

# Circular Welded Carbon Quality Steel Line Pipe from China

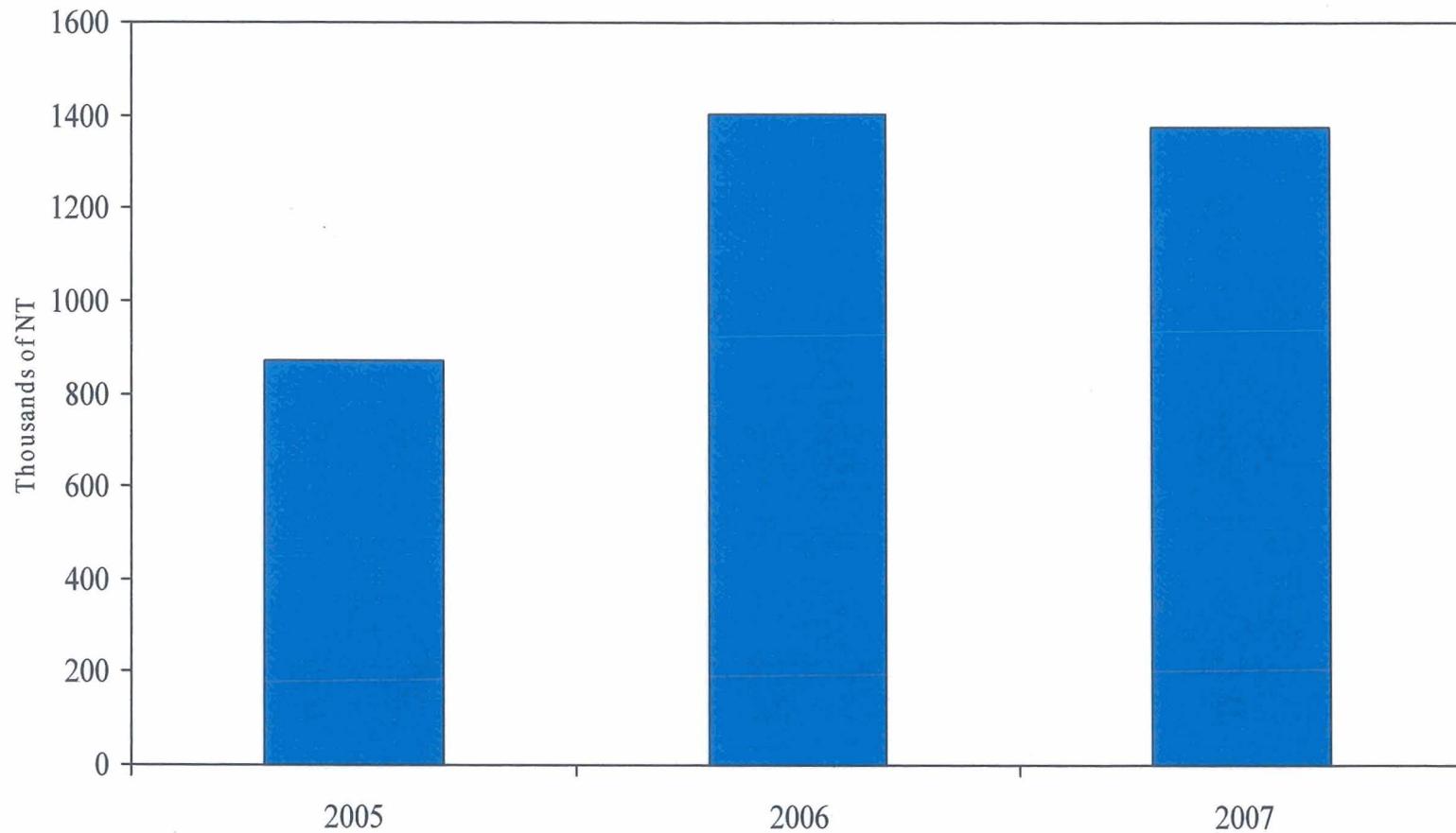
Skadden, Arps, Slate, Meagher & Flom LLP

