

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:)
BALL BEARINGS FROM CHINA) Investigation No.:
) 731-TA-989 (Preliminary)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

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) Investigation No.:
BALL BEARINGS FROM CHINA) 731-TA-989 (Preliminary)

Wednesday,
March 6, 2002

Room 100
U.S. International
Trade Commission
500 E St., SW
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., before the Commission Staff of the United States International Trade Commission, LYNN FEATHERSTONE, Director of Investigations, Presiding.

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E X H I B I T S

<u>EXHIBITS:</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>	<u>DESCRIPTION</u>
1	45	45	Torrington Brochure
2	45	45	LECG Presentation
3	95	95	Greenwald Documents

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P R O C E E D I N G S

(9:30 a.m.)

1
2
3 MR. FEATHERSTONE: Good morning. Welcome to the
4 United States International Trade Commission's conference in
5 connection with the preliminary phase of antidumping
6 investigation No. 731-TA-989 concerning ball bearings from
7 China. My name is Lynn Featherstone. I'm the Commission's
8 Director of Investigations and I will preside at this
9 conference.

10 Among those present from the Commission staff are:
11 Bob Carpenter, the supervisory investigator; Fred Ruggles,
12 the investigator; Mary Beth Jones, the attorney/advisor;
13 Josh Levy, the economist; Justin Jee, the auditor; and Dan
14 Walworth, the industry and commodity analyst.

15 The purpose of this conference is to allow you to
16 present to the Commission through the staff your views with
17 respect to the subject matter of the investigation in order
18 to assist the Commission in determining whether there is a
19 reasonable indication that an industry in the United States
20 is materially injured or threatened with material injury, or
21 that the establishment of an industry in the United States
22 is materially retarded by reason of imports of the
23 merchandise which is the subject of the investigation.

24 Individuals speaking in support of and in
25 opposition to the petition have each been allocated one hour

1 to present their views. Those in support of the petition
2 will speak first.

3 The Chair may ask questions of speakers either
4 during or after their statements, however no cross-
5 examination by parties or questions to opposing speakers
6 will be permitted.

7 At the conclusion of the statements from both
8 sides, each side will be given ten minutes to rebut any
9 opposing statements, suggest issues on which the Commission
10 should focus in analyzing data received during the course of
11 the investigation, and make concluding remarks.

12 This conference is being transcribed and the
13 transcript will be placed in the public record of the
14 investigation. Accordingly, speakers are reminded not to
15 refer in your remarks to business proprietary information
16 and to speak directly into the microphone.

17 Copies of the transcript may be ordered by filling
18 out a form which is available from the stenographer.

19 You may submit documents or exhibits during the
20 course of your presentations, however we will not accept
21 materials tendered as business proprietary. All information
22 for which such treatment is requested must be submitted to
23 the secretary in accordance with Commission Rule 201.6.

24 Any documents that are letter-sized and copyable
25 will be accepted as conference exhibits and incorporated

1 into the record of the investigation as an attachment to the
2 transcript. Other documents that you would like
3 incorporated into the record should be submitted as or with
4 your post-conference briefs.

5 Speakers will not be sworn in. However you are
6 reminded of the applicability of 18 USC 1001 to false or
7 misleading statements and to the fact that the record of
8 this proceeding may be subject to court review if there is
9 an appeal.

10 Finally, we ask that you state your name and
11 affiliations for the record before beginning your
12 presentations.

13 Are there any questions?

14 If not, welcome, Mr. Applebaum, please proceed.

15 MR. APPLEBAUM: Greetings, Mr. Featherstone, and
16 members of the staff. For the record, I'm Harvey Applebaum
17 of the law firm of Covington & Burling. We are here as
18 counsel to the petitioner in this proceeding, the American
19 Bearing Manufacturers Association which we will hereafter
20 refer to principally as the ABMA or the Association. That
21 is the petitioner in this antidumping proceeding involving
22 ball bearings from China.

23 I am accompanied by three of my colleagues from
24 the firm -- David Grace, Karin Kizer, and Lara Czajkowski
25 Higgins.

