated from melt to finishing.

The three major U. S. mills are now much more similar in production, structure and size to major competitors elsewhere in the world. Furthermore, one of the domestic producers, North American Stainless, NAS, has invested a large sum of money in recent years to achieve vertical integration while remaining highly profitable and simultaneously gaining recognition in the marketplace as being the new market leader.

One of the immediate consequences of this has been that the rest of the U. S. industry has been losing market share to NAS. This is clearly the result of a very good strategy designed by Acerinox, the Spanish holding company of NAS, aimed to develop the largest, lowest cost and most profitable stainless-steel producer in the United States. NAS today is recognized as the most competitive stainless-steel producer in the world.

The second of the Petitioners' inaccuracies clearly relate to the place of the U. S. in the global market. Last year, the U. S. market accounted for about 10 percent of global consumption. Consumption of stainless sheet in the market outside the United States has grown much faster than inside the Untied States. All our forecasts predict continued positive rights of stainless steel sheet demand growth world-wide.

Let me say a word about China. We know the Chinese stainless-steel market well. In our experience, growth and demand in China has consistently exceeded our expectations. ThyssenKrupp Stainless pursued long-term business relations in the markets in which we participate. Therefore, we have become a joint-venture partner in the stainless-production facility in Shanghai, called SKS, and we export to China a reasonable quantity of stainless material from Europe and Mexico with the main focus to provide feed stock to our operation in China.

We are also investing in the distribution and processing center in Southeast Asia. Our supply of hot-rolled black ben from our Italian operation to ThyssenKrupp AST to SKS was designed in a way that SKS would be able to sell us principally from Europe, supplemented by our joint-venture partner Baosteel. By the way, please let me refresh Petitioners' memory by reminding that we have announced that the melt shop and hot-rolling phase of our Chinese projects have been postponed at least for the next five years, as SKS will require significant imported feed stock.

The third tier in the inaccuracy of the Petitioners is their assertion that exports to the United States, from the countries in which ThyssenKrupp Stainless has production, will immediately increase if protection is removed. They base this assertion on a false assumption that prices in the United States are higher than other markets.

As you might imagine, we keep close track on these relationships. In fact, pricing relations are not what Petitioners claim. Prices in the major stainless markets outside and inside the United States have converged and, in certain cases, particularly in Europe, prices are higher than in the United States. Others will comment in the future on the further details of the evidence to support my point.

The fourth major inaccuracy of Petitioners relates to the assertion of the role of Mexinox in the U. S. market. I will say of that facility, when the original petition was filed through 1999, I oversaw its development after its acquisition in early 1997. I will state, in no uncertain terms, that Mexinox was acquired to continue expanding Nirosta's international operations, and to serve the needs of a unified and integrated North American market, including Canada, the United States and Mexico.

With the exit of Atlas in Canada, Mexinox has become one of only four significant North American producers, competing in what has become a fully integrated market. With Mexinox as our principal operation for serving the United States market, ThyssenKrup Stainless exports from Europe and China to the United States have concentrated on products outside of Mexinox's sales strategy.

As to whether imports are likely to increase from the ThyssenKrup producers in Italy and Germany, I will note again that Mexinox is the centerpiece of ThyssenKrup's North American operations. Accordingly, the ThyssenKrup Group is careful not to take any action that might undermine Mexinox's operation and, in particular, the favorable pricing situation that benefits Mexinox.

For this reason, sales and marketing for the three companies is closely coordinated. Moreover, since the restructuring of the NAFTA market for BA products and the exit of Atlas, leaving only one U. S. producer of 48-inch wide bright-annealed product, ThyssenKrup Stainless approved last year the relocation of a bright-annealing line from Italy to Mexico.

This decision had the sole purpose of contributing to serve the needs of the NAFTA market with the level of service that only a local producer can achieve. Mexinox is considered by these Petitioners as a responsible and reliable member of the U. S. industry. It belongs to the NAFTA trade association, SSINA. Mexinox's president sits on the SSINA board, and is the general manager of Mexinox USA, and chairs the SSINA market development committee.

Our focus will remain on Mexinox for the North American market. Mexinox will remain in the U. S. because the Untied States is Mexinox's principal market. If the order is revoked, we will continue to compete responsibly and fairly in accordance with the law.

Thank you.

MR. LACOR: Good afternoon. My name is Stephan Lacor. I am vice president and general manager of Mexinox USA, which is located in Illinois. I have been with Mexinox USA since 1989. As general manager, I am responsible for all sales and marketing activities of Mexinox USA in the United States and canada. I am also, as Skip Hartquist mentioned, the co-chairman of the Market Development Committee at SSINA.

I understand that the question the Commission is considering is: What impact the anti-dumping order has had on Mexinox in the past, and what is likely to happen if the anti-dumping order is lifted? To my perspective as the coordinator of U. S. sales for Mexinox, I can tell you that the impact of the anti-dumping order on the volume, or prices, of my sales to U. S. customers has been minimal; and that lifting the order will have little, if any, effect on the future volume for prices of my sales.

Let me explain why this is so. First, it is a fact that the dumping order, so far, has not reduced Mexinox's sales to the U. S. market. Actually, Mexinox has moderately grown its market share since

1999, although our market share remains very small relative to the overall market. How has Mexinox maintained its market share without incurring significant dumping margins?

Mexinox has achieved this making an effort to differentiate its products and by pricing its products fairly and responsibly. Mexinox uses similar practices as its follow SSINA named members: AK, NAS and AGI.

Changes in market conditions in Mexico also have played an important role in our ability to reduce dumping margins. Back in 1998, when the Department of Commerce calculated a 30-percent margin for Mexinox, the Mexican market was quite small and open to only limited foreign competition. Because of this, prices for stainless steel in Mexico were relatively high in comparison to the U. S. market.

Since then, however, the Mexican market has grown significantly and has been open to competition. Much of the competition in Mexico is from U. S. producers. Because of this, prices in the two markets have converged. Mexinox is not dumping, in large part, because prices in the two integrated NAFTA markets are now essentially the same. This is a structural change that cannot be reversed.

As regards to our prices in the U.S. market, I do not have access to the pricing data the U. S. producers gave the Commission, but I do know what I see in the market on a day-in-day-out basis. And I am very confident that Mexinox undercut U.S. producers but essentially follows the lead of AK, NAS, and ATI.

Mexinox acts responsibly and prices its products fairly in the U.S. market not because we are trying to be generous to our competitors but because it simply makes good business sense for us to do so. With the majority of our sales in the U.S. market, we would be very foolish to do anything that would undermine our largest revenue stream.

For the Commission to better understand the volume and fluctuations in Mexinox's sales to the United States under the dumping order over the last five years, I also think it's important to keep in mind that the list of Mexinox's core U.S. customers has not really changed since 1999. The top customers that accounted for virtually all of Mexinox's sales back then still account for virtually all of our sales today.

Part of our strategy has also been for Mexinox to focus increasingly on differentiated or value-added products. By this, I mean nonstandard products that are typically outside of domestic mills' sweet spots, products with nonstandard widths or gauges, special surface finishes, plastic coatings, unusual mechanical properties, and with difficult quality requirements. This is a strategy we will continue pursuing going forward.

Whether there is a dumping order or not, Mexinox will, because it must, continue to serve and to grow with its core, established customers. Also, whether there is a dumping order or not, it will continue to be in Mexinox's financial self-interest to price its products fairly in the U.S. market. And, finally, whether there is a dumping order or not, Mexinox will continue to seek to differentiate itself in the market to secure better prices for its products. Thank you.

MR. JUNKER: Good afternoon. My name is John Junker, and I'm the sales manager for Mexinox USA, where I've been employed since June 1, 2004. My responsibilities cover coordinating sales and working with marketing for Mexinox USA.

Before joining Mexinox, I was employed as director of service center sales at J&L Specialty Steel.

CHAIRMAN KOPLAN: Could you move that

microphone closer to you? I just want to make sure the mike is picking you up.

MR. JUNKER: I'm sorry. Before joining Mexinox, I was employed as director of service center sales at J&L Specialty Steel. My responsibilities included sales and marketing for all service center sales in the U.S. and Canada. I've spent 28 years in the specialty steel industry.

I know Mexinox from having been on both sides of this room. I was at J&L when the trade suits were first discussed. I can tell you that Mexinox had a reputation of being a fair trader back then, and I don't think that they are honestly seen as a problem today.

I was really surprised when I first heard talk about targeting Mexinox in trade suits. I could not figure out how we were going to make a case against them, given that they were pretty much like any other U.S. producer in terms of pricing. Little did I know, however, that it did not matter what Mexinox was doing in the U.S. market because relatively high price for stainless steel in the Mexican market at the time pretty much ensured that Mexinox would get a dumping margin.

While not much has changed for Mexinox in the U.S. market, plenty has changed in our industry. You've heard about these changes in some detail already. Let me focus on one, in particular: the rise of North American stainless.

The huge additions of low-cost, modernized capacity coming from North American stainless over the last five years has changed everything in my industry. North American stainless is undoubtedly the world's lowest-cost manufacturer of commodity stainless, particularly in the 304 area but also increasingly in the 400 series as well.

Long-established players like my former company, J&L, frankly, could not compete with North American stainless in market segments like commodity grades 304 and 316. Nobody looking at this market today can ignore the enormous power held by North American stainless, but this is maybe my most important point: I don't think that competition by North American stainless has been all that bad for my industry, certainly in the long run.

To the contrary, as a result of these pressures, both AK and Allegheny have invested, consolidated, and strengthened themselves and have developed product and market strategies by which they can thrive and grow with increasing demands for stainless steel. AK and Allegheny now claim, correctly, in my view, that they are competitive, even against North American stainless.

MR. LEWIS: Good afternoon. My name is Craig Lewis of the law firm Hogan & Hartson on behalf of ThyssenKrupp. In the time available to me, I would like to briefly highlight a few issues for the Commission's consideration.

First, Mexinox urges the Commission to consider Mexican imports on a decumulated basis. Whether or not the Commission agrees that Mexinox's imports would have no discernable impact if the order is revoked, it's clear that cumulated analysis is not appropriate in this case.

As a North American producer, Mexinox is situated differently from other subject producers. Its sales practices, volumes, and pricing exhibit different characteristics and trends. It makes no sense to ignore these differences by arbitrarily combining Mexinox's data with that of other subject producers. The Commission has the discretion not to cumulate Mexinox and should not do so.

Second, Mexinox wishes to clarify for the record that it properly reported its pricing data. Contrary to the unsubstantiated insinuations made in

Petitioners' prehearing brief, Mexinox correctly reported its sales values on an F.O.B. point-of-shipment basis, taking fully into account all applicable discounts, rebates, and returns, as instructed by the Commission staff.

Third, we categorically reject Commerce's finding that it is likely that Mexinox will dump at margins of 30.85 percent if the dumping order is lifted. While this is not the place to litigate the merits of that finding, the Commission has the discretion and obligation to weigh the credibility of Commerce's finding in this case. In this case, Commerce's finding is contrary to the facts, the law, and common sense.

As noted in Mr. Lacor's testimony, the 30.85 percent margin Mexinox received during the original investigation was predominantly the result of a relatively closed Mexican market that existed in 1998. That circumstance has changed as the Mexican market has opened, and prices in the two NAFTA markets have converged. As a result, Mexinox has demonstrated now for five straight years that it is capable of maintaining its market share in the United States without significant dumping.

In light of these facts, we believe that the

Commerce Department's reporting of a 30.85 percent margin is plainly irrational, is contrary to the agency's own policies, and should be given little to no weight by the Commission. Thank you very much.

MS. MENDOZA: For the record, my name is Julie Mendoza. This is Don Cameron of Kaye Scholer on behalf of the Korean Respondents.

Many conditions of competition facing Korean producers today in both the U.S. and world markets are dramatically different from those that existed during the original investigation. By far, the most significant change is China, which Don will be discussing separately. Other changed circumstances are detailed in our brief, but there is one circumstance which hasn't changed since the original order. That is Korean producers' lack of interest in the U.S. market.

The more recent data since the order on Korea's import levels merely confirms what was true before the order. Korean producers had, and have, a marginal interest in the U.S. market. So dire predictions by Petitioners as to what will happen if the order is removed simply don't bear scrutiny.

Since the order, Korean producers continued to express little interest in this market and, instead, have adopted an increasingly Asia-concentrated or focused orientation. That's not surprising if you look at the levels of growth in those potential markets and those existing markets. It's also not surprising because imports from Korea before the order were never a significant presence in the U.S. market.

The confidential numbers are in the brief, but as detailed there, Korea's trends in consumption were different from some of the other subject suppliers, and, most importantly, they were always very small. Moreover, those volumes remained at virtually the same absolute levels after the order was put in place and remained at those same levels until 2001.

Low margins of dumping and CVD duties did not affect Korea's imports. In fact, when the AD margins were reduced, in August of 2001, from over 12 percent to just 2.49 percent for POSCO and 2.49 percent for the all-other rate, Korean imports actually dropped dramatically after that result was published, for the first time since the order as Korean producers turned virtually all of their attention toward China and other Asian markets, including their home market.

Given the Asia-oriented focus of the Korean producers, the record does not contain any evidence that the Korean exports to the U.S. are likely to increase, even to the low levels that they exhibited at the time that the order was put into place.

MR. CAMERON: Don Cameron. Petitioners have characterized exports to the Chinese market, both in this proceeding and in the Stainless Plate proceeding, as a temporary phenomenon that is soon to end. The facts are quite different.

Between 1999 and 2004, Korean exports to China have grown by over 300,000 tons. Korean exports to China will increase again in 2005. Now, to put these figures into some perspective, U.S. imports of subject merchandise from Korea have never exceed 30,000 tons. In other words, China is not a "diversion" from the United States for Korea; these market share are simply not comparable.

We heard this morning that Korean exports to China will dwindle as Chinese capacity to produce stainless steel increases. This scenario ignores some basic facts.

First, there remains a significant shortfall between demand and capacity in Asia, including Korea. As Korean exports to China have increased, imports of stainless into Korea have also increased. A protected home market, which we heard discussed this morning, I don't think so. In 2004, imports of stainless steel into Korea exceeded total U.S. imports of subject merchandise.

POSCO has two joint ventures in China which import increasing quantities of hot-rolled coil for rerolling into cold-rolled stainless. POSCO is also adding 600,000 tons of stainless steel melting capacity in China, which will come on line in 2007. This added capacity is not expected to result in a significant reduction of POSCO's exports because POSCO also supplies Chinese cold rollers, just as they do in Korea to cold rollers.

Between 1999 and 2004, Korean industry shipments of subject merchandise increased by roughly one million tons. However, despite insignificant antidumping and CVD margins, none of this increase came to the United States. Rather, it went to expanding markets in China, Korea, and other countries in Asia. And contrary to testimony this morning, much of that capacity is focused on the Korean domestic market.

This Commission is asked repeatedly, what changes have occurred since the orders? The growth in significance of the Chinese market and Asian markets, compared to the depressed markets associated with the Asian financial crisis, is just such a structural change. Thank you.

MR. CUNNINGHAM: I'm Dick Cunningham. I represent Outokumpu Stainless, the U.K. Respondent.