November 24, 2008

# Key Points in These Investigations

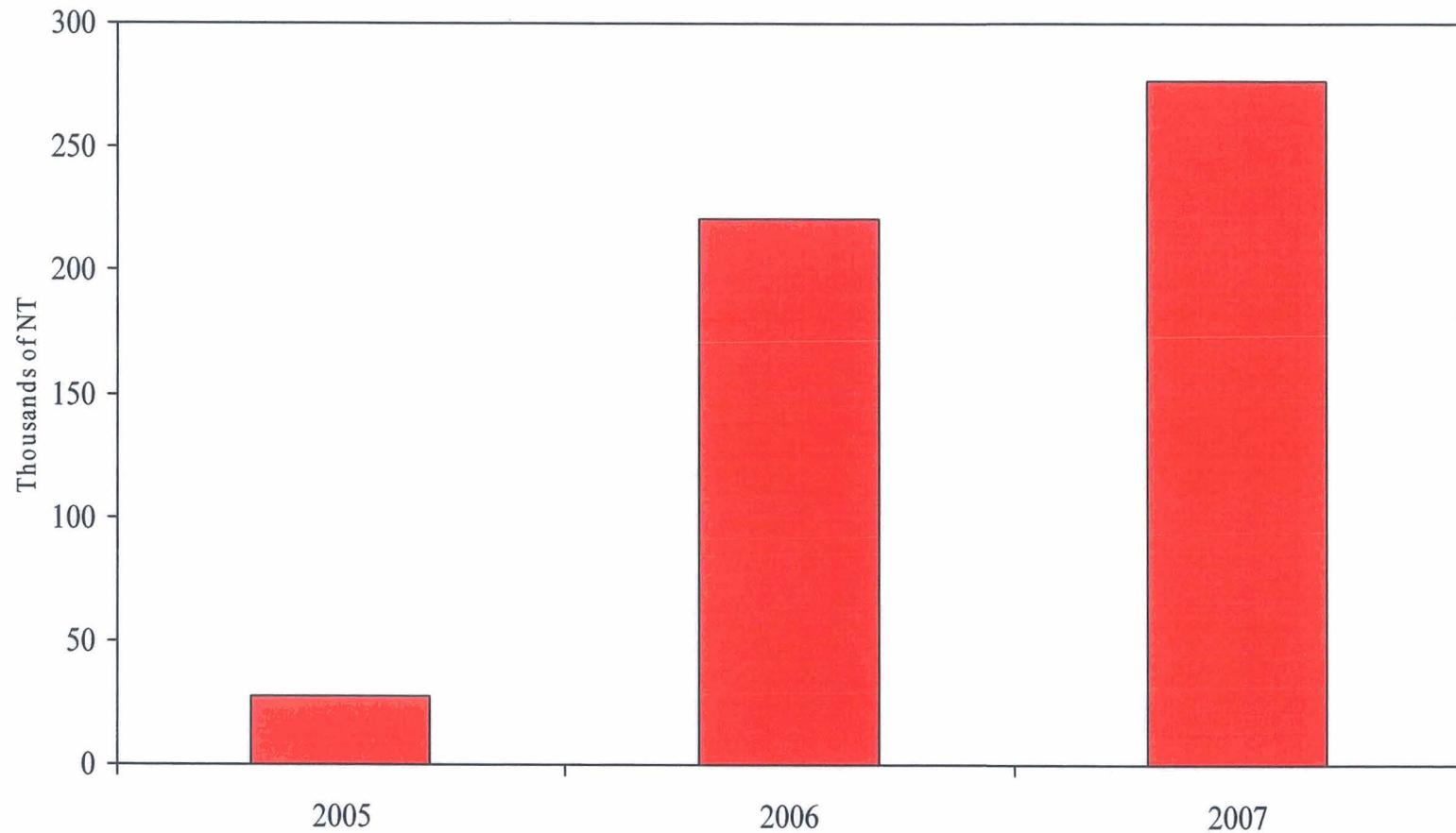
- Because of a surge in dumped and subsidized Chinese imports, *domestic producers saw their operating income fall from 2005 to 2007*, even though demand grew by almost 60 percent
- The domestic industry's performance improved *after Chinese imports left the market* in response to the petitions
- The domestic industry is now highly vulnerable because of *the global economic crisis*
- Chinese imports *threaten the domestic industry with further injury*

# From 2005 to 2007, U.S. Consumption of Welded Line Pipe Rose by Almost 60 Percent



Source: Staff Report at C-3 (Public Version).

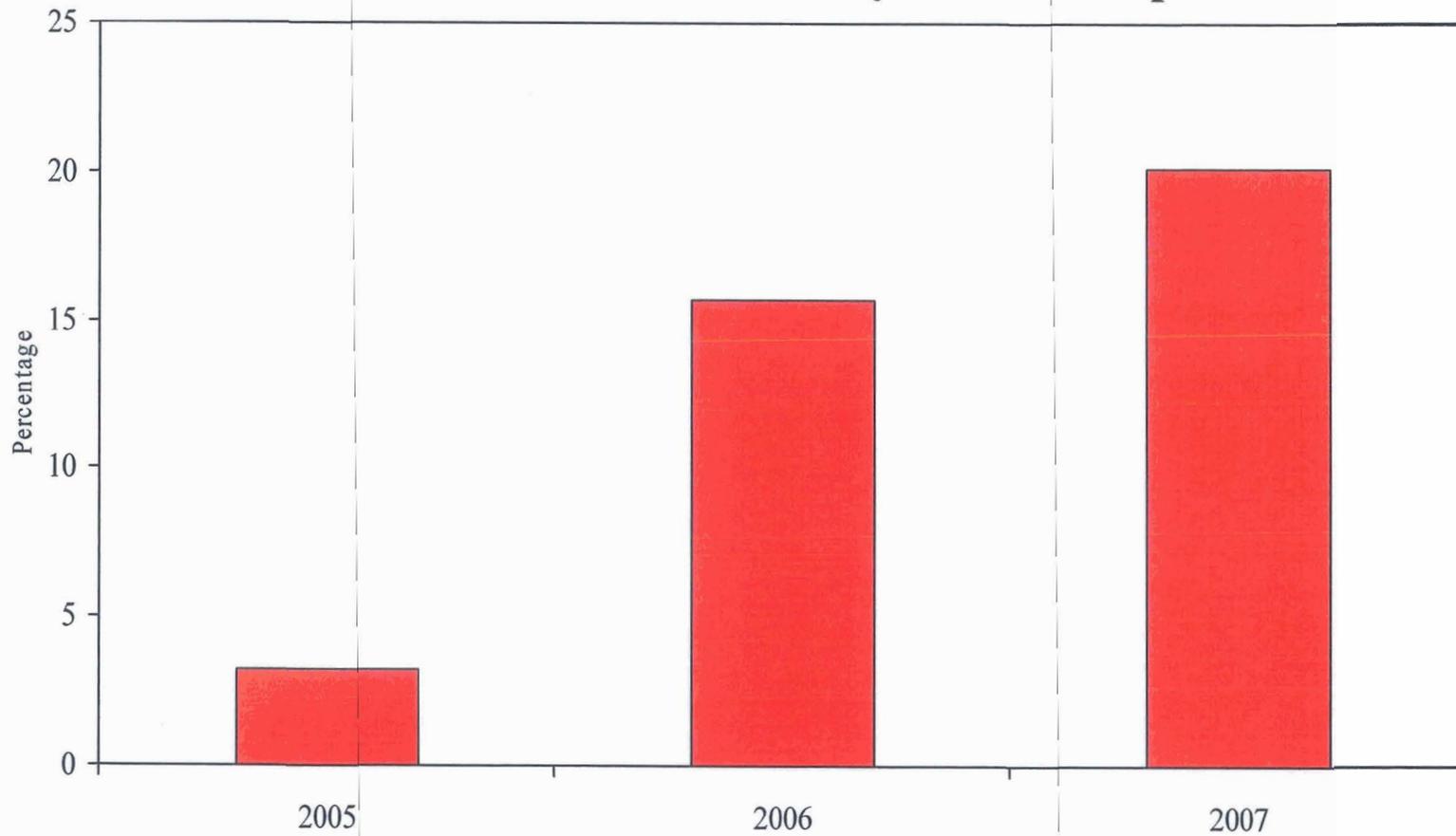
# During the Same Period, Chinese Imports Increased by *Over 900 Percent*