1 We are here today through testimony, both company
2 testimony and expert testimony to demonstrate that the
3 United States ball bearing industry, there is a reasonable
4 indication that that industry has been materially injured
5 and/or is threatened with material injury as the issue which
6 is now before the staff as Mr. Featherstone has indicated.

7 One clarification at the outset, we've received,
8 and I think the staff has received a number of scope
9 inquiries about the intention of the petition. Let us
10 clarify now that as stated in the petition the intention is
11 that the scope of this proceeding is identical to all of the
12 recent and outstanding antidumping duty orders on ball
13 bearings with one exception. This petition includes
14 unground bearings. Put another way, the scope of the
15 antidumping orders reviewed in the sunset review in the year
16 2000 by the Department of Commerce and the ITC, again, we
17 intend it to be identical to those sunset reviews with the
18 one exception of the inclusion of unground bearings.

19 What we plan to do today is present four company
20 witnesses and one expert witness. Let me, before we get to
21 the witnesses, introduce Mr. David Rohn who is to my right.
22 He is the President of the ABMA. He is available for
23 questions.

24 The four company witnesses represent the
25 Torrington Company, NTN Bearing Corporation of America, SKF

1 USA a National Bearings. They will testify consecutively in
2 the order in which they're seated before you, followed by
3 Andrew Wechsler of Law & Economic Consulting Group, often
4 referred to as LECG.

5 If there are no further questions or comments from
6 the staff in terms of the order of presentation, I would ask
7 Mr. Bodell to commence the testimony.

8 MR. BODELL: Good morning. My name is Donald
9 Bodell and I am the President of the Industrial Engineering
10 Solutions of the Torrington Company. I have the profit and
11 loss responsibility within our company for all sales to
12 industrial and agricultural original equipment manufacturers
13 as well as after-market sales through our distribution. I
14 do not have responsibility for sales to the automotive
15 market.

16 Our company is headquartered in Torrington,
17 Connecticut and is the nation's largest domestic-based full
18 line supplier of anti-friction bearings including ball
19 bearings, whether ground or unground. Our company is a
20 member of the Petitioner, the ABMA, and I am here today to
21 support the need for relief from unfairly traded imports
22 from the People's Republic of China.

23 The ball bearing industry is a highly competitive
24 one with dozens of producers. There are literally thousands
25 of part numbers produced by companies in the ball bearing

1 industry ranging from small bearings that might be used in
2 dental applications or in computers to bearings that are
3 many feet in diameter.

4 At the same time, ball bearings come in various
5 degrees of precision and while generally ground can also be
6 sold unground or semi-ground where applications don't
7 require higher performance standards.

8 At Torrington we produce ball bearings or
9 components for them in eight plants in seven states. We
10 closed the ninth facility in 1998 in part because of the
11 pricing pressures back then from imported bearings from
12 China. We go from unground bearings produced in our
13 facility in Kilian, New York, to the super-precision ABEC-9
14 bearings made in our Shiloh facility in Rutherfordton, North
15 Carolina. We produce radial ball bearings, wide inner ring
16 ball bearings, various housed bearings in a wide range of
17 sizes.

18 The pages from a brochure we use with our
19 customers demonstrating some of the ball bearing products is
20 submitted as an exhibit this morning.

21 Last Thursday we submitted our questionnaire
22 response to the Commission. Our response represents the
23 situation that Torrington has faced during the period of the
24 investigation. In my view the increased volume of imports
25 of ball bearings from China over the last three years has

1 contributed importantly to the situation revealed in our
2 response. Let me provide you with just a few highlights.

3 At each of our facilities we are experiencing
4 reduced capacity utilization rates that are significant. At
5 one plant we are down to one shift and we are reducing
6 staffing at others. These plants are producing the same
7 products that the Chinese are shipping to the United States.

8 We know based on our meetings with many key
9 customers and a review of the inventory at our distributors
10 that increased imports from China contribute to that reduced
11 capacity utilization.