My task today is to persuade you to reach a separate negative determination as to imports from the United Kingdom, and that task is made easier by two facts. First, in a sunset review, cumulation is, as noted before, not mandatory in the sense that it is in investigations; and, second, and perhaps more importantly, Mr. Hartquist and his team did a fabulous job today of making most of my major points for me.

I want to start with what I think is the most clearly dispositive point here and the one that requires decumulation, that this record shows conclusively that U.K. imports are not likely to have any discernable impact. Certainly, the volume and market share of U.K. imports since the order have been absolutely negligible, by far, the smallest of any Respondent country.

Now, think back to what the Petitioners said about that argument. They said everybody is making that argument, but look at their high volumes and rising trends before the order. Well, look at the U.K. volume and trends before the order: very low, not much above negligibility at the time we looked at this case originally, and declining in every year on the chart. (See Attachment 1 to our prehearing brief.)

And look at the other argument they made over and over, that you can't rely on these low volumes because Respondents have shifted to cut-to-length sheet, and they can shift right back. Well, again, look at the U.K. Outokumpu certainly produces cut-to-length sheet, just like the other Respondents, but Outokumpu's cut-to-length imports did not increase. Once again, Petitioners' argument, as applied to my client, shows that the Commission can rely on the current negligible volumes as evidence of what will happen after revocation.

And, by the way, there is another product shifting that Outokumpu could have done but did not do. Outokumpu produce subject merchandise in Sweden and Finland. It could have maintained its market share free of the dumping duties by increasing imports from Sweden and Finland. Did they do so? No. Again, confirmation that the volumes you see now are the reliable volumes.

And, finally, on the volume issue, Petitioners claim that Respondents have increased capacity, and their utilizations have fallen. Once again, that argument actually exonerates Outokumpu. Look at your staff report. Outokumpu has the same capacity in 2004 as it did in 1999 -- no decline in Outokumpu's utilization.

In short, applying Petitioners' own tests, what you see as to U.K. imports is what you get: volume and market share so low that these imports clearly can have no discernable impact and convincing evidence that this negligible volume would not increase after revocation.

Now, let me say a brief word about reasonable overlap of competition, which is the other issue you have to address with respect to cumulation. Here again, let me rely on Petitioners' description of the competition that they fear: commodity-grade products imported in volume, put into distributors' inventories, and sold at low prices.

Outokumpu's participation in the U.S. market bears on resemblance to that description when you look at what your staff says, that Outokumpu has shifted almost exclusively to a specialty product called "precision strip." Of Petitioners, only Allegheny and a couple of rerollers in small volume make precision strip. It is a negligible part of the U.S. industry's production.

With respect to reasonable overlap, I urge you to look at Table 1-6 at page 128 of the staff's report. Precision strip is such a dinky product -- that's a term of trade law -- that it comes in the "other" line, and I would urge you to look at the percentage of U.S. production in that other line versus the percentage of U.K. imports in that other line: no reasonable overlap there.

But there is even more tangible evidence of an absence of competition. There is, in the staff report, a total absence of U.K. comparisons and customer responses to the request to compare domestic stainless sheet and strip with imported products. (See 229 and 230 of the staff report.)

There is a decline in substitutability of U.K. imports, and in the staff's price comparisons, a total absence of U.K. comparisons in the underselling analysis for the period 2000 to 2004 and only one comparison back in 1999.

Finally, I strongly urge you to look at Table 8 to our prehearing brief, which compares the average unit values of U.K. imports to those of other imports and to domestic sales. Look at the dramatic change that began in 2000 and has continued since. Look at the incredibly higher price of the U.K. product. I submit that no one looking at that table and at the volume evidence that I've discussed here could possibly conclude that U.K. imports should be cumulated or that they pose any threat whatsoever. Thank you.

MR. DOW: Thank you, members of the Commission, for this opportunity to be heard. My name is Pete Dow, and I'm director of strategic sourcing for the Food Equipment Group of Illinois Tool Works. ITW is among the largest users of stainless steel sheet in the country.

In my job, I'm in the stainless steel market every day. Over 90 percent of my stainless sheet purchases in 2004 were of domestic origin. Based on my experience, I can testify to developments that have made these orders unnecessary to protect stainless producers and harmful to stainless consumers.

First, in my opinion, the demand for stainless sheet is growing and will continue to grow in the foreseeable future.

Second, insufficient practical capacity resulted in extended lead times and chronic late shipping by mills. On numerous occasions last year, I was forced to double-order to ensure my supply or to buy substitute materials when our contracted mill supplier could not timely provide the items I needed.

I believe this is more than a temporary blip, as perhaps the producers' testimony this morning suggests. Rather, I think it is a symptom that the stainless supply in this country is within a knife's edge of meeting the demand.

Third, this unprecedented imbalance between supply and demand last year emboldened producers to make fundamental changes to longstanding U.S. market practices, to the detriment of consumers like ITW.

Fourth, the requirements of stainless steel consumers have become more differentiated, but the dominant market position of the producers has, I think, led them to pay little attention to what their consumers want to buy, focusing instead on what they prefer to make.

In 2004, upon acquiring its competitor, J&L, Allegheny idled some of J&L's rolling capacity and dishonored J&L's contract to supply ITW. As a result, we suffered severe delivery disruptions. In fact, at one point, Allegheny was as much as 4 million pounds behind schedule in supplying to us.

We were forced to idle our oven factory in Seattle for several shifts because we could not get the steel we needed. This was a costly disaster that I'm determined will never happen again.

Equally disturbing were quality problems, such as defective sheet we received that cracked when we formed it. I'm convinced the mill would never have shipped such material had it not been frantically scrambling to meet the demand of the market.

My peers at other ITW businesses could provide other similar examples.

In sum, continuation of the orders poses an unacceptable risk of supply disruption to all U.S. companies that rely on a ready supply of quality stainless steel. The suggestion made today that purchasers like me are only interested in buying blatantly dumped stainless if these orders are dropped is ridiculous. I would prefer to continue buying American steel, just like I do now, but I will say that I will import cut-to-length steel from other countries, even at equal or greater cost, if that's what it takes to ensure that I do not risk the same supply disruptions in 2006 that I experienced in 2004.

I urge you to allow these orders to expire now that they have fulfilled their purpose. Thank

you.

MR. McKIBBEN: My name is Bill McKibben. I am currently vice president of marketing and research at Pridgeon & Clay. I've been employed by P&C for 10 years. I'm speaking today on behalf of P&C, as well as the Precision Metal Forming Association.

P&C is one of the largest independent suppliers of stampings for the automotive industry. P&C has two plants in the U.S.: one in Grand Rapids, Michigan, and one in Franklin, Indiana. We also have a plant in Hungary.

P&C is one of the largest U.S. consumers of stainless steel sheet and strip. P&C buys stainless steel predominantly from domestic sources. We have purchased the majority of our stainless steel sheet from AK Steel due to the quality of their product and the reliability of supply.

P&C has purchased a small amount of stainless from Nisshin, Japan, because they make a proprietary gauge of stainless required by our customer that is not available from domestic sources.

The lead time for the supply of stainless steel sheet has increased over the past several years. Before duties were imposed, lead times were six to eight weeks. After duties were imposed, lead times increased to eight to 10 weeks, jumped to 12 weeks in 2004, and since the beginning of 2005, have been extended to 16 weeks.

Last fall, we had difficulty getting any 409 material at all. Many of the orders that were shipped were short shipped. We have had even more difficulty with the 304 series. Last summer, we were told by one domestic steel producer that their order books were full, and they weren't even accepting orders. These increases in lead time and problems with short supply indicate to me that U.S. stainless steel producers are running at capacity.

There is a great deal of product differentiation in stainless steel. Specifications are very precise and include both physical properties and chemistry. There is an independent testing process that must be followed for each product. The qualification process typically takes a minimum of three to four months. Of particular concern is the existence of splits and cracks. For example, you don't want pinholes in an automotive exhaust system.

P&C has tried to qualify Nucor several times but has never been successful due to problems in quality. If stainless steel were a commodity market, everyone would be buying from a low-cost source like

Acerinox in South Africa.

U.S. demand for stainless steel sheet and strip in my industry is healthy. The demand has increased over the past several years as Japanese transplants have shifted to stainless exhaust systems. We anticipate that demand will increase in the future. An indication of robust future demand is the fact that we already have contracts for the 2007 and 2008 model years for automobiles.

The U.S. industry is healthy, supply of stainless steel is tight, and there is a low degree of substitutability between domestic and imported steel. Given these conditions, the Commission should lift the AD/CVD orders on stainless steel.

MR. LIEBOWITZ: Madam Secretary, could I get a time check, please?

MS. ABBOTT: Fifty-seven minutes have elapsed.

MR. LIEBOWITZ: Thank you very much.

That concludes our direct presentation, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you, and I thank the members of the panel for their direct presentation.

MR. LIEBOWITZ: Mr. Chairman, if we may reserve our final three minutes for rebuttal.

CHAIRMAN KOPLAN: Yes. That's the way it works, but you know that.

Vice Chairman Okun, we'll begin the questioning with -- I'm sorry. Let me back up there. Commissioner Hillman, why don't you begin the questioning?

COMMISSIONER HILLMAN: Thank you.

Let me thank all of the witnesses for being here this afternoon. We very much appreciate your taking the time to be with us and for all of the very helpful testimony that we've heard.

I guess, if I could start, first, with the consumers, Mr. Dow, and you, Mr. McKibben, to make sure I understand exactly what you're testifying to in terms of this issue of availability of product.

First, if I can ask, to be very clear, were either of you or, that you're aware of, companies that are part of your group put on specific allocations, I mean, specifically told in advance that you were only going to be able to get so much of a given order?

MR. DOW: Well, speaking for myself, -- this is Peter Dow -- no, I was never put on allocations as much as the mill was just so behind schedule, everything was late, and all of the safety stock, reserve inventory, that our distribution supplier had was used up. We were working hand to mouth.

COMMISSIONER HILLMAN: So you were purchasing largely through a service center.

MR. DOW: Entirely through a service center.

COMMISSIONER HILLMAN: Okay. And it was your service center that was telling you that they did not have product available.

MR. DOW: Right.

COMMISSIONER HILLMAN: Okay. You started to see this shortage occurring when?

MR. DOW: After Allegheny assumed control of P&C, the second quarter of 2004.

COMMISSIONER HILLMAN: Okay. And is that still the case, or does yours service center have product available now?

MR. DOW: No. Lead times today are what I would say normal.

COMMISSIONER HILLMAN: "Normal" meaning how long?

MR. DOW: Meaning on the order of eight weeks.

COMMISSIONER HILLMAN: Okay. And when would you say lead times came back down to what you would say was a normal time frame?

MR. DOW: I would say it was during the

first quarter of this year. Since the first of the year, they have come down.

COMMISSIONER HILLMAN: Okay. Now, Mr. McKibben, his testimony strikes me as a little bit different from yours, in that, at least as I heard you, you were saying that your lead times in 2005 were even longer than they were in 2004.

MR. McKIBBEN: Yes. We buy from the mills, and that may be a difference.

COMMISSIONER HILLMAN: You buy direct.

MR. McKIBBEN: Yes. We buy direct.

COMMISSIONER HILLMAN: Okay.

MR. McKIBBEN: In terms of what we experienced in shortages, we were never really informed when there would be short shipments. We struggled. I guess it was a lot of phone calls back and forth. What it does in our industry, we're a just-in-time supplier, and when we don't get deliveries of the steel, we can't produce the component parts. That then results in weekend work, Saturdays and Sundays, to produce to get shipments out. It results in premium freight. Probably the most damaging impact of that: It goes against our quality rating when we don't ship on time.

COMMISSIONER HILLMAN: Now, do you typically purchase on a contract?

MR. McKIBBEN: Yes, we do.

COMMISSIONER HILLMAN: Okay. Tell me a little bit, then, about this issue of these price escalators for raw material cost increases. Do you typically have those in your contracts?

MR. McKIBBEN: We typically do not.

COMMISSIONER HILLMAN: You do not.

MR. McKIBBEN: The first contract was the beginning of this year where we agreed to surcharges. Prior to that, we did not have surcharges in our contracts.

COMMISSIONER HILLMAN: Okay. Then tell me what happened to the price of the product in 2004. To the extent that you had contracts, typically, they were for how long a period of time?

MR. McKIBBEN: Well, over the time, we've had contracts of anywhere from one to two years in duration. In 2004, we were on the second year of a two-year contract. Base pricing was held by the mill, and we saw no, or experienced no, price increase in 2004. At the beginning of 2005, our negotiations resulted in about a 26-to-28-percent increase in the total cost of steel when we started absorbing the surcharges.

COMMISSIONER HILLMAN: Okay. So throughout all of 2004, your product was being purchased at the same exact price that it had been contracted for before these raw material price increases.

MR. McKIBBEN: That's correct. We had a 2003 contract that was a two-year contract.

COMMISSIONER HILLMAN: And, obviously, it did not contain any escalators.

MR. McKIBBEN: Correct.

COMMISSIONER HILLMAN: Was it specified in volume as well? In other words, the contract itself specified both volume and price.

MR. McKIBBEN: It wasn't specified in terms of volume in a finite number but in terms of percentage of purchase.

COMMISSIONER HILLMAN: Okay. I appreciate those answers. Thank you.

Then we heard testimony this morning on this issue of where the U.S. stands in terms of stainless steel consumption vis-a-vis the rest of the world, with the general sense that U.S. consumption per capita is lower here than it is elsewhere in the world, and we heard some comments as to why that might be the case. I wondered if you could comment. Again, either of our consumers or Mr. Fechter or others that are sellers in the U.S. market; would you agree that the U.S. is a lesser consumer of stainless than others on a per capita basis, and to what would you attribute that? Mr. Fechter?

MR. FECHTER: My personal view is that the consumption per capita is calculated on the manufacturing base. That means the stainless that goes into tool production, into kitchen equipment, utensils, et cetera, and clearly you have seen a dwindling of that manufacturing base in the U.S., a movement into other parts of the world. The biggest cutlery producer of the world is Korea, and, clearly, they don't need a knife and fork.

So these calculations are done on the way the manufacturing base is for stainless. That's why Taiwan and Korea have very high per capita consumption calculated, but it was correctly stated that the U.S. is a big importer of the processed product.

COMMISSIONER HILLMAN: Okay. I appreciate that. It sounds like you're agreeing with the statement this morning. I just wanted to make sure I heard it from your perspective.

Mr. Fechter, if I can stay with you and turn a little bit maybe more general to the ThyssenKrupp Respondents, I was struck that you mentioned that prices are closely coordinated among your family of companies. I'm wondering to what degree there is sort of global decision-making in terms of production, product mix, decisions about where you're producing and for what market among this range of products within the ThyssenKrupp family of producers.

MR. FECHTER: That's why I made the statement that, for us, Mexinox is the focus for the North American market. We have operations in Europe that are focused predominantly on the European market, and then we are busy developing a production site in China for the Asian market.

We've heard a lot this morning about China, but what is not reported is that you have a number of other countries around China in southeast Asia that are also growing very fast like Vietnam, for instance, or the Philippines, et cetera. So that's the reason why we're investing in southeast Asia and the distribution and a processing center so that we can service all of these markets outside the main markets where we have manufacturing bases.