Source: Staff Report at C-3 (Public Version).

# Chinese Producers Took Over *One Fifth* Of the Total U.S. Market

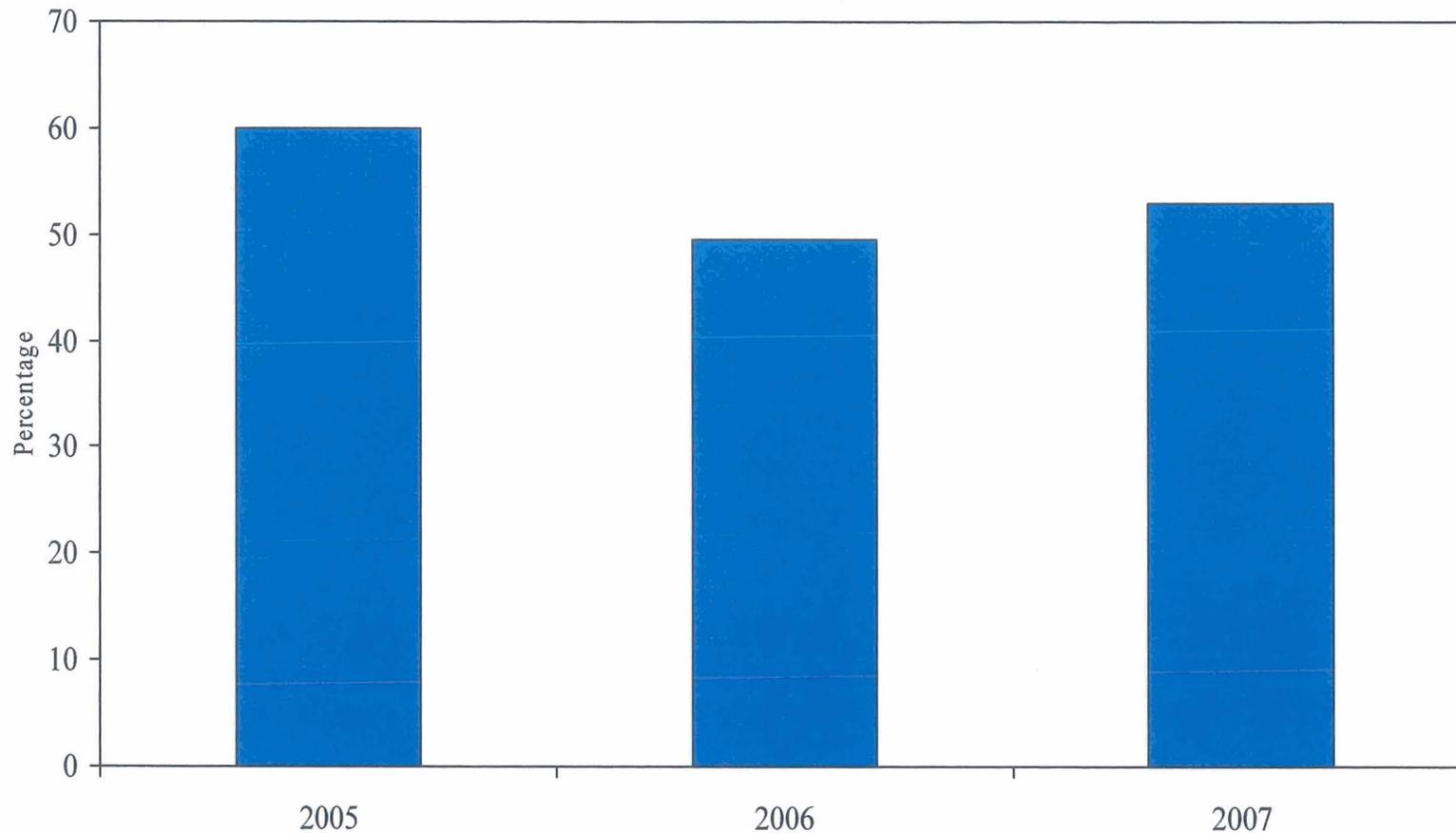
## Share of U.S. Market Held by Chinese Imports



Source: Staff Report at C-3 (Public Version).