12 At some accounts our company has chosen not to
13 further reduce prices to compete with dumped imports and
14 have seen our volume decrease significantly. In fact
15 throughout the period of investigation Torrington's prices
16 on many of the high volume parts where Chinese penetration
17 is highest, including those covered by the questionnaire,
18 were so low that we lost volume rather than continue the
19 downward spiral in pricing.

20 Indeed as the pricing information in our response
21 shows, our 2001 sales volumes were below 2000 volumes for
22 all of what I would call the high volume part numbers. In
23 the majority of cases involving high volume part numbers,
24 our 2001 volumes were below 1999 volumes as well.

25 While we took volume reductions in many instances,

1 for one product where our 2001 volumes were the highest for
2 the period we secured volume by reducing prices 25 percent
3 below 1999's levels. We simply can't afford to suffer that
4 kind of price reductions on many part numbers.

5 A company like Torrington historically has had
6 what we viewed as significant advantages, vis-a-vis our
7 Chinese competitors. We have a broader product line,
8 superior quality, better service, to name just three.

9 Chinese producers in the last decade have
10 dramatically increased the size of the lines sold in the
11 U.S. and improved their quality. They have continued to use
12 deep price underselling to get customers to try the product
13 and move increasing amounts of overall demand to the product
14 lines.

15 For many accounts the price underselling is just
16 too attractive not to buy Chinese. The quality of Chinese
17 has proven acceptable for most users, thus we are
18 increasingly finding that customers buy the Chinese product
19 where we can't be price competitive. This is hurting our
20 ability to sell our goods profitably.

21 The negative effect of all of this can be seen in
22 our questionnaire response which reviews our operations
23 other than extraordinary items and shows declines in areas
24 such as profitability, capital expenditures, R&D
25 expenditures and more. The harm is to all of our operations

1 whether they're producing ground or unground bearings.

2 Indeed, Chinese prices for ground bearings are so
3 low that in some instances they are lower than Torrington's
4 prices for unground product. Let me give you one example.

5 A domestically produced 6203 ball bearing might
6 sell for between 80 and 90 cents. The unground version
7 might sell for between 35 and 40 cents. We're seeing
8 Chinese ground 6203's in the market at 30 cents.

9 Historically customers with lower performance
10 requirements have been able to purchase unground or semi-
11 ground products instead of ground and obtained dramatically
12 lower prices.

13 In our questionnaire response we have cataloged
14 millions of dollars of lost sales or price depression we
15 have experienced in part because of dumped Chinese ball
16 bearings, and the list supplied is only partial.

17 Lost sales, price depression and suppression,
18 reduced capacity utilization, these effects of the unfairly
19 traded imports in the U.S. market have also slowed our
20 ability to reinvest in our future. In our questionnaire
21 response we have listed for you several examples of the tens
22 of millions of dollars of capital investment that Torrington
23 has poured into existing and new ball bearing facilities in
24 the last decade. We have worked very hard to maintain our
25 competitive edge as the leading producer of ball bearings

1 and capital investments is the lifeblood of the bearings
2 production.

3 As the questionnaire response shows, however,
4 during the period of the investigation our capital
5 investments have been sharply reduced.

6 As a domestic producer of ball bearings our
7 company needs a restoration of conditions of fair trade or
8 we will face closure of significant capacity as a company
9 and we believe throughout the industry. We closed one plant
10 several years ago because of unfair trade practices in the
11 U.S. market. We don't want to close more of our facilities
12 but we will be forced to if conditions of fair trade are not
13 restored.

14 Thank you.

15 MR. PANGRAZIO: Good morning. My name is Jack
16 Pangrazio and I'm the Vice President of Marketing for NT
17 Bearing Corporation of America headquartered near Chicago,
18 Illinois. I've been with NTN for three years. As a member
19 of the ABMA I want to thank the Commission staff for this
20 opportunity to discuss NTN's experience with competition
21 from unfairly traded Chinese ball bearings.