So for North America, what we are doing is we have in Chicago all our salespeople for the Mexinox sales and Nirosta sales and AST sales, and it's coordinated through Stephan Lacor, who is in charge of that, to make sure that we are in line with what the market requires and in line with what Mexinox's sales strategy is for that market.

COMMISSIONER HILLMAN: But your sense is that Mexinox can produce the entire range of product, as well as the entire volume of product that you would need to service the North American market.

MR. FECHTER: At the moment, it cannot produce the full range. That's one of the reasons why we are building a bright-annealing line at Mexinox, to increase that product range, and there are other products that clearly Mexinox can produce which we then supplement from Europe, if required.

COMMISSIONER HILLMAN: Okay. And what portion of what you would hope to sell in the North American market cannot be produced by Mexinox?

MR. FECHTER: Ten to 15 percent. It's a fairly small percentage.

COMMISSIONER HILLMAN: Okay. Thank you.

Specifically, for the post-hearing brief, -- this is more to counsel -- obviously, there is a lot of data on the record about what's going to happen to China, and there's a lot of different data sources that everybody is citing and a lot of different conclusions being drawn from it. I would only ask you, in your post-hearing briefs, to just comment on why you think the Commission should rely on one particular data source versus another.

They are fairly all over the map in terms of what they are suggesting about both consumption within China and projected demand for stainless steel products in China, as well as for production coming out of China. Like I said, you all have cited various ones of them, as have the Petitioners, and I would just like your read on why we should think one particular data source might be better than another.

MR. CAMERON: Commissioner?

COMMISSIONER HILLMAN: Mr. Cameron.

MR. CAMERON: Obviously, we are more than happy to respond to your request, and we will do so. It is useful to note, and, I think, Dr. Crandall noted this in his testimony this morning, however, that even with all of the various scenarios that are portrayed by China, none of them have China becoming the next Asia financial crisis, which, I believe, is the testimony that we heard this morning and was the basis of the position of the domestic industry that, therefore, everything is coming to the United States, and I don't think that there is any support anywhere for that.

COMMISSIONER HILLMAN: Okay. No. It's more that, I think, a lot of them are projecting when, at what time frame, and, again, we'll get into later whether it's within the foreseeable future that China becomes a net exporter, but obviously China is exporting even today, so it's an issue of which of those data sources is most appropriate for us. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Lane?

COMMISSIONER LANE: Thank you.

I have a few questions, and I would like to start with Ms. Mendoza and Mr. Cameron.

You heard a lot of testimony this morning about the projected increases in China in their industry and what that would do to the overall supply in the world. So I would like to ask you if you believe that, and if that, in fact, happens, what will that do to the Korean industry, and where will the Korean industry find a market if it doesn't go to China?

MR. CAMERON: Well, Commissioner, we don't agree that it is not going to go to China. POSCO has made substantial investments in the Chinese industry and in the Chinese market. As we mentioned this morning, they have established two joint ventures. I believe that TKN is basically following the same Asia strategy. POSCO also has substantial capacity in Korea.

The facility that they have in China and that they are continuing to build in China, as well as the facilities in Korea, are designed to service not only the Chinese market, which is projected to expand, I believe, annually at a rate of approximately 9 percent, but I would defer to the experts on that, annually, but also to the other Asian markets. And as you see from the Korean data that is on the record, we have been increasing exports to China on an annual basis, including 2005, and they are projected to continue to increase.

The final thing is that imports into Korea of stainless; again, we're talking about a global market; we're not just talking about one market, and if that market is closed, well, I guess you have to set up shop. You're familiar with businesses. That isn't the way they are run. That's not the basis upon which they make these investments.

Korean imports into China of stainless are greater than total imports of subject merchandise into the United States. When you think of the size of

Korea vis-a-vis the size of the United States, that's a pretty surprising statistic, and yet it's true, and imports have been growing. Why? Because there is insufficient capacity in Korea and in China to meet demand.

MR. CUNNINGHAM: Commissioner Lane, could I add one point to that from the standpoint of Outokumpu, which also sells into China, the fastest-growing market, as we point out in our brief, and we would agree that China is not likely to suffer the problems that the U.S. industry says. But I also want to direct your attention to what was said about the U.S. market and why that's not likely to be a particularly attractive market, even if this happens in China, even if this dark scenario were to happen in China.

What you have in the United States market is, I think, correctly stated earlier, that NAS has become the world's lowest-cost producer for commodity stainless products, and the other two major U.S. producers have modernized quite effectively to become essentially competitive with NAS.

In a market with three of the lowest-cost producers in the world competing vigorously, that's not a very attractive, high-priced market, and it's why Outokumpu, for example, is not selling any significant amount, and would not sell any significant amount, of commodity products here and why we're into our precision strip niche, because that's the only accessible point for us in this market.

COMMISSIONER LANE: Mr. Cunningham, maybe I misunderstood what I heard this morning. I thought that what I heard was that China was going to be producing so much stainless steel itself that it would not need to look outside China for product, and that means that other countries that were currently selling into China would have to look elsewhere, and that's what I was asking --

MR. CUNNINGHAM: Right. And Outokumpu's forecasts disagree with that. They see China as continuing to be a rapid, demand-growth market for their exports to China.

MR. CAMERON: Commissioner, the fact that they become a net exporter does not mean that they cease importing, and I believe that all of the forecasts are that they will continue to have a vibrant trade, and actually I don't think that the president of Allegheny Technologies disagrees with that, at least when he describes the Chinese market essentially as a vibrant market.

MR. CRANDALL: Could I also add to that? The fact is, whatever the forecasts are for capacity and whatever announcements are for capacity in China are well known to everybody in this room and every other room where there are stainless steel producers in the world. The fact that the Chinese are expanding capacity means that other countries are not going to expand capacity as rapidly. If they do so, they won't be able to cover their costs, so they are not going to increase their capacity, and this means that their consumption growth will be greater than their capacity growth.

The only way in which there could be a problem would be if there is a sudden downturn in demand, and I heard nothing this morning that would tell me why there would be a sudden downturn in demand. I see nothing in the financial press suggesting that China is on the brink of falling to 1 percent economic growth or that there is going to be a recurrence of the Asian currency crisis or that Russia and the eastern European countries and the new additions to the EU are suddenly going to stop growing.

You're going to have to have that argument in order to have a problem; otherwise, the market will take care of the capacity expansion. The fact that there is lots of capacity expansion in China means that it won't happen elsewhere.

MR. CAMERON: Commissioner, could I just add one more point? I really do apologize. I'm not filibustering. I do apologize.

But to bring it back to the question that you're asking because you're asking, okay, so look, you guys have put all of this stuff into China, into Asia, and what will happen? The reason that we raised in our testimony the fact that between 1999 and 2004 total shipments of Korean producers have increased by over a million tons -- this isn't a significant amount. We're talking a million tons of increased -- that's not total -- increased shipments.

Where did it go? It didn't go to the United States. You were talking to Korean producers who, of all of the people sitting at this table, have the lowest dumping and the lowest countervailing duties in place. POSCO is excluded from the countervailing duty order. Their dumping order is at a rate that is less than a percent. It doesn't mean anything.

These are not what have driven the corporate decisions to diversify into Asia, into China. People have gone to Asia because it's a big market, and it's a profitable market, and that's the reason for it. But that's the reason we are contrasting the shipments to the United States with total, because that's a fairly stark thing. A million tons, and the increase didn't come here? So what's changed?

COMMISSIONER LANE: Okay. Thank you.

MR. CAMERON: Thank you for your patience, Commissioner.

COMMISSIONER LANE: This is a question for the steel consumers.

From the point of view of the purchaser, could you please distinguish between the terms "allocation," "controlled shipping," and "controlled order entry"?

MR. DOW: If I may comment, -- I'm Pete Dow -- I think they are interchangeable terms. I take them as interchangeable terms. They all mean about the same thing.

COMMISSIONER LANE: Okay. Thank you.

Does anybody else want to comment on that?

MR. McKIBBEN: This is Bill McKibben.

COMMISSIONER LANE: Yes.

MR. LACOR: This is Stephan Lacor.

COMMISSIONER LANE: Yes.

MR. LACOR: We have another term for it.

It's called "reserve capacity." Each mill uses a slightly different terminology to describe conditions when you limit the amount of orders that you accept from a customer base. Customers understand the terminology basically refers to an allocation system which limits the amount of orders that you can place at any one time.

MR. McKIBBEN: Yes. This is Bill McKibben. The terms that are used are absolutely synonymous to us. There really is no difference.

Basically, when you've accepted orders, and you exceed your ability to supply, your lead times go out, and you don't deliver the product, and any term you want to place on it, it's all the same.

COMMISSIONER LANE: Okay. Thank you.

Mr. Chairman, I will reserve my questions for my next round. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Pearson?

COMMISSIONER PEARSON: Thank you, Mr. Chairman, and welcome to the afternoon panel. I appreciate your patience and your willingness to be here.

Mr. Cameron, let me just mention that Commissioner Lane and I are very familiar with threats to filibuster, and I would observe that, unlike those threats, which are kind of an attempt to hinder our service, yours was an attempt to help our service, and so no comparison with the filibuster that I can see.

MR. CAMERON: Commissioner, thank you, and I'm glad that this will be in writing in a transcript, and I sincerely appreciate it.

COMMISSIONER PEARSON: Mr. Fechter, you have a very interesting perspective on the global market for stainless steel sheet and strip because you oversee a firm with operations in a number of countries, and you're involved in moving product from one place to another for quite a number of reasons.

What I would be interested in hearing, if you could, would be to give us some perspective on what have been the major factors over the period of review that have influenced trade flows in global stainless steel sheet and strip. For instance, have currency exchange rates made a difference or antidumping duties or demand growth in certain countries or increased production by competitors? What's been driving this marketplace, and what have the changes been?

MR. FECHTER: Clearly, stainless is becoming more and more a global market. Our customers are much more global. That means they expect from us to be able to service them with comparable quality wherever they require that product.

We have structured ourselves in such a way that we have manufacturing places in the three main regions, -- in North America, in Europe, and now also in Asia -- and we clearly focus on a local supply structure to the local customers.

I heard about lead times of eight weeks and 16 weeks. If you have to supply on a consistent basis from Europe to North America or from Europe to Asia or from Asia to North America, you have to quote three months, four months, if you're lucky. If your own plant is then a 12-week lead time, you have to put the shipping on top, the whole warehousing on top.

So our experience is actually that the customers no longer accept that, so that you have to be local to be able to sell, and that is why the structures have become much more North American based here with Mexinox, supplemented with products that we produce in Europe where they can produce it, and the same we do in Europe, and the same we do at the moment in Asia.

What the people forget is that we have, in Europe, the occurrence of eastern Europe. So that, for us, together with Turkey, the whole market around the eastern European countries is growing very fast at the moment. So, for us, the focus is very much to follow that growth and to support our operation in Asia to get onto their feet.

COMMISSIONER PEARSON: Okay. So would I interpret from what you're saying that it's been perhaps more important to think about investment decisions in certain parts of the world to serve customer demand there rather than thinking about potential barriers or incentives to trading from one country to another?

MR. FECHTER: I was responsible for Mexinox when we received this antidumping claim, and it was a big surprise and shock to us because we thought we were part of the NAFTA market, and we had, at that stage, also received a big part of our feedstock from the North American industry, and we thought we were a part of that whole market structure. We had then to change our philosophy, realize that to stay within the dumping laws, we had to adjust.

There were statements clearly made that the Mexican market has become very much aligned to the North American market, and Mexinox has learned to live with the structures as they are, the laws as they are, and we will maintain our position in the U.S. market with or without the antidumping in place, and that is supported by our decision to invest in Mexinox.

Clearly, we feel that it is a disadvantage to have something like that, especially for Mexinox, but we have to follow our customers. Last year, Electrolux came to Europe, to myself, to us, for help to get material. If it wasn't for the backup that Mexinox had from an international company, they would have never been able to follow such a customer.

Now, we have big supplies to Electrolux also in Europe, and clearly we have tried whatever was possible to help.

COMMISSIONER PEARSON: Is it possible that, over time, there would be such an increase of domestic production in various countries that in order to serve the domestic demand, that we would see an actual decline in global trade of stainless steel sheet and strip, or is the trend not going to push that far?

MR. FECHTER: No. I think you have to balance between what is today the economic size of an integrated stainless steel producer, and I made that statement in my testimony. You, today, have three integrated producers in North America that have the right size to compete internationally. Now, not every market worldwide has a million-ton size, so there are markets where you cannot afford to produce on an economical basis, and then there are the markets where it makes sense.

So if you look around North America, very little was said here why Atlas in Canada disappeared. The reason for that, the size was too small, the market as not big, and the unit itself couldn't sustain itself. But that doesn't mean that NAS, which is a world-class manufacturing unit, cannot supply also the Canadian or the Mexican market, even the Chinese market. They are currently supplying hot band into China because there is, at the moment, a shortage there of hot band material.

The same is in Asia. You will not see for quite some time a manufacturing base in the Philippines, in Vietnam, in Indonesia because these markets are too small.

So the whole argument that the Chinese manufacturing base is expanding very fast is correct, but the assumption that it is only for China and not for the regions around, I think, is the first mistake, and the second mistake is we've always be wrong in the real growth of the market in China. In 2002, the market grew at 50 percent. These are growth rates that nobody forecasted. We had 10 percent, 12 percent forecasts.

But we know we are most probably wrong on the bottom side, and if you speak to the Asians, they have a totally different picture. They feel that if you look at development of Japan and, after that, Korea, that China is only at the beginning of the development phase and requires substantially more raw materials, which is what they call steel and stainless. So they don't see the same, say, threat as we perceive it as European or western people.

COMMISSIONER PEARSON: And then, specifically, to the question of currency exchange rates, has the decline in the value of the dollar during the period of review had an influence on trade flows for ThyssenKrupp or for others in the industry?

MR. FECHTER: Clearly, it does make it easier with a manufacturing base in Europe, but currencies go up and down. I mean, it's not the first time that the dollar is weak and will not be the last time that you will see also a stronger dollar. I don't believe it only goes one way, and businesses like ours, where we invest for 25 to 30 years, -- some of our plants are 40 years' old -- we have to live with short-term changes in the currency.

COMMISSIONER PEARSON: Any other comments on currency exchange rates or other issues we've been discussing?

(No response.)

COMMISSIONER PEARSON: Okay. Well, if not, my light is changing, and so I'll pass.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Thank you all for your testimony thus far.

Let me start, Mr. Williamson, with you. On page 59 of their brief, domestic producers argue that were the orders on subject product to be revoked, the financial incentive to switch back to traditional sources of supply, subject producers would return to importers, particularly in this market where they say the producer must compete on the basis of price.

Their brief cites Table 1-1, at pages 1-4 to 1-7 of the confidential staff report, which indicates that subject imports by quantity, and these figures are not BPI, that subject imports by quantity rose from 131,951 short tons in 2003 to 171,291 short tons in 2004 while, at the same time, nonsubject imports rose from 95,747 to 140,875.

They claim that this demonstrates the ability of importers to quickly adapt to new sources of supply when the financial incentives are there to do so and that this is an important change in the condition of competition. What is your response?