# Meanwhile, Domestic Producers *Lost* Market Share

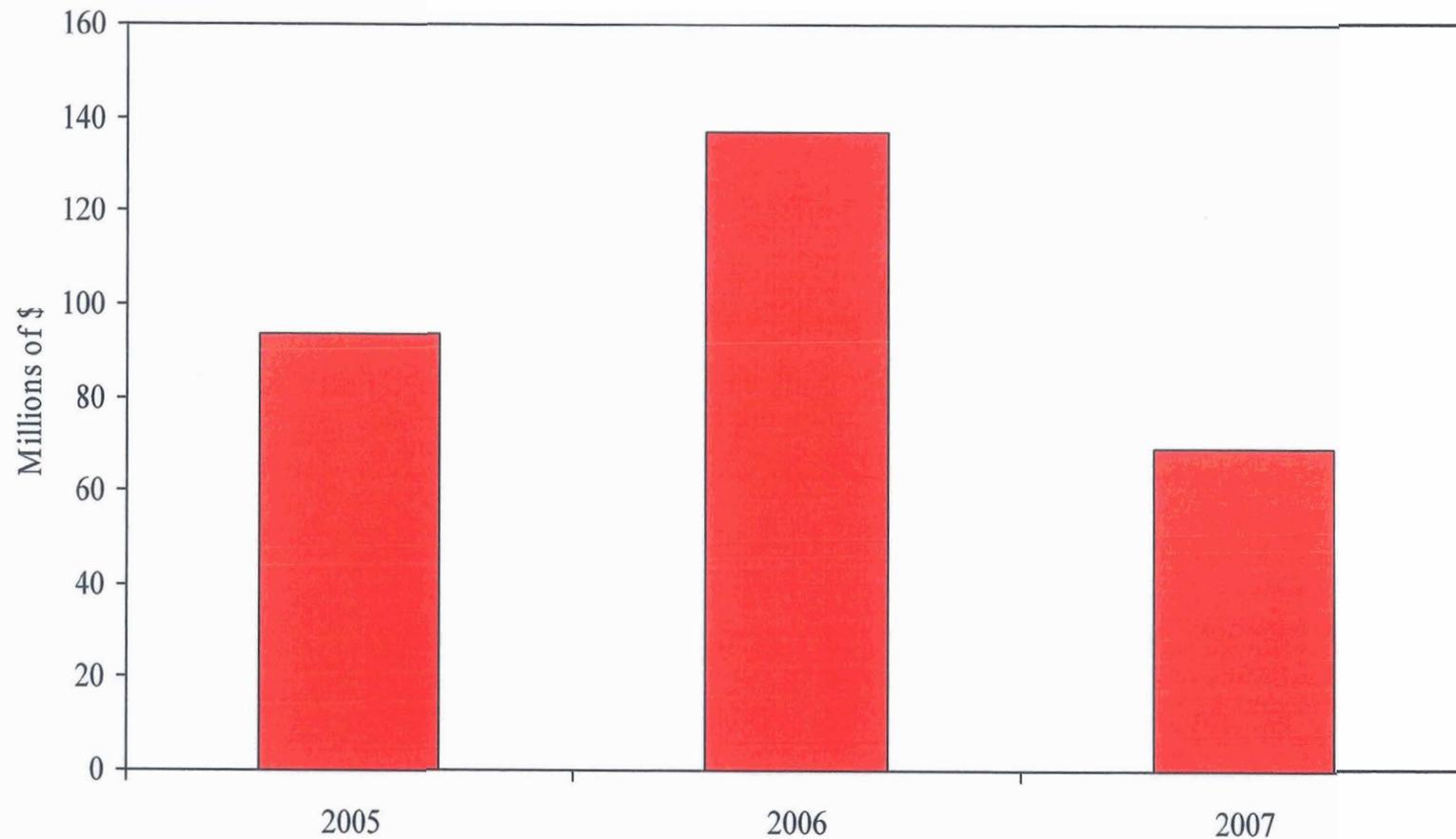
## Share of U.S. Market Held by Domestic Producers