22 NTN's U.S. operations include seven manufacturing
23 plants, an R&D center, and a sales organization. We supply
24 ball bearing products to all major industrial groups from
25 steel mills to automobiles, from air conditioners to

1 computer disk drives. If something moves a bearing is
2 involved and ball bearings are the most common type of
3 bearing.

4 We currently employ about 2900 people in the
5 United States, a decreased from over 3300 employees just one
6 year ago. We have been forced to cut 400 people due in
7 large part to aggressively priced Chinese ball bearings now
8 flooding the U.S. market.

9 Here in the U.S. we sell both imported and U.S.
10 produce ball bearings. My remarks today, however, focus
11 only on lost business and economic injury related to our
12 U.S. production including production that NTN had intended
13 to shift to the United States but is now unable to do so.

14 According to our sales records we have lost at
15 least six million in annual revenue since 1999 to Chinese
16 competition in ball bearings with much of these losses
17 coming from longstanding customers. These losses are
18 annual, recurring lost revenues and not one-time sales, and
19 it also shut the door on future sales to these customers.
20 And while we can't easily track losses in the more
21 profitable bearing after-market where customers make smaller
22 volume spot purchases, we have anecdotal evidence indicating
23 that we are losing significant sales in this market as well.

24 We compete with Chinese importers on many ball
25 bearing products including the 600, 6000, and 6200 radial

1 ball bearing series. Chinese manufacturers often undercut
2 our prices by 50 percent, perhaps more.

3 Chinese competition has nearly driven us entirely
4 out of the market for certain ball bearings. Because
5 Chinese produced 608 radial ball bearings were being sold at
6 prices less than half of NTN's quoted price in 2000 we
7 decided to dramatically reduce our production of the 608
8 series in the United States. NTN was losing too much money
9 trying to compete with Chinese pricing. This decision
10 severely hurt our Schiller Park plant and cost us many jobs
11 and millions in lost sales.

12 We generally lose business to the Chinese
13 gradually. Typically a customer will reduce its order from
14 us by up to 50 percent while testing a very cheap Chinese
15 bearing but will still use us for the rest of their
16 requirements. During this testing process we reduce our
17 prices to try to keep the business.

18 Once the customer is satisfied with the Chinese
19 ball bearings' performance, unless we can match the Chinese
20 supplier's low price that customer will usually give all the
21 business to the Chinese supplier.

22 Because Chinese ball bearing prices are so low we
23 simply cannot match those prices. We've lost at least three
24 of our long-time customers as a result of Chinese suppliers
25 pricing their products unfairly.

1 We are seeing more of our customers testing these
2 low-priced imports as substitutes for domestic product,
3 putting even more of our business at risk. If we continue
4 to lose business to Chinese suppliers we and other domestic
5 manufacturers will have to consider moving more of our
6 production off-shore costing more American jobs.

7 We have already been forced to cancel plans to
8 shift additional production to the United States and have
9 had to reduce production in some facilities.

10 Another troubling trend is that Chinese suppliers
11 are beginning to branch out into higher value markets. For
12 example, we were recently informed by one of our automotive
13 customers that hundreds of thousands of dollars in after-
14 market sales are at risk to a Chinese supplier. This
15 customer is also testing 6203 ball bearings from a Chinese
16 supplier willing to sell this product for 25 percent less
17 than our price. We cannot match this price and remain
18 profitable. If this customer opts for Chinese-produced ball
19 bearings, and we have every reason to believe it will, we
20 stand to lose millions of dollars over time in lucrative
21 after-market sales causing our production and employment
22 levels to plummet even further.

23 As a businessman I believe the future of the
24 American ball bearing business looks bleak if Chinese
25 manufacturers continue to sell in the U.S. market at such

1 low prices.

2 Because of unfairly traded Chinese products we
3 have laid off several hundred employees, had to practically
4 shut down production of certain ball bearings and are
5 reducing capital investment. We are essentially being
6 forced to idle our facilities here in the U.S. and move more
7 of our production overseas.