MR. WILLIAMSON: I can really only speak for France. For us, we don't import commodity products. We only focus on small niches of the market in basically faradic stainless steels with a high surface requirement. So we would not, from France, bring in commodity products. We don't have the capacity to do that.

CHAIRMAN KOPLAN: If your statement was that you did, would you agree with this?

MR. WILLIAMSON: Could you explain that?

CHAIRMAN KOPLAN: If you weren't opting out because you're saying you only bring in commodity products --

MR. WILLIAMSON: Right. Based on the testimony that I heard from everybody, nobody, none of our import competitors have a lot of tons to switch to commodity products. They all have other markets in other places where they supply their steel. So I would doubt if the market would be flooded again with commodity imports from all of the subject countries.

CHAIRMAN KOPLAN: Mr. LaRussa?

MR. LaRUSSA: Just one more thing. I think Mr. Williamson answered it. The only thing I would add there is that, in his testimony, Mr. Williamson stated that he, in fact, gets yearly allocation from France for certain types of products for certain levels, and you can go back many, many years and basically see that the market strategy has been the same, and it has not been for commodity products, and it has not been for high volumes, and there is nothing really that anybody put on the record today that would show that that's going to change.

CHAIRMAN KOPLAN: Mr. Cameron, I see your hand is up.

MR. CAMERON: Mr. Chairman, thank you very much.

I find the statement that they make on page 59 interesting. I didn't see anything in their brief referring to controlled order entry or allocation that we heard testified to this morning, and the imports that we see in 2004 appear -- at least it does appear to be consistent with the testimony this morning -- that the domestic industry was at practical full capacity; and, therefore, you did have a demand draw for imports, both subject and nonsubject. In this regard --

CHAIRMAN KOPLAN: Let me just stop you for one second.

MR. CAMERON: Sure.

CHAIRMAN KOPLAN: Allocation, controlled order entry, and controlled shipping are, I heard in response, I think, to Commissioner Lane, that they are all one and the same. But I note that in the Arent Fox brief, at pages 9 and 10, those terms are distinguished. So I just mention that in passing.

MR. CAMERON: Fair enough. I was being consistent with the testimony that we just heard. I think that, sure, there is a difference. I think the question is where you can get it. But I do think, in this regard, it's worthwhile to recall Commissioner Hillman's question this morning in which she asked the witnesses who were testifying extensively to controlled order entry to square their testimony with the capacity data that's on the record.

And while I think that that was a very interesting question, and I'm not sure I really heard an answer, I think it's also relevant to ask them to square that testimony with the testimony that we heard here three weeks ago when witnesses from Allegheny and witnesses from NAS said, We have plenty of capacity to produce, and we wouldn't have to sacrifice anything, and we have plenty of capacity.

Now, it doesn't make sense that all of a sudden we're talking controlled order entry in 2004 for the stainless steel sheet, and the difference between the stainless steel sheet product we're talking about today and the stainless steel plate product we were talking about less than a month ago is the difference between above and below 4.75.

So I think that the statistics on imports don't surprise me, given the testimony that we heard this morning about allocation, about controlled order entry, et cetera. Thank you.

CHAIRMAN KOPLAN: Thank you. I wasn't sure if I was moving to a filibuster here.

MR. CAMERON: No, you weren't.

CHAIRMAN KOPLAN: Okay.

MR. CAMERON: Thanks.

CHAIRMAN KOPLAN: Let me stay with you. The domestic producers' brief, at page 58, footnote 33, states: "There has been a shift in channels of distribution, in that shipments made to distributors have increased by 75 percent, from 33 and a half percent to 57.9 percent, of domestically produced product. If anything, this change makes the domestic industry more vulnerable to recurrence or continuation of injury because sales of subject imports are concentrated through importers." And they cite to the confidential staff report.

Mr. Cunningham, Mr. Cameron, or Ms. Mendoza, could you comment on that? I would like to hear your response. Ms. Mendoza, you look like you reached for it first.

MR. CAMERON: Where is this on page 58? I'm sorry.

CHAIRMAN KOPLAN: It's footnote 33.

MR. CAMERON: Okay. Sorry.

CHAIRMAN KOPLAN: Do you see it?

(Pause.)

MR. LACOR: Chairman Koplan, I can perhaps answer something to that question.

CHAIRMAN KOPLAN: Sure. While they are figuring out their answer, I would be glad to hear from you.

MR. LACOR: I think the gentleman from Allegheny mentioned that even though there had been a shift in the channels, many of the same customers that might previously have been serviced on a mill direct are now being serviced through service centers. For example, Hobart is serviced through a service center. That means that it's not true that service centers only buy commodity-grade products.

There is a large portion of the service

center sales and service center shipments that go to specific end users, and the mills have those end users identified. We call that not a contract but a "bill of material." So there is a significant part of end-use consumption that is bought via the service center but with the end user directly known.

CHAIRMAN KOPLAN: I think that's the point, though. The point is that instead of going more towards the end users, it's going to the service center, and that allows it to be concentrated more on the importers, making them more vulnerable. Do you follow what I'm saying?

MR. LACOR: Right. Exactly.

CHAIRMAN KOPLAN: I think we're saying the same thing, but it's a different result that comes from the shift.

MR. LACOR: Yes. I guess what I was trying to say is, even though it goes into service centers, it doesn't necessarily mean that it's a commodity.

CHAIRMAN KOPLAN: I don't think that was the point. I think Mr. Cameron, though, is going to shed a lot of light on this right now. He's got his hand up.

MR. CAMERON: Commissioner, I have now read this footnote about four times, and I must tell you that I don't see it. I don't see how the shift in the channel of distribution makes them more vulnerable. It's an assertion, but I don't think that the assertion itself holds any water.

They showed injury before, or at least the Commission determined injury existed, without these different channels of distribution. Now, essentially, they are saying, well, the competition is closer. I don't buy it.

Actually, I think the staff report doesn't support that either. The staff report reports the fact that these products are less price sensitive, that these products are less fungible than they were before, and I think that does go to the issue that they are suggesting. It's an assertion without any meaning.

CHAIRMAN KOPLAN: So let me see if I understand that. You're saying you don't agree with their assertion.

MR. CAMERON: That is correct, Mr. Chairman. Thank you.

CHAIRMAN KOPLAN: Thank you, Mr. Cameron. I see my yellow light is on. I'll turn to Vice Chairman Okun.

VICE CHAIRMAN OKUN: Thank you, Mr.

Chairman, and let me join my colleagues in welcoming all of you this afternoon and express our appreciation for your willingness to be here to answer questions and to particularly thank those representatives of companies for your willingness to be here and allow us to ask you questions at the hearing. I very much appreciate it.

Mr. Fechter, I listened very carefully to your answer with regard to your company's view of how to serve Asia and the growing Asian demand and I found that all very helpful.

The one thing I did want to come back and ask you. If I look at the statistics for exports from Germany to China and then I hear about the joint venture facilities. What is the plan, I mean can you explain a little bit more the company's view generally. Is it you need to be in China producing with joint ventures because that's a market where the Chinese are likely to erect additional import barriers, therefore the only place you're going to be able to ship from is inside the country; or does it have to do with geography and the rest of the demand? If you could help me out on that.

MR. FECHTER: I've stated before that once a market becomes bigger than say a million tons it makes sense to have a manufacturing site in such a market If you look, the North American market we have 1.5 to 2 million tons depending on how you calculate it and what countries you add to North America.

If you look at the European Union you're above 3.5 million tons. If you look today at China they're approaching four, 4.5 million tons, so China needs manufacturing for stainless steel, there is no question about it.

If you are a global producer like Thyssenkrupp, you have no choice but to consider either to import into that market, or alternatively, build your own manufacturing site.

You cannot compete on an importing basis via the distance. The customers prefer to buy local. I mean even in North America, the ability for imports to take a section of the market is limited. Why? Because customers like Hobart will not depend on a supply source somewhere in China or in Europe to cover their material, their needs. The same is in China.

We have decided to go into China actually in '95. At that point in time we were one of the first. Today we number four in size in China because we've underestimated the rate at which China is growing. We are comfortable with our position there in China because we can serve our global customers that are also moving into China and Asia from the manufacturing base that we are building in China.

At the moment we have no hot-rolling capability in China. That means we are supplying our Chinese reroller with hot band from AST, predominantly AST, but also from Germany. We are increasing currently the capacity from 100,000 tons to about 250,000 to 290,000 tons, it depends on the thicknesses. And about 200,000 of the hot band will be supplied from Europe. And the rest, over time we will either buy from Bau Steel or third parties.

VICE CHAIRMAN OKUN: You mentioned earlier that you had postponed the melt shop capability. What was that decision based on, if you can share it here?

MR. FECHTER: The reason for that is quite a unique one. We border on the site that the Shanghai government decides to use for the 2010 world, what you call that --

MR. LEIBOWITZ: World's Fair?

MR. FECHTER: Yeah, the World's Fair.

So it was a very unfortunate choice and they've asked us --

VICE CHAIRMAN OKUN: Not an auspicious site?

MR. FECHTER: They wouldn't like to have a melt shop right next to it.

(Laughter).

MR. FECHTER: So we are now in the midst of finding a second site.

VICE CHAIRMAN OKUN: Okay.

If you have any documents from Thyssenkrupp that you could share that would talk about some of your business plans with regard to the Asian market I would appreciate seeing them because I think a number of the things you testified to including how you've described the different markets and what Mexinox is doing and what its plans are for North America, it would be helpful to understand those in terms of how the company is viewing the different regions that you described.

Mr. Leibowitz?

MR. LEIBOWITZ: We'll be happy to do that, Commissioner.

VICE CHAIRMAN OKUN: I appreciate that very much.

Mr. Cameron, if I could go to you with regard to the two joint ventures in China that you reference. Were there two? Is that right?

MR. CAMERON: Yes, Commissioner.

VICE CHAIRMAN OKUN: Tell me about that.

Here you have a Korean company deciding to build inside China to supply that country's increasing demand, yet you're an Asian producer. Why wouldn't you want to keep it in Korea?

MR. CAMERON: I think there are a couple of reasons. Number one, as the witness from TKN said, you're trying to get closer to the markets.

Number two, trade follows investment. I think it is useful, especially in dealing in China, in dealing with many markets, to actually invest in that country. The Korean producers have also determined that it is, POSCO has determined that it's economical for them to serve their other markets in Asia as well.

Those two joint ventures are right now making cold-rolled. They're supplied by POSCO with the feed stock for the cold-rolled, and I believe you've probably seen the statistics that show that POSCO's exports of the hot-rolled feed stock to those joint ventures has been increasing.

They will build a melt shop. The melt shop will be a 600,000 ton melt shop. As we heard in the plate hearings, 600,000 tons is the economies of scale for a melt shop, so you don't want to build something that is smaller than that, but that will still only deal with part of the requirements that they have.

They're still expanding the facilities in China and they are also supplying other rerollers in China with the same hot-rolled feed stock.

We can get you additional information from POSCO but they have told us that China is a terrific market and they determined that it was worthwhile putting the investment there. Not simply trading, and not simply trading on the open market. They invested hard currency to build two significant facilities there. They're partaking in the Chinese market and as a result they are trading very successfully.

VICE CHAIRMAN OKUN: I appreciate that and I'd appreciate any other information you can submit from the company, again to understand one of the issues we've heard which is if it's increasing demand in China and hard to know what the numbers are. Mr. Fechter, you said many people have guessed wrong on China. I would agree with that wholeheartedly. But to just understanding kind of what the dynamics are for these different businesses, that would be helpful.

Mr. Lacor, if I could turn to you and Mexinox.

You hade made a statement about the convergence of NAFTA market prices, I think is what you said. I wanted to have you explain that a little bit more. Again, part of it when I think about prices under the order and some of the things you said, I think, you have the discipline of the order. We have to think about the discipline of the order being lifted, what happens to prices the?

So perhaps if you can talk a little bit more about how you see the convergence of the NAFTA market and why, I'd appreciate that.

MR. LACOR: I think one of the big differences between the Mexican market in the '97, '98 period and today is its size. I think it grew by almost 30 percent, so it's now a much bigger market. It's also a market where we have more competitions. For example, North American Stainless is fairly active in Mexico. So is AK Steel. So as the market has grown larger and more competitive, the high-priced position that existed in '98 has been impossible to maintain. So it's just I think an issue of scale as much as anything.

VICE CHAIRMAN OKUN: Mr. Salas?

MR. SALAS: Yes. I would also like to add that right when the investigation took place prices had already started converging. Remember that we were coming from a time when Mexico was more sort of closed. NAFTA had already been implemented so prices had already started to align.

On the other hand, as Mr. Lacor was correctly saying, the Mexican market has grown tremendously in these last eight or seven years, and it is also important to mention that back in those times, as somebody has already mentioned, we used to buy a substantial portion of our hot bank from U.S. mills at a premium. We were paying a premium for buying from U.S. mills because we would then somehow benefit from the advantage of the tariffs, preferential tariffs for being a NAFTA producer.

VICE CHAIRMAN OKUN: I see that my light has come on, Mr. Chairman. Thank you very much.

Thank you for those responses.

CHAIRMAN KOPLAN: I noticed that, too.

(Laughter)

CHAIRMAN KOPLAN: Commissioner Miller?

COMMISSIONER MILLER: Thank you, Mr. Chairman, and let me join in welcoming and expressing my appreciation for all of the witnesses here today, both the witnesses from steel consuming countries and the representatives of subject producers. I recall Mr. Hartquist at the end of the last hearing, the hearing on the plate case, that he noted that there were no officials of the respondent companies here. I don't know if we put this in the category of be careful what you wish fur, but you certainly have come today and I appreciate it very much because I do think your knowledge of your industry is helpful to us.

What I'd like to start with is asking you to talk a little bit about your perspective on the raw material increases that the U.S. producers have obviously seen, but I believe global producers have seen as well, and if you could talk a little bit about what those have meant for pricing for your companies and how you handle raw material surcharges or anything like that that your companies tried to pass on.

Mr. Fechter?

MR. FECHTER: The raw materials are nickel and chrome, are traded internationally. Nickel is listed on the London Metal Exchange and I think everybody buys as a reference off that price. So worldwide, the issue of nickel is the same.

The issue of chrome is very similar. I think there is pretty much a global price that we all pay, plus or minus a few percent, but I think the issue is no different between North America and Europe and Asia there.

When it comes to iron units, clearly that has only became a problem in 2004 and what happened in

North America also happened in Europe, that we included iron into the surcharge mechanism.

So we have North America with a surcharge mechanism, we have Europe with a surcharge mechanism, and in Asia so far only Japan. The rest of the markets still don't work with surcharge mechanism. The main reason for China is quite simple. You don't have a lot of hot band producers in China. At the moment it's all rerollers. That means they buy the hot band from mainly abroad -- Japan, Korea, Taiwan, Europe, North America, et cetera, Columbus in South Africa. So for them the raw material issue is when they conclude the price on the hot band. The minute that China develops their own integrated plants they will have to much more seriously think about how do they handle their raw materials. So far you've only got Tisco as integrated, Bau Steel is now starting with it so you must give China another two to three years to see how they will handle the raw materials, but I think at the end of the day because of the huge fluctuations in raw materials we have no choice but to go with the alloy surcharge mechanism.