## The Price Effects of Chinese Imports Were Significant

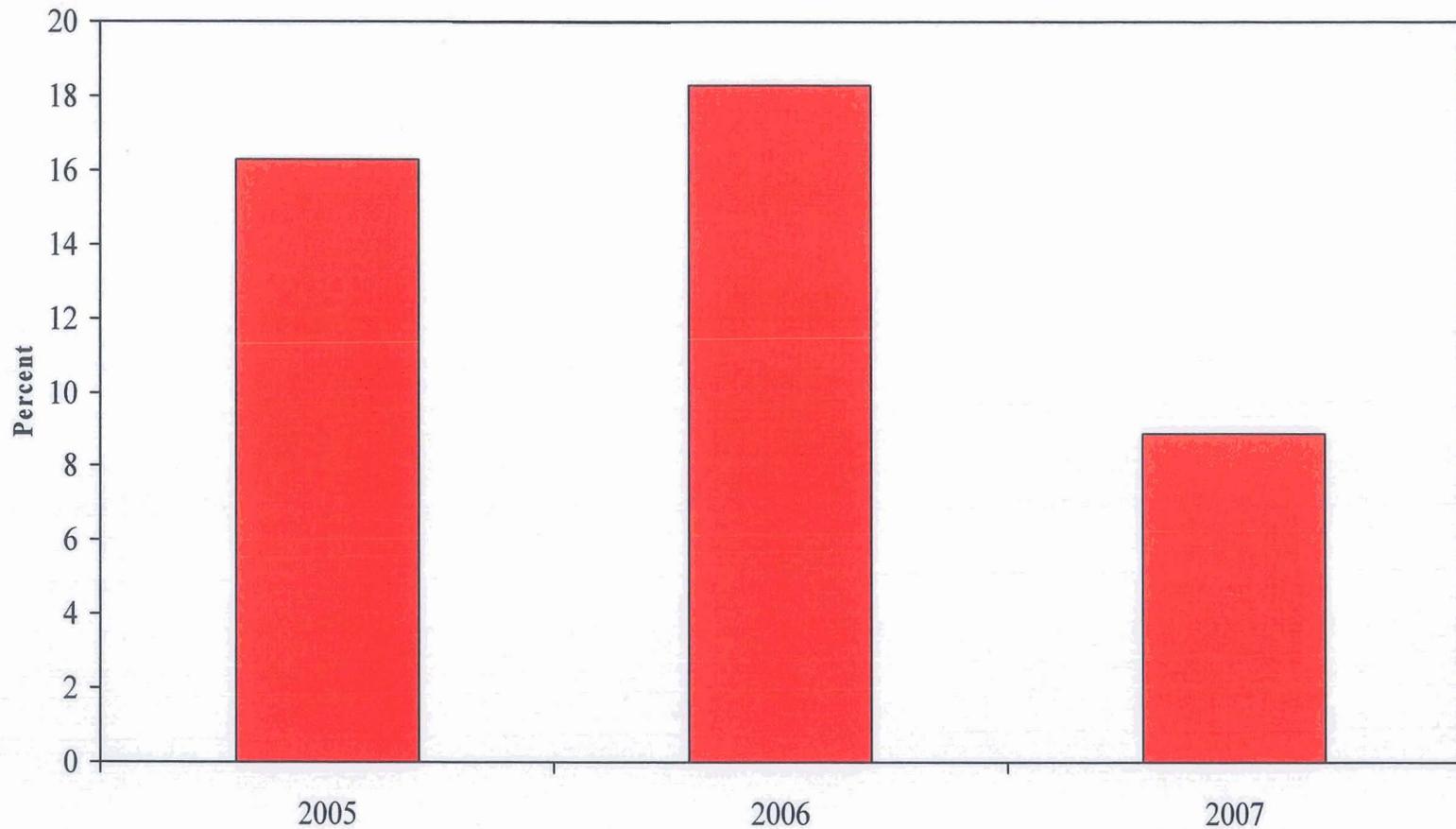
- Chinese imports undersold the domestic like product in **56 out of 56 pricing comparisons**
- The average underselling margin was **over 30 percent**
- Low-priced Chinese imports suppressed U.S. prices during 2007, **preventing domestic mills from passing along higher costs**