8 NTN has supplied the United States with high
9 quality bearings for decades and has provided jobs for
10 thousands of Americans. We can match a fair price. We can
11 match a market price. By selling ball bearings at such
12 aggressively low prices, however, the Chinese unfairly deny
13 us a chance to compete on a level playing field.

14 Thank you.

15 MR. MALMSTROM: Good morning. My name is Sten
16 Malmstrom and I am President and CEO of SKF USA Inc. It is
17 a pleasure to be appearing before you today to discuss my
18 company's experience with Chinese ball bearings.

19 As a bit of a background I have served as
20 President of SKF USA since 1990 and before that I was
21 President of SKF's overseas division. I've been with SKF
22 since 1973 and a member of group management since 1984.

23 SKF USA is headquartered in Pennsylvania,
24 Norristown. We produce a variety of ball bearings including
25 deep cool [ph] ball bearings, self-aligning ball bearings,

1 angle of contact ball bearings, and wheel hub units. SKF
2 USA has annual sales of roughly \$1 billion and employs 4,700
3 employees. We operate ball bearing plants in Gainesville,
4 Georgia [sic], Akin, South Carolina, Jamestown, New York,
5 and Altoona, Pennsylvania.

6 I am here today to discuss the effect that unfair
7 Chinese competition has had on SKF ball bearings, and I want
8 to make it clear that my discussion is confined to the U.S.
9 operations only.

10 The incredibly low Chinese prices have caused us
11 to lose customers in the past two years and also is
12 seriously threatening our current and future customer base.
13 The Chinese prices are so low that there is no way we can
14 restructure our operations to compete with those prices.

15 Since '99 SKF has faced intense competition from
16 numerous imported Chinese ball bearings. That competition
17 occurred and is still occurring on a variety of ball
18 bearings including 108, 608, 6000, 6200, and 6203. Since
19 early 2001 Chinese competition on these parts has been
20 increasing and has been remarkably intense.

21 Because of its Chinese competition, SKF has lost
22 business with its customers. Not only have we already lost
23 business of customers who left us to purchase from the
24 Chinese, but we also have customers that have announced that
25 they are taking their business elsewhere at the end of the

1 contract period.

2 We also have business that we anticipate we will
3 lose because we know the customers are testing Chinese
4 bearings and they have told us that the Chinese bearings are
5 much cheaper.

6 I believe that this trend will continue and that
7 we will eventually lose business with many of our large
8 customers.

9 Let me give you some specifics regarding lost
10 sales. In 2001 we lost as customers several second tier
11 suppliers in the automotive industry. SKF lost that
12 business because we were not able to reduce our prices to
13 compete with the Chinese underselling of 30 to 40 percent.

14 SKF already knows that in 2002, this year, we will
15 lost at least \$10 million worth of business on an annual
16 basis. We are sure of these losses because our two-tier
17 suppliers have already told us that we will lose it if we
18 don't reduce prices by 30 to 40 percent.

19 There is no way for us to reduce our price by that
20 large of a percentage. Not only are those losses confirmed,
21 but we may also lose other business during the course of
22 this year.

23 I am sure that the intense Chinese presence and
24 SKF loss trend will continue in future years. I believe
25 these losses are just the beginning because our first and

1 second tier automotive customers are constantly trying to
2 reduce their costs. If the current levels of Chinese
3 competition continue, SKF's loss trend will continue if not
4 worsen.

5 If SKF is to experience losses at these levels for
6 just one more year, SKF will have lost around 40 percent of
7 the production at our Gainesville plant in Georgia.

8 Chinese competition has had a particular negative
9 effect on that plant. In '99 we closed down production
10 lines for 608 and 6203 ball bearings. These two production
11 lines represent \$15 million in production value or 20
12 percent of the total output of that factory. SKF closed
13 down these two production lines because the prices for those
14 two bearings had decreased so much that it was no longer
15 economical to continue to produce them.

16 In addition to closing down production lines, we
17 have already been forced to reduce our work force by 150
18 people or 35 percent. If this intense Chinese competition
19 continues, we may be forced to close down our Gainesville
20 plant altogether.