COMMISSIONER MILLER: I know others want to comment but let me just follow up. When you say the EU, Japan, do you mean that the surcharge mechanisms work basically the same way as we heard described by some of the U.S. companies this morning? Sort of an automatic formula that kicks in based on --

MR. FECHTER: The formulas worldwide are different, but the system is similar. It's a fairly automatic structure and in principle if you make the surcharge mechanism negotiable then there is no need for a surcharge mechanism, then you can negotiate the whole price. The whole logic for having the surcharge mechanism is to have the raw material separate and then you negotiate the base price.

COMMISSIONER MILLER: I'll let Mr. Lacor respond and then I know Mr. Malashevich looked like he wanted to comment.

MR. LACOR: Yes, Commissioner Miller. I just wanted to reconfirm then that yes, we do use the same surcharge mechanisms in the sense that it's an automatic pass-through. They're published on web sites so they go automatically into effect As Mr. Fechter said, they're not part of your regular negotiation, but I wanted to draw your attention to other price increases that we had in 2004. I think it's somewhat disingenuous of the Petitioners to claim that the price increases were only on the base price.

I just wanted for the record to state that in 2004 we had Allegheny, A and also Mexinox announce seven discount points in the base price. That's about $240 a ton, so very significant. But on top of that we also had increases on the gauge extra which means the premium that you get for rolling light. And we also had significant extras on the width which means the premium that we get for supplying a non-standard width. We also had price increases on polish; a ten percent increase on surface -- that's what you pay for a polish finish. We had increases for contractual business of two discount points. The industry implemented a mechanism where if you specified the end user and the quantity, in exchange for the mill holding the price and the quantity stable there would be a two discount point premium --

COMMISSIONER MILLER: Let me make sure -- I'm sorry to interrupt.

But when you say we, are you talking Mexinox or the industry larger? Right at the end you kind of shifted back and forth.

MR. LACOR: We, yeah, and I do that because Mexinox sees itself as part of the domestic mill. So we price our products in a similar manner. We follow the same price announcements. We use the same structures, we use the same gauge and width extras and everything that the domestic mill was able to introduce and pass on we followed.

So when the industry moved to a new gauge extra, Mexinox did it also.

So it wasn't just that the surcharges went up, it was that the whole pricing structure moved up in addition to the base price.

COMMISSIONER MILLER: Actually, and I don't usually do this but I think I want to correct the beginning of what you said. You made a comment about you felt it was disingenuous that the U.S. companies earlier talked about base price increases. You meant raw material --

MR. LACOR: I think I'll withdraw the word disingenuous.

(Laughter).

MR. LACOR: I think the focus --

COMMISSIONER MILLER: I just wanted to make sure that there wasn't a confusion in the words there.

MR. LACOR: I think the focus, when I heard the Petitioners respond to your question on pricing was to try and say that the main pricing increases had been because of surcharge.

COMMISSIONER MILLER: Exactly. That's what I --

MR. LACOR: What I'm saying is that is not the case. We got significant increases in the base and we also got significant increases for gauge, width, polish, contract premiums and also depot premiums. So there was a whole shopping basket of elements that were increased in 2004 that stayed in place in 2005.

COMMISSIONER MILLER: Mr. Leibowitz?

MR. LEIBOWITZ: Yes. If I could just to sum all of those things up, they add up to market power. They add up to companies that have the ability to increase the total cost to the customer of the product that they sell, and there are many many different elements to that. All of them have their separate bases. But there was a time when producers didn't have the power to impose a surcharge on titanium, for example, and now they have.

So these are all elements I think of the power issue and I think that is very relevant for the Commission to consider.

COMMISSIONER MILLER: I know Mr. Malashevich wants to comment but I want to go to Mr. Williamson quickly because I'm afraid I might run out of time.

MR. MALASHEVICH: He's more important.

MR. WILLIAMSON: We face the same raw

material issues that the domestic mills do at Ugine & ALZ, and we follow the domestic surcharges for all such material imported in the States, and we follow the domestic increases to the letter.

COMMISSIONER MILLER: Okay. Now, Mr. Malashevich, and I was right, I was about ready to.

MR. MALASHEVICH: Would you like me to wait until the next round?

COMMISSIONER MILLER: Why don't you try to --

MR. MALASHEVICH: I simply wanted to correct a notion Dr. Magrath mentioned this morning. In addition to base, in addition to the extras, even the raw materials surcharges do not in fact operate as a straight pass-through and which are neutral. Because of the escalation of the charges as they are applied to more and more materials and alloys it has a de facto effect of improving the margin. My authority for this is a statement by Mr. Harshman who is the Chief Financial Officer of Allegheny Technologies. I have a transcript from a conference call with financial analysts on April 21st, only days after Petitioners' pre-hearing brief was submitted, and it says, "When you look year over year, especially the first quarter to the first quarter, part of the reason for the margin improvement, profit margin that is, has been that there were new surcharges that were implemented toward the end of the first quarter last year, that the new elements to the surcharges that did not exist before, especially in iron scrap, and that has allows us to basically negate the volatility of raw material costs while on a broader, elemental basis than existed prior to the first quarter of 2004."

COMMISSIONER MILLER: Okay. You're welcome to submit that testimony, that transcript in your post-hearing submission, and I'm sure the consuming companies would have a comment on this but I'm going to have to get back to them.

MR. MALASHEVICH: I would urge you to read every page.

COMMISSIONER MILLER: Okay, thank you.

CHAIRMAN KOPLAN: Commissioner Hillman?

COMMISSIONER HILLMAN: Thank you.

I think Commissioner Miller's question sort of leads into the next question that I wanted to ask, and that is if you can help us understand U.S. prices relative to prices around the world. We heard a lot of debate this morning about whether the data series that's in the Commission staff report is the best one to look at, but from those of you that are out there in markets, the U.S. and other markets, how would you describe prices in the U.S. as compared to prices in Europe, in Asia, or Latin America or other markets into which you sell product?

Mr. Fechter, perhaps if I could start with you.

MR. FECHTER: First, no markets at the same time are always exactly comparable. We for instance had a very strong phase in Asia in the last six months where prices increased significantly. The market was very strong and our plant in Shanghai could not cover the demand from the market. Still, we were not able to supplement that from Europe. Why? Because the lead times are just too far away from such a market.

If you compare Europe, you take the currency into account and Europe today is by far the highest priced market. We have no protection on our market, the domestic producers know that. They are quite keen in exporting to Europe so they know exactly how the pricing compares.

Clearly what we have heard today, the U.S. market prices have also improved. But the big differences between the markets around the world have disappeared.

If you go back ten years the North American market was always by far the highest, then you had the European, and then you had the Asians. If you look at it today, they're all pretty much together. If you look comparison on a two millimeter coil base which is what is internationally used today there is not even a big difference between China and North America.

So it's always a question at what point in time you do that comparison. But through 2004, which was a very strong market period, the statement is absolutely correct to say that the market prices have converged. And if you take into account then shipping costs everybody will always concentrate on the principal markets before they go into any other markets.

COMMISSIONER HILLMAN: Would you say that is true no matter whether you're looking at 300 series or 400 series? It's not a product mix issue, this general convergence of prices would be across a broad spectrum of these stainless sheet products?

MR. FECHTER: I think it's most critical for the 300 series because that's what most of the companies can produce. When it comes to specialist products, BA product or feretics, the 430, then there could be different developments, but that is because there might be shortages in certain markets for products that not everybody can produce.

COMMISSIONER HILLMAN: Would anybody else want to comment, agree or disagree with that? Mr. Williamson? Others?

MR. WILLIAMSON: I would agree that the commodity products are pretty much on an equal footing around the world, but the specialty products because of ability of one company to make a product better quality wise than another product, you could have some price differences.

COMMISSIONER HILLMAN: Okay. And what would you describe those as? Again, is it the North American market that's typically high, the European market? Where is --

MR. WILLIAMSON: I would say right now Europe and North America in feretic products are fairly close.

COMMISSIONER HILLMAN: Close. And higher than Asia?

MR. WILLIAMSON: I would say they're higher than Asia.

COMMISSIONER HILLMAN: Mr. Cameron, did you want to add something?

MR. CAMERON: I would just say that it's not a coincidence that we have pricing that is coalescing in a band because that's exactly what we've heard with respect to the raw materials which are the driver of the prices. The raw materials are globally sourced, they're globally priced, there's not an advantage that one producer in this room is getting versus another producer in this room with respect to those raw material prices. And those raw material prices are the driver of finished product prices. So it is not at all coincidental that in the two millimeter coil that is the bellwether product that is being referred to, that the prices are all going in a band. This is precisely the point that we've been making.

COMMISSIONER HILLMAN: Mr. Cameron, if I could stay with you. Mr. Fechter commented that one of the issues here is transportation, and obviously several Respondents in their briefs asserted that the transportation costs from Asia are high and higher than they have been in the recent past. I have to say if I look, however, at the data in our staff report, the table, V2 would be the one I would typically look at, I have to say it does not show an increase in the share of the Customs values that are accounted for by transportation costs from Japan, Korea or Taiwan. Why is that?

MR. CAMERON: Right and that's an excellent question. Why is that? It's because it's a function of the price of the finished product. Therefore, yes, you did have an absolute increase in that, you had a doubling of the freight rates, but the freight rates don't translate in the chart that you're looking at -- We looked at the same thing because we saw the freight rates go up. Yet when you look at it in terms of the percentage of the Customs value, it doesn't move. Why didn't it move?

It didn't move because the Customs value of the product had shot up by an incredible amount of money and therefore as a percentage of that price, you're right. It wasn't a much higher cost. But as we also pointed out in the pre-hearing brief, if you look at the price of the cost of the freight from Korea to China and compare that to the cost of the freight from Korea to the United States, that's about three times as much, maybe four times.

So it's a significant amount. I'll grant you that it's less given the price. But anyway, that's the answer I believe.

COMMISSIONER HILLMAN: Mr. Williamson, if I can come to you and the data on France. I mean you put up this chart which again part of me says you can do a lot when you're looking at scales and percentages in terms of making a point. I won't comment on it.

But if I look at the actual data on imports, I'm not sure that I would agree with your characterization that there has been this kind of flat line, particularly if I look at the data for 2004. Again, the specific numbers are confidential, but I'm not sure you can describe those --

MR. WILLIAMSON: Well, I think --

COMMISSIONER HILLMAN: -- flat line.

To what do you attribute the change in imports from France in 2004?

MR. WILLIAMSON: 2004, as everybody knows, was a year of unbelievable demand and customers all around the world were short of steel. A lot of customers came to us and we were able to help. But I would also point out, and I think my counsel can help me here, I think our number needs to be corrected.

MR. LaRUSSA: Let me just add to that, Commissioner Hillman.

COMMISSIONER HILLMAN: Mr. LaRussa.

MR. LaRUSSA: Actually in our post-hearing brief we are going to correct that number. Actually several thousand tons that we reported of our shipments actually was destined for TAV that went to Canada, something that we just learned. So the numbers actually are, in terms of U.S. shipments, considerably smaller.

Mr. Williamson also said in his testimony and said right now, 2004 was an incredible year. So if there was in fact a little blip, I think that that's explainable especially given the testimony we had this morning that the domestic industry was beside itself trying to satisfy its customers.

So two answers. One is, 2004 really was an incredible year in terms of -- And secondly, as he said in his testimony, that one percent number really is kind of consistent and hasn't changed very much.

The other side of that is when you have very little volume. It's not going to show up in a chart like that when you have one percent of the market.

Thirdly, the numbers are going to change and you'll see that in our post-hearing brief.

COMMISSIONER HILLMAN: Obviously the domestic parties with respect to France have focused on the fact that because you've shed your J&L assets but maintained processors, importers, and distribution network here, that the U.S. will become more important as a focus for imports from France, given that you've left in place all of the distribution mechanism that used to service J&L, it now has to do something.

Their argument is that it will be servicing product that will now be directly imported from France. I wanted to give you an opportunity to respond to that argument.

MR. WILLIAMSON: J&L was not part of our distribution chain. They were an independent company. There was very little overlap in the products that we sold from France that J&L produced, and that's simply not the case.

We have one small distribution center called Arcelor Stainless Processing that we own in Sterling Heights, Michigan. I'll submit the tonnage that they sell every year, but it's not really significant. So I would say that's simply not an accurate statement.

COMMISSIONER HILLMAN: I appreciate those comments.

Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you.

Commissioner Lane?

COMMISSIONER LANE: Thank you.

I'd like to start my first question to Dr. Crandall.

Commerce issued the subject orders in the summer of 1999. That year the domestic industries market share, production capacity, utilization, sales levels and inventory levels improved relative to 1998, and the domestic industry generated a noticeably higher level of operating income. The domestic industry continued to generate an operating income in 2000, despite a decrease in apparent U.S. consumption.

Would you give me your thoughts as to whether or not the orders helped the industry or what is your position on that?

MR. CRANDALL: Specifically in 1999 are you saying? Or do you mean over the entire period?

COMMISSIONER LANE: I'm talking about the entire period.

MR. CRANDALL: It seems to me the industry went through, I mean we heard the travail both in the plate proceeding and this one, went through a substantial problem in 2000, 2001 as demand fell very rapidly in a mild U.S. overall recession. The recovery, to listen to them, has only occurred since 2003. But this has also been a period of very strong world demand. A period in which essentially the world is running flat out, at full capacity. In that kind of a world the dumping margins or countervailing duty margins don't have much effect except upon the bottom line of the foreign producers. So I don't think it had much effect on the U.S. market because what was driving the prices was not these antidumping countervailing duties or whatever they were, very small ones against Korea that you just heard, but rather the 40 percent increase in price which shows up in your staff report must be due to just incredibly strong world demand for this product.

COMMISSIONER LANE: Thank you.

I have some questions now for the consumers. Your pre-hearing brief at page four describes the U.S. stainless steel sheet and strip industry as healthy and strong, pointing to among other things, increased profitability and return on investment.

Given that the industry was unprofitable or marginally profitable from 2001 to 2003, how much weight should the Commission give to this year's financial performance, particularly in light of the statutory requirements that the Commission evaluate relevant economic factors within the context of the business cycle and the conditions of competition that are distinctive to the affected industry.

MS. NOONAN: This is Nancy Noonan on behalf of the Motor & Equipment Manufacturers Association, and I certainly invite all of my colleagues here to comment on this as well.

I think our view is it is extremely relevant that there has been an upswing in the industry. The commission is looking at trying to make a determination of what's going to be happening in the foreseeable future, and what we have here is concrete evidence that there is an upswing and I think everything that we've heard today, particularly this afternoon, indicates there's nothing that's going to change that upswing.

Would any of my colleagues like to comment?

MR. DOW: I'll make a comment. This is Pete Dow, Nancy.

Basically I think the Commission ought to give it a lot of weight. It's factual. It's real, and I agree with the balance of what Nancy said.

MR. LACOR: Commissioner, I'd like to add something. I think one of the main differences that we're seeing now between the 2001 and 2003 period and 2004 and today is the level of consolidation that's occurred in the domestic industry. So whereas in that period we had five or six domestic producers, today they've consolidated into three.

We mentioned that the stainless steel producer in Atlas has gone out of business -- in Canada, I'm sorry, Atlas has gone out of business. And Allegheny and J&L have consolidated, so it's a much stronger industry in 2004 and 2005 than it was in the '01-'03 period.