# Domestic Producers' Operating Income Fell from 2005 to 2007

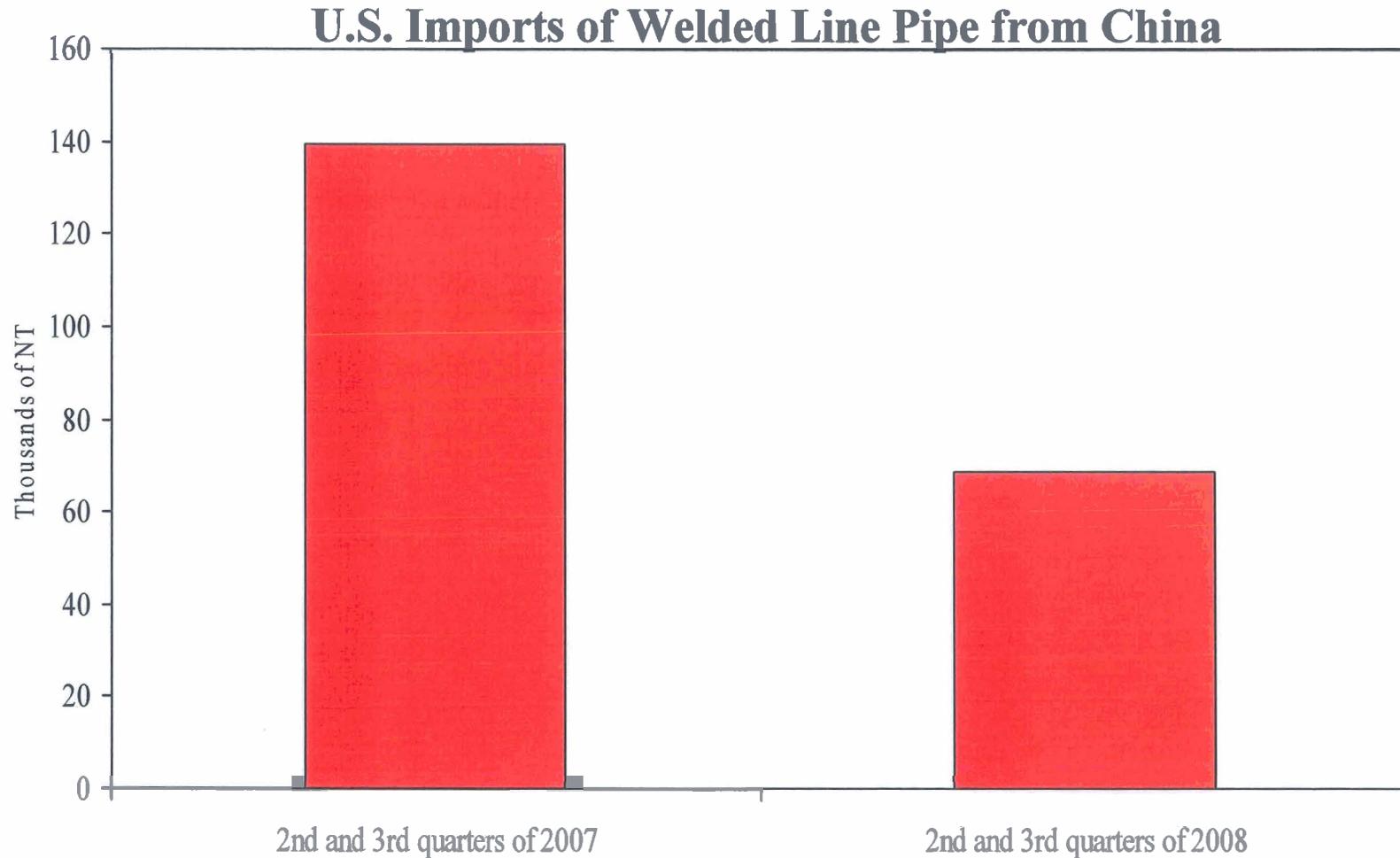


Source: Staff Report at C-4 (Public Version).

# From 2005 to 2007, the Domestic Industry's Operating Margin Was Cut Almost in Half



# After the Petitions Were Filed, Chinese Imports Fell by Over 50 Percent



Source: U.S. Steel Pre-Hearing Brief at 17-18 (Public Version).

## Chinese Imports Were a Unique Cause of Injury under *Bratsk*

- Chinese imports were priced *far below* other import sources
- The Chinese industry is *much larger* than other import sources
- The operating performance of U.S. mills *improved significantly* after Chinese imports declined.

# The Global Economy Has Recently Fallen Into a Severe Crisis

## Dow Jones Industrial Average



Source: StockCharts.com

# Since July, Oil Prices Have Fallen Almost \$100/Barrel

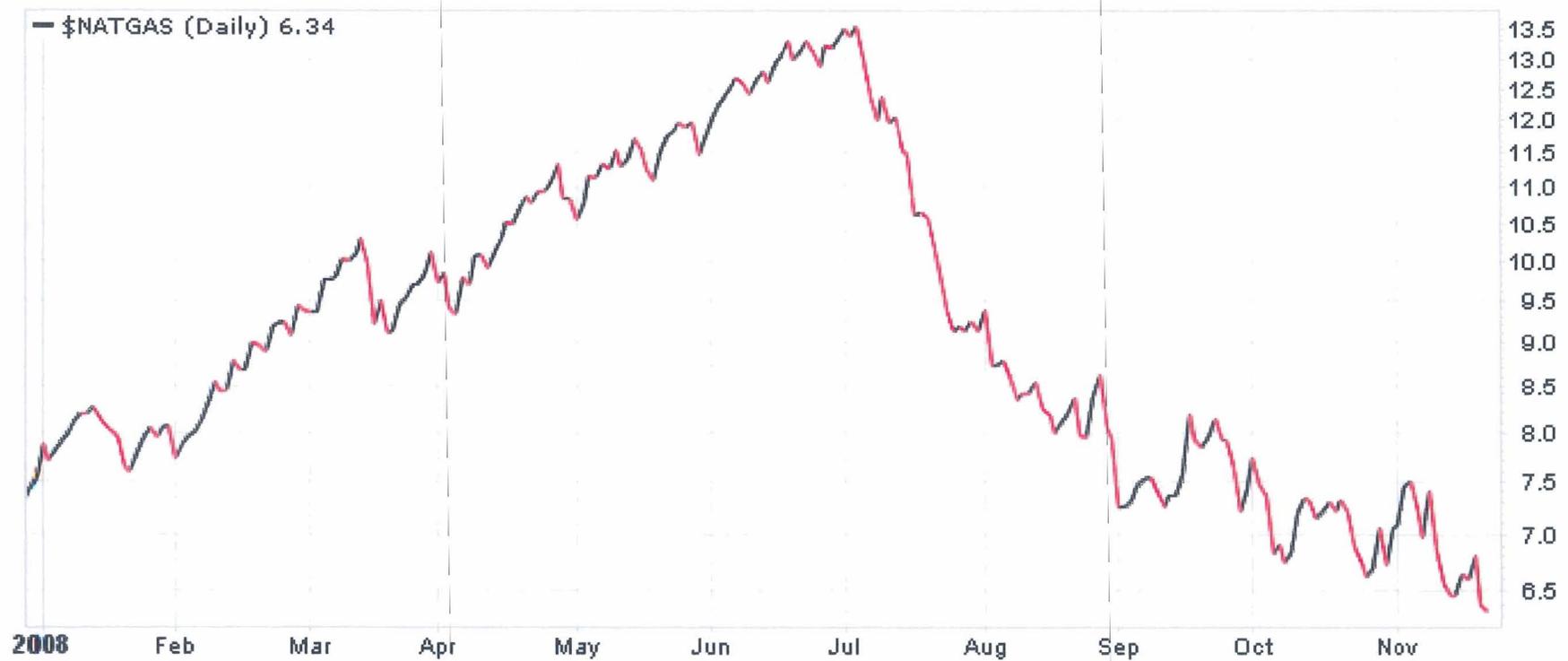
## West Texas Intermediate Crude Oil (\$/barrel)