21 In order to resist Chinese competition SKF has
22 been forced to engage in a variety of measures that cannot
23 be sustained. In addition to closing lines and reducing
24 work force, which I already discussed, we have in some cases
25 been forced to reduce our prices dramatically. For example,

1 we managed to maintain a half a million dollar business of
2 one of our customers by cutting prices by more than 12
3 percent.

4 We are constantly trying to reduce our costs and
5 increase productivity. We have been successful at
6 increasing our productivity by three to five percent per
7 year, but there is no way we can meet the 40 percent cost
8 reductions that our customers are demanding. Let me repeat
9 again. There is no way for SKF to lower costs or improve
10 productivity to meet reduced costs of 30 to 40 percent.

11 In conclusion, I want to emphasize that unfair
12 Chinese competition is a very serious threat to our
13 production of ball bearings and to the total U.S. ball
14 bearing industry. I have provided significant details on
15 SKF lost sales which shows that SKF is already suffering
16 from unfair Chinese competition. Continued unfair
17 competition will only continue to harm our company and may
18 eventually force us out of the ball bearing market.

19 Thank you for the opportunity to discuss SKF's
20 experience with Chinese ball bearings. I'm happy to answer
21 any questions you may have.

22 MS. MAY: Good morning. My name is Jessica May
23 and I am President of National Bearings Company. It's a
24 pleasure to be appearing before the Commission staff this
25 morning as a member of the American Bearing Manufacturers

1 Association and to discuss our experience with competition
2 from Chinese ball bearings.

3 National is a privately owned company and was
4 established in 1917. It has been part of my family since
5 the '20s. My grandfather was hired in 1923 to run it, and
6 he and my father bought it in 1952. Our family has owned it
7 ever since.

8 I've been with the company since 1979. Before
9 serving as President I was Treasurer and Chief Financial
10 Officer. I have over 20 years experience in the ball
11 bearing industry.

12 National's sales range between 10 and 20 million.
13 We have over 100 employees. We operate from one plant in
14 Lancaster, Pennsylvania where we produce a variety of
15 unground ball bearings including radial and angular contact
16 ball bearings.

17 We also produce parts for ground and unground ball
18 bearings including thrust washers, thrust plates, thrust
19 retainers, cup and cone retainers, and ball separators.

20 Our unground ball bearings are similar to ground
21 ball bearings. First, unground ball bearings share common
22 physical characteristics with the ground bearings. They are
23 composed of at least one inner ring, an outer ring, a set of
24 balls, and sometimes separators and shields.

25 Second, unground ball bearings are manufactured

1 using many of the same types of production equipment,
2 processes, and skills necessary to produce a ground ball
3 bearing. For example, both ground and unground ball
4 bearings are machined, heat treated, finished, assembled and
5 greased. The main difference is that unground ball
6 bearings, by definition, do not go through a grinding
7 process.

8 Third, unground ball bearings are used to perform
9 many of the same types of tasks that a ground ball bearing
10 is used for. Namely, they bear weight while allowing
11 movement.

12 Because they can perform the same tasks, although
13 at lower speeds and loads, the unground ball bearings can be
14 used in many of the same applications for which a ground
15 ball bearing is used. Material handling equipment,
16 automotive equipment, some consumer durables, power tools
17 and agricultural equipment are some examples.

18 Fourth and finally, just as ground ball bearings,
19 unground ball bearings are sold primarily to original
20 equipment manufacturers.

21 Starting in 1999 my company became aware of
22 competition from imported Chinese ball bearings. In many
23 ways the competition for us from China was less back then
24 than it is now because we're a custom manufacturer. We
25 mostly make a unique product for a specific customer rather

1 than produce a standard part that is sold to many companies
2 across an industry. And I think originally it was probably
3 harder for the Chinese suppliers to find our customers and
4 identify their needs.

5 However this competition has intensified during
6 2001 and expanded to include various parts of ball bearings
7 as well as complete ball bearings.