COMMISSIONER LANE: Thank you.

Dr. Crandall?

MR. CRANDALL: I mentioned in my testimony earlier the two most recent pieces of evidence you have. That is of the three major companies that appeared before you this morning, domestic companies, two have now reported their first quarter earnings. A does not break out stainless from carbon, but they show the weighted average of their stainless and carbon prices up about 25 percent year over year from the first quarter of last year, and Allegheny Technologies reports about a six percent increase from just the last quarter.

It seems that these events of 2003 forward are not just a blip but rather they're part of a continuing expansion. And as I mentioned, I see no forecast of imminent downturns in demand in the growing parts of the world, or for that matter even in the United States.

MR. MALASHEVICH: Commissioner Lane, I have just one other perspective on this. I agree with everything that's been said, but I also suggest you resist the temptation --

COMMISSIONER LANE: Mr. Malashevich.

MR. MALASHEVICH: Yes. Forgive me, yes.

COMMISSIONER LANE: For the Court Reporter.

MR. MALASHEVICH: Sorry. Thank you.

To resist the temptation simply because the pre-hearing reports period begins with 1999 and ends with 2004. Petitioner's pre-hearing brief agreed with my assessment that the year 2004 was only the first year in a new upward cycle. 1999 was the last year of a multi-year previous cycle and the peak year. Exhibit 1 go the Hogan & Hartson brief charts this relationship using ITC data. So we're only at the beginning of the current upturn and you would not expect it to exceed the peak year of the previous upturn.

MR. CUNNINGHAM: Commissioner Lane? Dick Cunningham.

COMMISSIONER LANE: Yes, Mr. Cunningham.

MR. CUNNINGHAM: I'd just very quickly note that it also may be relevant that your trend that you're seeing here is an improvement in the U.S. industry condition that occurs at a time of an increase in imports in that year, too, and one should, as the Commission traditionally does trend analysis, that would tend to suggest that even if there were some moderate increase in imports next year you would discount the effect of that on the U.S. industry performance given the result this year.

COMMISSIONER LANE: Thank you.

If no one has anything further -- Yes, Mr. Cameron.

MR. CAMERON: Commissioner, just to bring us back to Mr. Lacor's point on the consolidation. When you look at the same data that you were looking at with respect to production and capacity in those numbers, it is significant when you think well, back in 1999 and 1998 we had six producers and it was spread over, these numbers were spread over that. Now in 2004 we're talking these same numbers are spread over essentially three producers or four, but a much smaller number. That does have consequences that we are seeing tracking out as Dr. Crandall says, in the financial reports, in the profitability, in the stability of this industry, and essentially in the global competitiveness and strength of this industry. They are much more competitive, partly because of that consolidation. I think that was the point that was being made.

COMMISSIONER LANE: Thank you.

Mr. Chairman, that's all I have.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Pearson?

COMMISSIONER PEARSON: Dr. Crandall, I was intrigued by your Figure 6, growth in world GDP and world stainless steel output from 1997 to 2004. My question is, is this predictive for 2005? Because if you note in looking at the chart, in a year in which global GDP falls, in that same year global output of stainless steel falls. I think the expectation is that global GDP will decline in 2005, the growth will decline relative to 2004. So would we expect to see a decline in stainless steel production?

MR. CRANDALL: Through much of this period the world industry is not operating at full capacity, particularly 2001-2002. You're right, that right now the forecasts are for some slight easing of GDP growth for 2005 over 2004, but not a very significant one. But it may well be that you won't see as big an increase, I mean after all that increase for 2004 -- without my glasses here -- looks to be about 6.5 to 7 percent increase in production.

With the world industry running pretty flat out it would be probably hard to get that increase. Again, regardless of what GDP growth is.

So what I think you might see is still

increases in production, small ones, and further pressure on price.

COMMISSIONER PEARSON: So we shouldn't read too much into this. In other words, I shouldn't get carried away and try to --

MR. CRANDALL: I think it's important for explaining why it is that there was a decline, downward pricing pressure in 1998. Because output, the world output fell and the world was operating with excess capacity. That is simply not the case. My purpose here was not trying to perfectly explain production but simply to show that when production falls, when GDP falls it leads to declining production and excess capacity.

COMMISSIONER PEARSON: More commonly I would think of matching up GDP growth with consumption growth, rather than production growth or decline. But you've not done this here specifically to try to make the point about production --

MR. CRANDALL: There really are no data on consumption. There are data on apparent consumption and the two should track each other pretty closely, and obviously the only difference is going to be between actual consumption growth and production growth, there are going to be changes in inventories.

And if in fact you heard that there was a buildup of inventories, I haven't checked those numbers, last year because presumably as price is rising very rapidly it becomes more profitable to hold inventories than to worry about whether you're going to be able to get supplies. And you heard one of the Petitioners' witnesses say that he expects a downturn this year as there's inventory disinvestment. But if in fact the price increases that we saw in the Allegheny first quarter continue, I'm not sure you're going to see that disinvestment.

COMMISSIONER PEARSON: Okay.

Would anyone in this panel care to comment on the chart presented this morning by Mr. Blow, particularly his Chart 1 that does indicate a projection that there would be roughly a five percent decline in U.S. stainless steel consumption -- that's for stainless steel sheet and strip -- in 2005? Is that how this panel sees the U.S. market for 2005?

MR. FECHTER: This is Jurgen Fechter for Thyssenkrupp. I was surprised to see that. We're definitely not that pessimistic on the North American market or the U.S. market and so far there is no indications that this actually will happen, even that the first quarter was, as was stated, a little bit slower. But on a very high level. And the second quarter so far, what we are seeing in business in the U.S. is actually quite solid. So there is no indications why it should fall off five percent.

COMMISSIONER PEARSON: I know at least one user of stainless steel commented earlier that you were seeing demand growth for your products. Did others have comments on this? Is this dip in consumption in 2005 plausible? Is it consistent with what you're seeing in the marketplace?

MR. DOW: This is Pete Dow, Commissioner.

I think my comment was the one you referred to. I can't imagine what would cause that. But who knows? I don't think anyone knows for sure. Another terrorist attack in the country that ripples through the economy? Yeah, maybe then it would drop. But I can't see any implicit reason from what I see that would indicate that.

MR. MALASHEVICH: Commissioner, this is Bruce Malashevich. Actually I can tell you what AK Steel thinks apropos of their conference call with security analysts this morning, I emphasize. It's a statement that reads, and I quote, "The outlook for stainless steel also remains positive. That strong demand is attributed to the food processing and equipment sectors as well as increased capital spending."

COMMISSIONER PEARSON: Okay.

MR. FECHTER: I would go along with that statement.

COMMISSIONER PEARSON: Thank you.

Let me direct another question to the users, if I could. In the past year some or perhaps all of you found yourself operating under controlled order entries or other terms for some supply restriction. When that happens, how do you deal with your customers? Do you put them under some COE regime? What happens?

MR. McKIBBEN: This is Bill McKibben. At Pridgeon & Cay when we take orders from our customers we are absolutely in a position where we must supply them product or they can't build automobiles. So there is absolutely no question that when a short supply situation occurs we have to scramble and we have to do everything in our power to make sure that we keep production lines running.

MR. DOW: Speaking for ITW, this is Pete Dow.

We did our level best during the year successfully from keeping these supply problems transparent from our customers. Where we were forced with a choice of not building something or faced with a choice of not building something, generally speaking we had the luxury of deciding what are we going to not build, and usually we could afford to not build something that was going to go to stock as opposed to something that had a firm order against it was custom built. So we did insulate our customers and our competitors did, too, from seeing the effects of the shortage last year.

COMMISSIONER PEARSON: Ms. --

MS. NOONAN: Nancy Noonan on behalf of MEMA. As you will see in our consumer brief there is some discussion of the intervention that has taken place by the Tier 1s. My understanding of that is that a Tier 2 supplier might let the Tier 1 know, look, we're getting into some big trouble here, we're not going to be able to supply you, and the Tier 1 will actually contact the mill directly to ensure that the Tier 2 gets the supply they need.

Also to pick up on Mr. McKibben's point that he made earlier in his testimony. It sounded like what the gentleman from ITW said is well, they put people on overtime, they pay extra for their transportation costs in order to insulate the Tier 1s and other automotive companies so that they don't have trouble with the supply. If that's a fair characterization.

COMMISSIONER PEARSON: Have any of you actually lost a customer in the past year due to these supply constraints? Lost a customer either to another U.S. firm or to an overseas firm?

VOICE: To my knowledge, no.

MR. LACOR: Commissioner Pearson, I have a comment to that effect. I think Mexinox is quite active in the U.S. appliance industry and in 2004 it was common knowledge that the appliance manufacturers were not able to buy all the stainless steel necessary to meet the commitments they had with Home Depot or Lowe's. So the tightness in the stainless steel supply in 2004 impacted the appliance manufacturers' ability to meet orders that they had on with some of the consumer chains.

COMMISSIONER PEARSON: Okay.

MR. McKIBBEN: This is Bill McKibben. It's really hard to tell the impact on the customers of not being able to supply and meet their production needs. We're looking at contracts, where we have contracts that extend a year or two years out. Right now we're looking at closing business for 2008 model years. So will that come back and boomerang back on us and have an impact? Typically what happens, if you mis-ship you get a ding on your quality rating and then if your quality rating reaches a particular point of dissatisfaction with your customer you won't be released on new orders. But the orders for 2005-2006 have pretty well been released. It's 2007 and 2008 that will see that impact.

COMMISSIONER PEARSON: Thank you very much.

MR. LYNCH: Mr. Pearson? This is Mike Lynch of Illinois Tool Works.

While my colleague, Mr. Dow, has already answered, ITW is a much larger entity than is the food and equipment group and in our written testimony which we decided over lunch to hold and to include in our post-hearing brief there is an allusion that no one has spoken about yet today which did by the way come up in the discussions over the 201 where particularly in the auto industry a Tier 1 supplier through their pre-approval process with an OEM dictates from what mill you shall buy your raw material. In the case of ITW Drawform, if they want to keep the business with one of the U.S. transplants, they have to buy from a Japanese mill. They have no choice. They produce a component which is attached to another component produced in Canada which is then supplied to the transplant. Steel for both components come from the same mill. And I guess to your point, I was told yesterday by the management of ITW Drawform that because of the 57 percent duties that they are currently paying on the product, the Canadian supplier has recently notified the OEM that they are prepared to provide the complete unit to the OEM, and of course they will be buying the steel without the duties. So giving them a 57 percent cost benefit on their raw material cost.

So if the orders are kept in place ITW Drawform does expect to lose that business.

COMMISSIONER PEARSON: Thank you for that comment, and Mr. Chairman, thank you for your indulgence.

CHAIRMAN KOPLAN: Certainly.

First, Mr. Leibowitz I think on my first round I found out afterwards that you had your hand up on that last question that Mr. Cameron responded to on the shift in emphasis to the distributors. I wondered, did you want to disagree with Mr. Cameron or --

MR. LEIBOWITZ: No, I --

CHAIRMAN KOPLAN: I didn't mean to ignore

you.

MR. LEIBOWITZ: I did not want to disagree with Mr. Cameron, I wanted to reinforce his point and just very briefly. I think if you explore the self-interest of those who helped make the increased distribution sales happen, and that is the domestic mills, you'll see that they obviously believed it was in their interest to do that. I think there's a couple of possible reasons for that. I think it would be interesting to hear from them.

One might assume, for example, that because of the difficulty in meeting supply needs, having a layer of service centers in between is a plus. It helps you meed the needs of the end users in a period when you're really running flat out and you can't make enough product and the service centers help smooth those bumps out. That was my only point.

MR. CRANDALL: Could I add just one thing to that? This has been going on for a long time in the steel industry, both the carbon and the stainless steel. The reason for the shift to distributors is a lot more of the value-added is now being transferred to these distributors because they're lower cost and they're lower cost because they're not organized by the USW. This is something that the USW has essentially allowed to happen over time rather than trying to renegotiate the contracts as severely as they might have to at the mills. So this is something that's been going on for a long time in the carbon steel industry and the stainless industry, and this is one way in which they've been lowering their costs and becoming more competitive.

So it's hard to now say that having done this themselves in order to make themselves more competitive this makes them more vulnerable to imports.

MR. CAMERON: So they're less vulnerable, not more vulnerable.

CHAIRMAN KOPLAN: Thank you, Dr. Crandall.

Yes?

MR. LaRUSSA: Actually the trend doesn't hold for Arcelor. The trend that was mentioned, it just doesn't hold for Arcelor. It's not, they're not headed in the same direction.

CHAIRMAN KOPLAN: Thank you.

Dr. Crandall, let me just come back to you for a second. This morning I indicated on page four of your economic analysis you refer to AISI data. I mentioned that I would ask you if you could submit that data for the record.

MR. CRANDALL: Sure. It's freely available from AISI. I'd be happy to give it to you.

CHAIRMAN KOPLAN: Thank you, I appreciate it.

The joint pre-hearing brief filed on behalf of France and Korea states that producers from those countries have responded to questionnaires of dedicated alternative markets. I support of that we're told as an example that shipments to the EU by both countries increased between '99 and 2004 with the greatest growth occurring after 2001.

Another country whose identity is bracketed in your brief is also mentioned because shipments to it similarly increased over the same period while French and Korean responding producers virtually, it is stated, "relinquished their relationship to the U.S. market." That's from the brief.

I must say that in my opinion these shifts in quantity indicate to me just the opposite. That is that those responding purchasers' increases in shipments to me demonstrates the ability to shift in or out of alternative export markets based on price.

So I'd like to hear from Mr. LaRussa, Mr. Cameron, or Ms. Mendoza on that point.

MR. CAMERON: Could you tell us where you're referring to, Commissioner?

CHAIRMAN KOPLAN: I think I'm looking at page 11, and -- part of that's on page 11.

MR. CAMERON: So ---

CHAIRMAN KOPLAN: The other country, the one that's bracketed you see starting with the words, "For example." A little over halfway down the page.

MR. LaRUSSA: I think as far as the EU goes, I'm trying to totally understand your question. As far as the EU goes, the --

CHAIRMAN KOPLAN: Do you have --

MR. LaRUSSA: Yes.

Demand rose substantially and basically shipments rose. It's clear that our shipments rose during that period.

I don't think you can say that price is a factor there. Basically what happened is this is their home market. There aren't the huge transportation costs that you have for other markets. This is where Arcelor is well known for its product including the types of products, the bright-annealed and others that Jim Williamson was talking about today. So I think it only makes sense that they were corresponding to their customers, they have huge institutional customers in Europe, and I think it only makes sense.

As far as the other market goes --

CHAIRMAN KOPLAN: What I'm saying is that it appears to me that these shifts in quantity, back and forth like that, indicate to me an ability to shift in or out of alternative markets.

MR. LaRUSSA: That's the first market. The second market, again, I'm trying to find exactly which of the bracket -- I guess the one bracketed country you're talking about here I understand.

CHAIRMAN KOPLAN: I think you've got an adjective that's bracketed. I think the name of a country is bracketed, and there's a percentage bracketed.