Source: StockCharts.com

# Since July, Natural Gas Prices Have Been Cut in Half

## NYMEX Natural Gas Contract (\$/MMBTU)



Source: StockCharts.com

# The Economic Crisis Has Major Implications for Demand

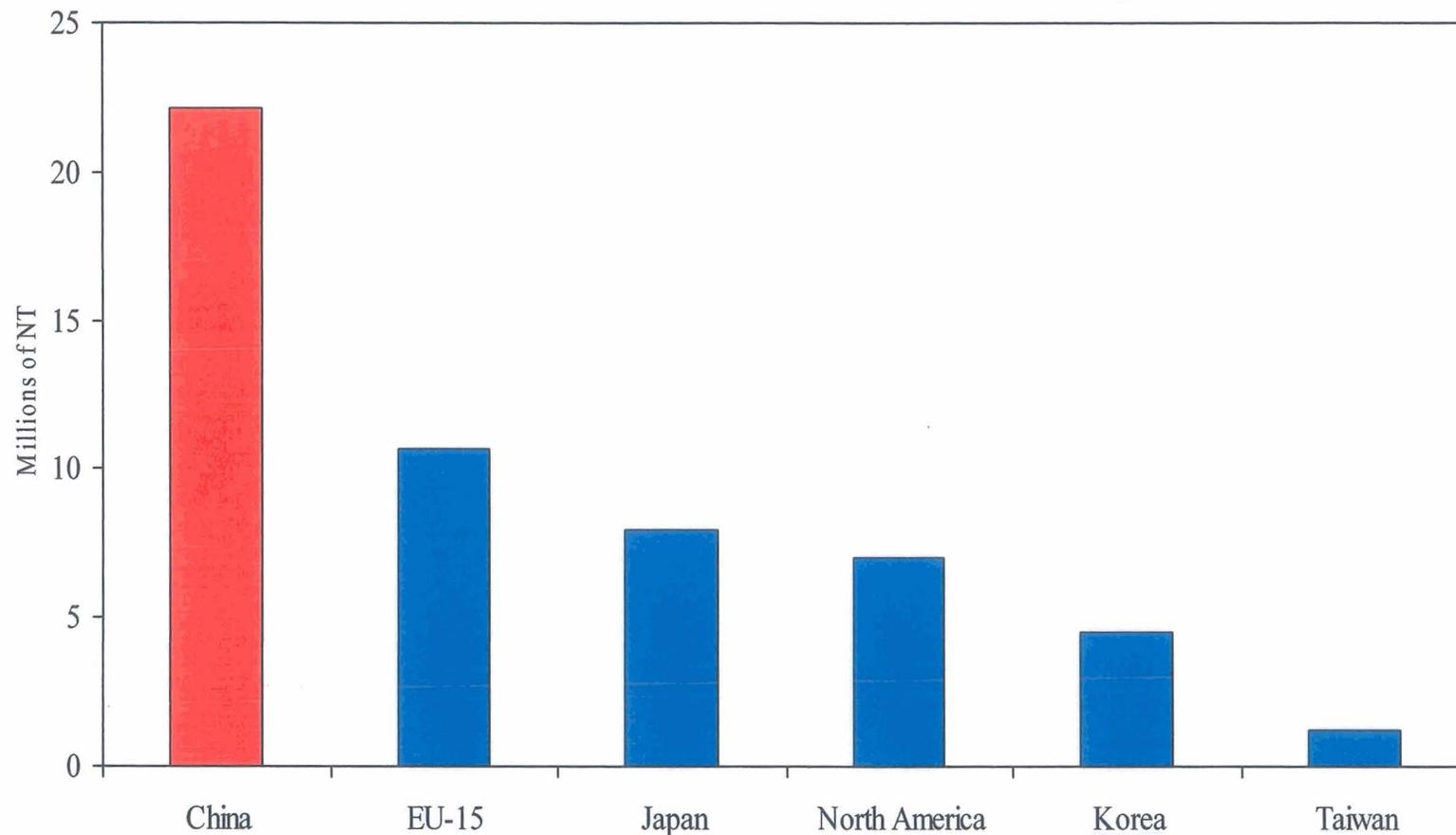
- Last week, the Baker-Hughes rig count for the United States fell by **51 rigs**
- On November 5, Clayton Williams, CEO of Clayton Williams Energy, Inc. stated that “*we have basically stopped our development drilling, because we’ve lost the margin.*”
- Since September, Chesapeake Energy has announced **budget cuts totaling \$4.7 billion** for the period of the second half of 2008 through 2010.
- On November 6, Williams Companies, Inc. announced that its projected exploration and production expenditures for 2009 **are about \$700 million below 2008 levels.**