8 I believe we are facing competition from the
9 Chinese manufacturers primarily because the prices of their
10 unground and ground ball bearings are so low. We have
11 provided details of our losses to the Chinese in a
12 confidential questionnaire to the Commission but I'd like to
13 take a few minutes to summarize our experience.

14 In one case we lost substantial revenues and
15 margins to an aggressively priced Chinese unground ball
16 bearing. We kept this business by reducing our prices
17 substantially on the product.

18 In another recent instance a customer informed us
19 it was no longer going to use one of our unground ball
20 bearings but was instead going to adapt a ground ball
21 bearing produced off-shore with a modified housing and use
22 it in their door hinge assembly.

23 I should say that when customers inform us they're
24 going to replace our product with an off-shore item it
25 typically ends up being from China when you question them

1 more closely.

2 This particular customer chose a Chinese ball
3 bearing because it was priced at less than half the price of
4 our bearing.

5 We are also losing customers for our parts. Just
6 last week I learned about a customer we're going to lose to
7 a Chinese producer of thrust washers,. The Chinese supplier
8 will be underselling us by 60 percent.

9 In the past customers have pointed out that they
10 are purchasing the Chinese parts because the price is so
11 low, they can't pass it up. Since the Chinese started
12 taking our business with their aggressively priced products,
13 my company's sales have dropped below \$10 million and we
14 have let at least 40 employees go. While that may not seem
15 like many, especially compared to some of the numbers you've
16 heard today, it is a third of our people and a very large
17 number for a small family company.

18 We should not be losing customers and letting go
19 of staff just because the Chinese are not trading on a level
20 playing field. We know we can compete successfully with the
21 Chinese just as we have competed in the past with U.S. and
22 foreign competitors for years, even on price. But we can't
23 compete when they trade unfairly.

24 Thank you. I appreciate the opportunity to appear
25 before you today and I would be happy to answer questions.

1 MR. WeCHSLER: Good morning. I'm Andrew Wechsler.
2 I'm the Managing Director of LECG an international
3 consulting firm specializing in economics and finance. I
4 have two decades of experience in the economic analysis of
5 antidumping investigations and I'll furnish my resume with
6 the post-conference brief.

7 I've worked previously on bearings matters, and
8 today I'm accompanied by my colleague Andrew Szamosszegi, a
9 managing economist at LECG with whom I've collaborated in
10 undertaking today's analysis. While at a think tank he
11 wrote extensively on trade and economic issues. He has
12 testified at the Commission in several matters including the
13 ball bearing sunset review in 2000.

14 The body of our work has a very strong
15 concentration of manufacturing, especially steel-consuming
16 industries like ball bearings.

17 We were retained by the American Bearing
18 Manufacturers Association. Our analysis is based on our
19 survey of ABMA members, industry interviews, published
20 studies of tradecraft previous investigations and the 2000
21 sunset review. That recent review kept existing antidumping
22 orders, many of them, in place. The problem before us
23 today, however, is far more serious.

24 The preliminary investigation will determine
25 whether there is a reasonable indication that the dumping of

1 ball bearing imports from China is materially injuring the
2 U.S. industry or is threatening to do so. A power point
3 guide to my testimony has been distributed and I'll be
4 referring to the exhibits in it as we proceed.

5 The basics are clear. Rising ball bearing imports
6 from China are depressing prices, sales, and the financial
7 performance of domestic producers. No laggards, these U.S.
8 producers have undertaken every feasible measure to meet the
9 challenge of Chinese ball bearings underselling them now in
10 the double digits, that is until the last measure, the last
11 straw, is bringing a dumping case to correct the fundamental
12 problem.

13 To compete, U.S. firms have slashed prices.
14 Nevertheless more and more of their customers as you have
15 heard are switching to dumped imports. This has already
16 translated into reduced output, lost employment, and meager
17 profit margins in a capital intensive industry. These
18 troubles will only mount if Chinese dumping is allowed to
19 continue. Investment is already plummeting, and that's a
20 barometer for worse yet to come.