MR. LaRUSSA: Well --

MR. CAMERON: Commissioner, with respect to Korea, I think I see your point. What you're basically saying is there's a lot of steel out there and that if you're saying you're exporting, for instance, from Korea to Europe couldn't the shipments to Europe go to the United States.

CHAIRMAN KOPLAN: Yeah, I'm saying why not.

MR. CAMERON: I think our answer with respect to Korea, well in theory anything can happen, but I think that our answer would be that if you look at our data on page roman numeral IV-11, the quantities to Europe are quite small. So there are some Korean exports to Europe. They are not significant. And so when you have small amounts, you have small amounts.

The statement that is being made is that there has been pretty pronounced market dedication to certain areas. In the case of Korea it's clearly Asia, and I think that the statistics also bear that out. I think that was the point that was being made.

If you're saying is it true that we have totally abandoned the U.S. market? No. That is not accurate. We have not totally abandoned the U.S. market.

That said, this comes back to the point we were discussing with Commissioner Lane.

CHAIRMAN KOPLAN: I think the term was virtually relinquished, is what was used.

MR. CAMERON: Yes, and I think -- Well, virtually relinquished, Mr. Chairman, with respect to Korean exports to the United States. If you're talking 15-some-odd-thousand tons, yes, I would say that that is a fair characterization. I think that that data supports the fact that Korea is a minimal and we have not said negligible because it's technically not negligible but it's pretty close. And when you compare that to their position in other markets, I think that is a fair statement, and this gets back to the discussion we were having with Commissioner Lane with respect to the significance of the fact that you have grown in total shipments from Korea of one million tons over that 1999 to 2004 period. None of that growth went to the United States.

Yes, we believe that is significant and stands for that proposition.

CHAIRMAN KOPLAN: Thank you. Mr. LaRussa?

MR. LaRUSSA: The other two markets I was talking about, I mean first we've got the European Union where obviously we're, that's our key market. That's where we're a player and that's where we have to respond to demand.

Secondly, our business plans basically have us focusing on the European market and as we showed from our chart, even though perhaps the one percent is hard to read in relation to the 100 percent, we haven't really changed our approach to the U.S. market. It's been very consistent with the dumping order, without the dumping order.

And third, obviously we are in a different position, we meaning Arcelor, are in a much different position vis-a-vis the third market than Mr. Cameron's client is. If you look at the data there you'll basically see that it's just not the same type of situation. And really, in fact, with that third market the truth is that last year, because we had some problems with some of our capacity -- a flood and certain other things happened -- we had to actually shift the product in question to Europe because Europe, again, is the place where we have to fill our demand and our business plans say that Arcelor's a European company and it focuses on Europe.

So I think it's a slightly different situation. You can't really, with that bracketed country you can't really say that we're anywhere near in the same situation as Korea is. Secondly, we're focusing on Europe. And third, we've been very consistent in the United States, price or no price.

CHAIRMAN KOPLAN: Thank you. I see my time has expired.

Vice Chairman Okun?

VICE CHAIRMAN OKUN: Thank you. I think I just have a couple of things.

One, since I think I failed to do this earlier, in terms of the consumer interest and I guess

I'd direct this back to those, the purchasers who are here today and I don't know, Mr. Leibowitz if you would be doing it as well, but as I've asked in other proceedings to address the issue of the statute and whether it permits, prohibits, allows us to consider consumer, the impact on the consumer as it's been argued and as it was mentioned today by the congressman who testified. If you can do it for purposes of this proceeding as well.

MR. LEIBOWITZ: I'm delighted, Commissioner Okun.

VICE CHAIRMAN OKUN: Okay, and I see Mr. Cunningham --

MR. CUNNINGHAM: I'd just give you 60 seconds on that. I think it's an important issue for these proceedings.

VICE CHAIRMAN OKUN: Sure. This might be a filibuster.

MR. CUNNINGHAM: No. This will not be a filibuster.

The Commission has not normally done quantifications or looked at the health of consumers or the effects on consumers. I would suggest to you, though, that while you do not have a statutory mandate to protect consumers, you do have a statutory mandate to consider the health of the U.S. industry, and to the extent that what's happening in the marketplace, or what might happen in the marketplace as a result of a lifting of the orders, would affect the U.S. industry by its adverse effect on consumers, and I think that's undeniably relevant under the statute.

You've had a good bit of testimony here today from the congressman who came in about consumers being asked by their consumers to move off-shore or to get off-shore supply, to use substitute materials. All of those things, it seems to me, are relevant.

Now the Commission does not have a database that gives you a good way to analyze that and I think the Commission might want to long-term think about this because we are in a world where this is going to be a more and more relevant question as the world becomes more globalized and purchasers can move from one place to the other or move their sourcing from place to the other.

The last point I will make here is this is particularly significant in the case of a domestic industry that is not particularly interested in or historically active in export markets. Therefore the loss of consumers, consumer demand in the United States, whether it's moving off-shore or moving to other products, is particularly potentially harmful to a domestic industry here.

And where you get a lot of testimony to that effect, somehow, as you have here, somehow you ought to take it into account not, as I say, under the statute, not for protecting consumers per se, but for considering where the effect on the consumers has been severe enough that it adversely impacts the U.S. industry.

VICE CHAIRMAN OKUN: Okay. I appreciate those comments, and we'll look forward to the post-hearing submissions rather than debating each of the points here.

Let me then ask, and I think this may be done better posthearing, which is to the extent that some of the Respondents have made arguments regarding the product mix that was sold during the period of the investigation, if you haven't done so if you could for purposes of posthearing please comment on whether your companies still produce the various products, Grades 304, 316, 409, 430, 434, 436, just so I understand what the production is of the companies as opposed to what's being sold in the market currently.

Second, if you can then look and help me understand in terms of for those making this argument if you look at the original investigation and the product mix that was here and if we are asked to look at then lifting the order what product mix would come back in, to go into detail on why there would be a change or why would I expect to see a change in the product mix.

I know it's more relevant for some that are here than for others, so I'd ask for that posthearing. I know you've done some of that, but just so that I know not just what you sold during the period of this review.

I think with that I may be finished, but I do want to thank all of you for your testimony and your patience this afternoon and all the answers you've given us. We find them very helpful, and I will look forward to your posthearing submissions.

Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you.

Commissioner Miller?

COMMISSIONER MILLER: Thank you, Mr. Chairman.

I know it's late, but I do want to explore one other question with the industry representatives, the company representatives here, and that is when I look back at the original period of investigation, that 1996 through 1998 timeframe, while the absolute level of increases of cumulated imports, cumulated imports increased, the market share basically stayed the same.

I think the case at the time was basically a price case. Prices clearly declined in that 1996 through 1998 timeframe for most of the countries that were subject to the investigation -- most, not all -- and for the domestic industry.

Mr. Fechter, you've referenced your position with Mexinox at the time and, Mr. Williamson, I think you said you were with Arcelor at the time. Help me a little bit. Your memory -- I can barely remember what I did a month ago, so I know I'm asking a lot -- of market, the global market conditions in that timeframe that led to those kind of price decreases and were they global as well as in the U.S.

We've talked about the Asians so I'm not pretending I don't know what was going on. I want to hear it from you all directly.

MR. FECHTER: I think the question is a very good one because I can recall that our holding company, Nirosta, in Europe had a very, very difficult time also in the period 1996, 1997, 1998, so the pricing was difficult worldwide.

The Asian crisis had a huge impact on the stainless market. Why? Because stainless is a fast growing product between four to six percent per annum, and if we have a reduction in demand, even if it's temporary, it has quite a global impact.

I know of no country in the world where in that period the prices were not under pressure. That is the one point I think that's absolutely relevant. At that point in time, strangely enough, Asia was still not as badly affected in China as it was in Korea and Taiwanese and other markets because the local manufacturing was still quite low, but clearly also Asia was tremendously affected.

That was more an issue as stated this morning on volume. The price was clearly also under pressure, but you couldn't do business because people didn't have financial backing at that stage.

In Mexico, for us the situation was a big surprise because we saw ourselves as part of the North American market. We had an understanding with U.S. industry. We bought 40 percent, sometimes 50 percent, of our feedstock hot band from the U.S. The U.S. melts knew that. We paid a sizeable premium for that hot band compared to international prices and afterwards realized that we made a big mistake.

Clearly that will not happen again. The markets have converged. We no longer have a Mexican market from which we can afford to pay a premium, and Mexinox was left to operate now in a structure as the global markets are, but I think Mexinox today is able to do that. We've learned how to work by the current economic structures that we have both in Mexico and in the U.S.

COMMISSIONER MILLER: I appreciate that.

Mr. Williamson?

MR. WILLIAMSON: As memory serves, I think it was a global downturn in world markets. Perhaps we can address this is posthearing briefs, do a little research and come back.

COMMISSIONER MILLER: For your company in particular I would ask that you would counsel and perhaps tell us a little bit more about the trends that I see in your data because I do recognize that they were different and so I would invite you to look at unit values, price, whatever information you have about imports from France in that timeframe.

MR. WILLIAMSON: We will do that.

COMMISSIONER MILLER: Mr. Lacor, you wanted to add something?

MR. LACOR: Yes, I wanted to add something.

I have recollection of that because we were operating -- I was with Mexinox, like I said, since 1989, and I think John Junker mentioned this also from his time at J&L.

When we looked at the market and what was driving the market in that time period we would really look at the impact of North American Stainless and their capacity additions much more than we would look at imports. Again, Mexinox doesn't really consider itself an importer, a North American player.

I don't think the Commission should underestimate the impact of NAS' additional capacity, and also J&L in 1997 added significant -- 200,000 tons of commodity capacity that was being placed in the market. I think we should look at the impact of that as much as any shifts in imports.

COMMISSIONER MILLER: Okay. All right. I appreciate that.

If there are no further comments, I don't believe I have any further questions. I appreciate all of your testimony. Thank you.

CHAIRMAN KOPLAN: Thank you.

Commissioner Hillman?

COMMISSIONER HILLMAN: I think just one quick followup while we're in the mode of refreshing our recollection.

Mr. Cunningham, your testimony has gotten me puzzling over the U.K. data.

MR. CUNNINGHAM: That's my role in life.

COMMISSIONER HILLMAN: I have re-read your brief sitting here. It still doesn't explain for me why. I mean, I clearly understand the trend. I've looked at the numbers. The U.K. was at its peak in 1996 and, you know, obviously a very substantial decline from there. Why?

I got the numbers so I know what happened. I'm just trying to make sure I understand why because that would have been before the petition.

MR. CUNNINGHAM: I think as I said to you --

COMMISSIONER HILLMAN: It was before the petition.

MR. CUNNINGHAM: Right. Correct.

COMMISSIONER HILLMAN: It could have had any effect. You're coming out of the market.

MR. CUNNINGHAM: Right. As has been testified several times, this was becoming at that point a very competitive market for domestic reasons with NAS introducing a large amount of new capacity and probably the world's most efficient low-cost capacity at that time. The other domestic producers were becoming competitive with NAS.

This became on the commodity markets a less attractive market for Outokumpu and we --

COMMISSIONER HILLMAN: Okay, but from the unit values it would not look like you were in the commodity part of this market. You were clearly above what everybody else --

MR. CUNNINGHAM: Take a look at the unit values. Take a look at the shift in 2000. Take a look at that figure. You'll see a significant change then when we really went completely or almost completely to the niche precision strip.

Before then we were gradually moving away from the bulk stuff, the commodity stuff, which we had never been a huge factor in anyway. Hell, we were -- excuse me. Gosh darn it I should have said. I'm following the bad example of Petitioners.

We were a fraction of any of the other Respondents here at any time, but we were moving out of, gradually away from the commodity stuff and leaving us with this niche stuff.

COMMISSIONER HILLMAN: Okay.

MR. CUNNINGHAM: It's a market now where we have a very competitive, low-cost U.S. industry that competes very vigorously among themselves.

I think our people's views is -- you asked before about the data in the staff report, the relative prices among countries. Our people's view is they would not be surprised to see the U.S. be at the low end of the world market prices, particularly in commodity grades, because of the fact of what I was talking about.

COMMISSIONER HILLMAN: All right. I hear you. I'm not entirely sure I think the time at which it appears the U.K. product came out of the market is necessarily the same as the timeframe under which NAS and others became more competitive, but I hear it.

If there's anything further you want to add in the --

MR. CUNNINGHAM: The one other thing I would say is remember that this was the time in which there were two changes that went on in the ownership of this U.K. production. There was originally a British Steel Stainless. It then moved to Avesta Stainless, Avesta Sheffield, a joint venture, then to Avesta and then to Outokumpu. There were different management views that may have had some effect on this.

We'll do a little bit more explanation in the posthearing.

COMMISSIONER HILLMAN: All right. Again,

your brief tells me what happened. It wasn't so clear to me that it tells me why it happened. I appreciate those answers.

With that, I have nothing further, Mr. Chairman, other than to thank all of the witnesses very much. Your testimony has been extremely helpful. Thank you.

CHAIRMAN KOPLAN: Thank you, Commissioner.

Commissioner Lane?

COMMISSIONER LANE: (Non-verbal response.)

CHAIRMAN KOPLAN: Commissioner Pearson?

COMMISSIONER PEARSON: A couple questions, Mr. Chairman. The first one at least I think is quite brief.

For Mexinox does the United States export stainless steel sheet and strip to Mexico? Do you have U.S. product coming into the Mexican market? Is there an ongoing two-way trade in this product?

MR. LACOR: Yes. Both North American Stainless and AK are active exporters to Mexico, so there's two-way trade.

Maybe Mr. Salas would like to say a little more on that.

COMMISSIONER PEARSON: Please?

MR. SALAS: Yes. We see them every day in the marketplace in Mexico. Their exports have grown. They are very much into the commodity product, 304, which has been already discussed here, and automotive.

COMMISSIONER PEARSON: So is the United States largely shipping product to Mexico that is not produced by Mexinox?

MR. SALAS: No. They are competing with Mexinox in Mexico --

COMMISSIONER PEARSON: Okay.

MR. SALAS: -- because they also see that as part of their local regional NAFTA market.

COMMISSIONER PEARSON: Okay. I just wanted to understand because obviously there could be trade that wasn't directly competing within this body of products.

My last question deals with the staff report at Table 3-13 on page 328 which deals with return on asset information. This is I'm advised all public information so I can talk about it.

Looking at the six years we have in the period of review, the first couple years, 1999 and 2000, the U.S. industry had a pretty decent return on assets, 8.3 percent and then 13.3. Then it had a not so good year, minus 2.9. In 2002, kind of break even at a one percent return. 2003, an absolutely lousy year with minus 19.5 percent and then last year 9.9 percent.

As I look at that, it seems to me not exactly a stellar return on assets over that period of time and so as I try to understand it why shouldn't I conclude that this industry is vulnerable? It hasn't been able to do all that well in terms of return on its assets.

I thought there would be some answers. Yes, Mr. Crandall?

MR. CRANDALL: Let me address that. This is Bob Crandall.

The return in 2003 reflects a large amount of writeoffs. I mean, the consolidation we're talking about and the writing down of assets is going on at that time. That's now taken place. There were none reported in 2004 here so I think what you see is a very healthy industry, and clearly NAS, which is very profitable -- I mean, its profits that I reported to you in my testimony are after tax.

They had a 10 percent return on sales after tax. I didn't calculate a rate of return on capital because it's hard to do that because this is Acerinox, and they're not giving us a full report on NAS' financials.