# The Commission Should Apply Adverse Inferences to China

- Sixty-five questionnaires issued – *only one response*
- *Virtually no questionnaire data* regarding China's:
  - current capacity
  - production
  - inventories
  - exports
  - plans to build new capacity.
- Failing to draw adverse inferences will *reward Chinese producers for their intentional non-cooperation.*

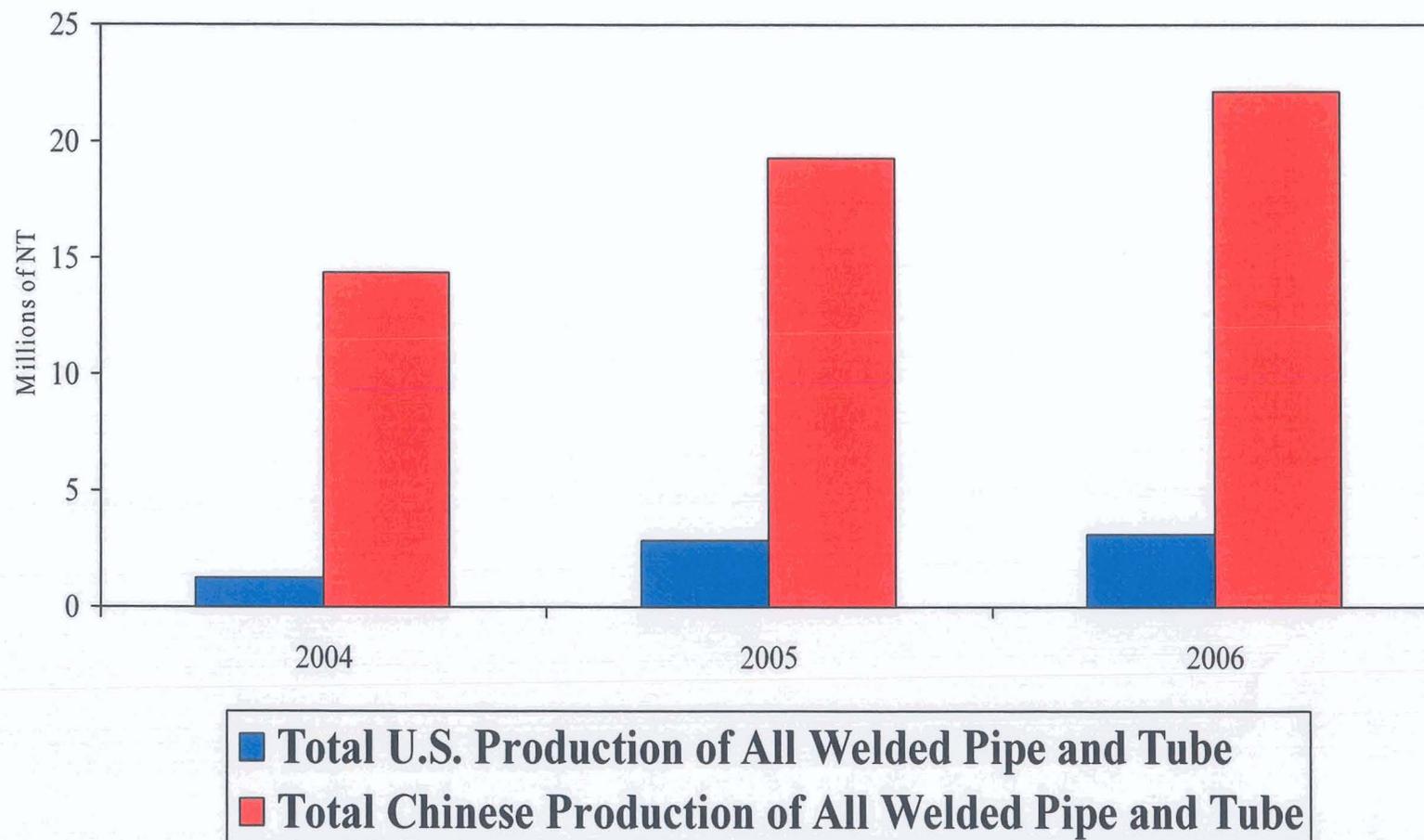
# The Chinese Welded Pipe Industry Is the Largest in the World

## 2006 Production of Welded Steel Pipe



Source: Staff Report at VII-24 (Public Version).

## Even a Small Portion of China's Growing Welded Pipe Production Could Have Devastating Consequences



Source: Staff Report at VII-24 (Public Version).

## Other Statutory Factors Show the Threat from Chinese Imports

- Subsidy rates of 37 to 40 percent
- At least 3 million NT of new welded pipe capacity
- Explosive increase of Chinese imports from 2005 to 2007
- Consistent underselling will attract future sales
- High inventories
- Orders on exports of welded standard pipe will encourage product-shifting

# The Chinese Economy Is Being Hurt By the Economic Crisis

## Shanghai Stock Exchange Composite Index



Source: StockCharts.com

# The Threat from China Is Extraordinary

- Chinese imports caused severe damage *even in a period of strong demand*

Now the world economy faces what may be *its most severe crisis since the Great Depression*

- China is already making efforts to *export its way out of the crisis*
- In short, Chinese imports *threaten irrevocable damage* to the domestic industry