You're seeing a substantial increase, and it's continuing into 2005 so that blip in 2003 is largely due to a restructuring of the industry and purchase of assets, writing off some assets and the one-time charges as they say in the accounting profession.

MR. MALASHEVICH: Commissioner, if I may elaborate, please? I'm Bruce Malashevich.

First of all, I'm hoping you would give us leave to address this in our posthearing brief using APO data because I think a disaggregated analysis of the industry would be illuminating.

I agree with everything Dr. Crandall said. I would only add that if the industry were vulnerable why would they spend a billion dollars of new investment within the last several years to put on a melt shop, a hot strip mill at NAS and Allegheny's acquisitions, among other things, of J&L unless they were convinced that there was a very attractive return on those assets in the offing?

That's why we've been pressing the Commission and staff to request the return on assets, return on investment analyses that must have been done prior to those investments.

COMMISSIONER PEARSON: Okay. Mr.

Malashevich, I'd be very pleased to see in the posthearing the disaggregated analysis that you discussed.

Mr. Cunningham?

MR. CUNNINGHAM: Over the years of working before this Commission I've become a trend analysis junkie, and I get hooked on correlations. One of the things I would suggest you do is correlate that chart with the table on page 4-2, Table 4-1, on volume of subject imports. You'll see an absolute reverse correlation.

That is, the years in which subject imports are higher the U.S. industry has the higher rate of return, and the three years when subject imports are lowest are the years where the U.S. industry has bad rates of return.

A conclusion that might be drawn from that is that there's no cost/effect relationship between imports, subject imports, and the return on investment of this industry.

COMMISSIONER PEARSON: Okay. That's an interesting point. It wouldn't entirely surprise me if Mr. Malashevich elaborates on that one in the posthearing also.

Mr. Fechter, did you have a comment? You were thinking about it earlier.

MR. FECHTER: I think the statement that was made that some of the no longer existing structures pulled down the average numbers, I mean J&L was notoriously red so if you include that in the statistics clearly that takes down the average.

If you look at NAS as an individual operation, what can be done in the North American market, you can see that one of the most profitable -- actually the most profitable -- operation worldwide so it's a question of how you do it.

I don't think that the losses that were suffered were only due to the market. That's the reason why also the industry restructured. If you look at the three remaining plants now I'm sure that you will see substantially better numbers for 2004 and 2005.

COMMISSIONER PEARSON: Okay. Any other comments on return on assets or on vulnerability?

MR. FECHTER: This morning you had a question that asked why would business people outside the U.S. change their approach to the markets on pricing? Why would they not also carry on focusing on optimizing their results?

COMMISSIONER PEARSON: Yes.

MR. FECHTER: All I can say to that is it would make no sense for ThyssenKrupp to try and increase a little bit the volumes in North America and at the same time hurt the volume position and the market position that Mexinox has here.

I mean, everybody can do the calculation that it's not in our interest to actually harm this market. We have a market share worldwide of 13 or 14 percent. We have no interest in driving down the market so I must say I found the statements very strange.

I can only support the notion of your question that we as business people are under tremendous pressure to also earn the return. Therefore, we will try and manage the big markets like North America and Europe and Asia in the best possible way.

There will always be difficult market periods, but that does not mean that the people therefore that manage these markets will drive specific markets, especially North America, down.

COMMISSIONER PEARSON: Okay. Thank you very much.

Mr. Chairman, I have no further questions.

CHAIRMAN KOPLAN: Thank you, Commissioner

Pearson.

I have no additional questions. Let me see if anyone from the dais does.

(No response.)

CHAIRMAN KOPLAN: Apparently not.

I want to thank you all very much for your presentation and your answers to questions.

Let me turn to Mr. Corkran and see if staff has questions.

MR. CORKRAN: Douglas Corkran, Office of Investigations. Thank you Mr. Chairman. Staff has no questions.

CHAIRMAN KOPLAN: Thank you, Mr. Corkran.

Mr. Hartquist, you have two minutes remaining from your direct presentation. Do you have any questions of this panel before I release them?

MR. HARTQUIST: No questions. Thank you, Mr. Chairman.

CHAIRMAN KOPLAN: Thank you. Well, with that I want to release the panel. I thank you very much for your testimony again.

While you're moving away from the table I'll tell you what we have in the way of time remaining. Those in support of continuation have two minutes remaining for rebuttal and five minutes for closing.

Those in opposition have three minutes remaining from their direct presentation for rebuttal and five minutes for closing.

CHAIRMAN KOPLAN: Mr. Hartquist, while they're moving, do you wish to use the two minutes from your direct or do you wish to go directly to closing?

MR. HARTQUIST: Mr. Chairman, if I may, I would just combine the time and use the seven minutes.

CHAIRMAN KOPLAN: All right. Go ahead.

You may proceed.

MR. HARTQUIST: Thank you.

There are a number of things that we would like to respond to today and many more that we would like to respond to in the brief.

First of all, the discussions about global prices and where prices are highest, whether the United States or other countries have higher prices, I'll just mention and we will put this in the brief that there is a very recently published report by MEPS; it's a March 2005 report.

And particularly with respect to grade 304's stainless, the biggest selling item of sort of the commodity of stainless sheet and strip category, you'll see that prices in the U.S. are higher than all countries in the world, including the EU average, and in addition, the differential between the U.S. prices and prices in China are far greater in March 2005 than in the December 2004 data.

You know, when you listen to the Respondent's arguments about how well the industry is doing and the lack of vulnerability, you would think that they've been doing very well recently, but I would just note as we did earlier in the testimony that, in 2004, the operating profits of the domestic industry were only at about a six percent level, not a very good return at all.

A couple of comments with respect to our friends from Mexinox. Mr. Lacor testified about their pricing in the U.S. market, but I would note that the anti-dumping duties applicable to Mexinox after dropping in the first annual review from the 30 percent level down to about two percent have been increasing pretty steadily and they're now up in the most recent review to about six or seven percent. So there's still significant dumping in the U.S. market.

Mr. Fechter's testimony indicated that Mexico should not be cumulated with other countries, but he also testified that they coordinate very carefully the shipments with respect to Italy and

Germany in terms of volume and pricing relationships among the commonly owned ThyssenKrupp producers.

Mr. Cunningham testified about U.K. pricing. We would note that in the original case, there was more underselling by the U.K. producer than any other country that was represented in that proceeding.

He's also referred to the focus on precision strip and that being a relatively small part of the total stainless market. It is a relatively small part of the market, but it is a very significant part. AK and Allegheny both produce precision strip, and this is a product that the U.K. company has been focusing on in their export efforts recently.

Mr. Cunningham also indicated that Outokumpu had not shifted its imports from a covered country, U.K., to Finland or Sweden, not covered. But let's look at some recent data. In 2004, total exports to the U.S. from Finland and Sweden were about 20,000 tons; they were about 4.5 percent of all imports.

But January and February of 2005 show quite a different situation, about 6,000 tons, which would be more like 36, 38,000 tons on an annualized basis or about twice as much as they were shipping in 2004.

Mr. Dow, a couple comments on Mr. Dow's testimony. He indicated supply problems with a service center supplier to them in the automotive business after Allegheny assumed control of J&L in the first quarter of 2004. Allegheny didn't purchase the assets of J&L until June of 2004.

So, in the first quarter, when J&L was notifying customers that they were shutting down their production, that was a time that the problems began to occur, and when Allegheny took control of those assets, they rapidly ramped up and began to supply the market again at substantial levels. And we'll deal with this a little bit more in the brief.

They also noted, and Mr. Dow also noted, the kind of double ordering that Mr. Hartford referred to as a reason for the controlled order entry system that Allegheny had developed.

And, by the way, if anybody needs 409, there are people here who would be happy to take orders today. There's no problem in getting this material from any of the domestic producers. All three of them produce it.

I also want to note Mr. Lacor's testimony indicated some commonality in pricing among domestic producers, saying that Mexinox essentially follows the pattern of domestic producers.

There really isn't a pattern. They compete with each other very aggressively. And the price increases which may be initiated by one company are frequently not followed by the other companies, so there is no sort of single price in the U.S.

And, lastly, we will note in the brief in considerable detail how the pricing mechanism works. There was a lot of confusion about it today, but essentially, you have a number of elements.

You have what may be called a base price. Then you have the kind of extras that Mr. Lacor referred to. That translates to a gross price. Then you have discounts. Discounts are sometimes raised and lowered. You have a net price, which is really what is typically referred to as a base price, a net price after extras and discounts. And then you have a surcharge formula.

So at least for one of the companies we will lay this out in the brief so that you can see how prices are built up essentially and where the surcharge fits in and the raw material at cost.

Thank you very much. We appreciate your attention today and also appreciate the Respondent's providing a large number of witnesses, indicating their sincere interest in this proceeding and we think getting back into the U.S. market big time. Thank

you.

CHAIRMAN KOPLAN: Thank you for that, Mr. Hartquist.

I note that Mr. Leibowitz, Mr. Cameron, and Mr. LaRussa are dividing up the time on rebuttal and closing, so how do you want to start?

MR. LEIBOWITZ: I think Mr. LaRussa is going to start.

MR. LARUSSA: Mr. Chairman, I'll just take a few minutes. I've been in trade policy a long time, and I have to say I was a little surprised at what I heard today. I mean, the rhetoric was really from a pre-globalized steel world. I mean, what I heard literally was imports were a problem. They're never fairly traded. Subsidies are rampant. Foreign steel companies aren't capitalistic.

Well, I'm as nostalgic as the next person, and, in many ways, it would be great for me if it were 1999. I was 45 years old and there was a different world in Washington.

CHAIRMAN KOPLAN: That's true.

MR. LARUSSA: But having said that, it's not 1999. There's no Asia crisis looming on the horizon. There is no demand dislocation. I think it was very interesting what Commissioner Okun said. There is no reason for any kind of imports to come flooding back into the United States.

And, you know, when I heard that 1999 is a precedent for 2004, well, that's ridiculous. China's falling apart. Asia is going to fall apart. That's ridiculous.

In fact, it was interesting that the same company or one of the companies that was talking about the looming Asia financial crisis was also talking about investments that the company had made in China, which seems a little strange.

The next point I'd like to make is that they basically, domestic industry this morning basically just kind of pushed aside economic principles of supply and demand.

Dr. Crandall spent a lot of time talking about demand in the U.S. market and prices in the U.S. market, and it's a little hard to believe that prices in the U.S. market, given the demand situation and given the capacity situation, which is, we heard today for the first time unlike we heard at the plate hearing, that many companies actually were at full capacity.

It's a little hard to believe that that situation is driven not by the forces of supply and demand but is driven in fact by an anti-dumping order that covers a very small percentage of imports in the market.

I'd like to make one reference to this whole issue of the relationship between price increases and the increases of the inputs. I think that that was skirted this morning in the domestic industry's answers to your questions, but I think I would like to point out that Dr. Crandall said it very well. The price increases in steel clearly outstrip the price increases in the inputs.

Next point. This isn't the same U.S. industry. Everybody knows that. It's ironic, as Dr. Crandall pointed out, that Allegheny's first quarter report was a glowing report. The press release is even more glowing. And then what we heard this morning was about the suppression of profitability. It's just seems strangely inconsistent.

Next point. Why have imports continued in this market? Well, the answer is simple. There is incredible demand in 2004 in this market and the market can't be supplied by the U.S. industry. And, again, for the first time we heard that.

And, finally, I just -- I have to say I'm just a little shocked because I don't know where this came from and I certainly think that the United States is a great country, but certainly the rest of the world at this point is a capitalistic place.

The discussion about Arcelor today being this combination of these three countries, well, these are three big European companies that certainly are capitalistic, Arcelor being by some measures the biggest steel company in the world, the others the second biggest steel company in the world is certainly not driving things based upon anything other than wanting to make a profit.

And I would say that there is a reason why Arcelor and Korea and others have not been focused on in the U.S. market, and that is just very simple. That's not where they're making the profit today. That's not where their long-term aspirations lie.

So, given the fact that I heard things today that I had not heard since I worked in the U.S. Congress since the 1980s, I have to say that I really had to take a general overview here, and I thank you for my part of the time.

MR. LEIBOWITZ: Mr. Chairman, I wanted to remind Mr. Hartquist and the Commission that my client, Mexinox, is already in the market. That's why they're here, and that's why the chairman of the worldwide operations is here. This is not a matter of aspiration. It's a matter of reality and the future going forward.

And we've also seen some trend information. I don't think there's any question on this record that product differentiation is increasing. Sure, there's commodity products, but the differentiation among competitors is increasing.

This is the first year of a new cycle. There will be more growth within a reasonably foreseeable time. There is no Asian crisis crash coming, as Mr. LaRussa said.

As far as pricing is concerned, there is no incentive, as was very eloquently stated by Mr. Fechter and others, for anyone to disrupt the U.S. or North American market. It is Mexinox's principal market. There is no sanctuary market. There is no marginal cost issue. They must compete and earn revenue and earn profit in this market. They intend to do so.

You've seen a lot of evidence about operation at capacity. I think we feel very strongly that is what's going on here in the domestic market. They have the power to pass along surcharges and other increases in prices, and consumers have been suffering from short supply, which continues.

Regarding consumers, we will brief it in our posthearing brief and as will others. But we believe the Commission in a sunset review must consider all relevant information. It is no less relevant that demand would increase if an order is revoked or would decrease if an order is maintained than it is that prices would go up or go down in the event of revocation or non-revocation. Equally relevant and must be considered by the Commission.

On this record, if not now, when can an order be revoked? What the Petitioners plainly want is permanent protection. In their own self-interest, I think it's time to think about the issues that the statutes requires us to think about.

And, finally, let me just say that the margins that Mr. Hartquist referred to are based quite substantially on a practice of the Commerce Department, which, as Mr. LaRussa knows, is very creative at calculating dumping margins at any time but is based on the practice of zeroing, which has been declared unlawful by the World Trade Organization, and that's a problem we expect to fix in the reasonably near future.

I think the margins are very low and they are not commercially significant, and that proves out point. So I wanted to thank Mr. Hartquist for that.

With that, I'll close and thank the Commission for its time.

MR. CAMERON: Mr. Chairman, I see my yellow light is on.

CHAIRMAN KOPLAN: Yes, it is.

MR. CAMERON: No, that's fine. Actually, I would like to echo the comments that were made by co-counsel and only want to say that, on behalf of joint Respondents and the consumer witnesses, we sincerely appreciate the time that the Commission has taken to listen to our arguments today. It has been a long day, and we sincerely appreciate the Commission. This is a terrific institution, and we appreciate it. Thank you.

CHAIRMAN KOPLAN: Thank you for that, Mr. Cameron.

Posthearing briefs, statements responsive to questions, and requests to the Commission and corrections to the transcript must be filed by May 5, 2005. Closing of the record and final release of data to parties by June 3, 2005. Final comments by June 7, 2005.

And, with that, this hearing is adjourned.

(Whereupon, at 5:50 p.m., the above hearing was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Stainless Steel Sheet and Strip from France

INVESTIGATION NO.: 701-TA-381-382 & 731-TA-797-804 (Review)

HEARING DATE: April 26, 2005

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: April 26, 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