21 This classic case of non-market economy injury
22 features record growth of unfairly traded imports from the
23 PRC, resulting price depression and a loss of domestic
24 market share, declines in the industry's performance
25 indicators over the 1999-2001 period of investigation, and a

1 threat of further dumping.

2 During the strong market of the late 1990s
3 terrorism manufacturers of ball bearings should have
4 prospered. They should have been able to build resources to
5 weather a modest recession, but they could not. Now the
6 domestic industry is stagnating. Imports from China are
7 continuing their dramatic ascent.

8 If these trends continue domestic producers are in
9 grave danger of becoming bit players in their home market.

10 The statute directs the Commission to evaluate the
11 volume of subject imports, considering whether that volume
12 or any increase in that volume is significant.

13 Please consider Exhibit 1 of page six of the
14 handout. By any measure, both the volume and its growth is
15 significant. In units, and that's what I'll primarily be
16 using today, ball bearing imports from China expanded 24
17 percent from 1999 to 2001. In weight, and this is the last
18 time I'll deal with non-unit measurements, in weight they
19 rose about 30 percent.

20 Measures in dollars are misleading because of the
21 breathtaking dumping margins that we anticipate and the low
22 pricing they result in. So to keep things clear, I'll be
23 measuring bearings in units throughout my testimony.

24 Remarkably, despite the recession, subject imports
25 from China rose yet again in 2001. Exhibit 1 demonstrates

1 that ball bearing imports from China are rising while
2 shipments from U.S. factories are falling. In other words,
3 the Chinese are taking a rising share of a declining market.

4 Non-subject imports, moreover, have declined over
5 the '99 to 2001 period by almost seven percent compared to a
6 24 percent increase from China. Chinese import share
7 continued to rise in 2001. While imports from other
8 countries declined almost eight percent, the Chinese imports
9 increased four percent in 2001.

10 Consider Exhibit 2 at page nine of my handout. It
11 demonstrates that the increasing volume of Chinese imports
12 comes really at the expense of the domestic producers.
13 China's share of U.S. apparent consumption rose from 19
14 percent, which was very large already in 1999, to 25 percent
15 in 2001. That's a gain of one-third in just three years.
16 Practically all of the gains came at the expense of the
17 domestic industry which now accounts for significantly less
18 than half of its home market.

19 Starting at a high level, PRC imports expanded.
20 It as absolutely and relative to domestic production whether
21 the economy was growing or in recession.

22 The second criterion that the Commission must
23 evaluate is the effect of subject imports on U.S. prices of
24 the domestic like product. I might add there are many
25 bearings lines, but keep in mind that the high volume ones

1 taken alone are larger than most industries that come before
2 the Commission. This is a very, very significant case and
3 each one of these lines when lost or largely lost to a
4 domestic producer decreases their base run significantly,
5 forcing their high fixed costs due to their capital
6 intensity onto the remaining production, so it all matters.

7 The petition documents very large margins for a
8 commodity industrial product. For this preliminary
9 investigation the ITC will have to assume that the margins
10 Commerce publishes in its Notice of Institution are going to
11 be there for its analysis in this case. These margins which
12 we believe will be very high, I haven't got the numbers from
13 Commerce yet, are indicative of the severe price pressure
14 facing domestic producers.

15 The price lists and quotations for Chinese ball
16 bearings discussed in the petition confirm that significant
17 underselling is the commercial strategy of PRC producers.

18 As Exhibit 3 at page 11 dramatizes, import prices
19 have declined significantly.

20 Turning to Exhibit 4 at page 14, the average unit
21 value of high volume radial ball bearings imported from
22 China declined 16 percent over the POI. They're shown on
23 the lowest line of the graph entitled with the BLS series
24 name.

25 Now some agencies, we realize the ITC doesn't do

1 this, are prone to counterintuitive nomenclatures. But
2 those are radial bearings on the bottom line.

3 Unfair Chinese prices have placed incredible
4 pressure on domestic firms. The choice of supplier for
5 customers in this extremely competitive market is highly
6 sensitive to price differentials. Aggressively priced
7 Chinese imports force competing U.S. firms to choose between
8 dropping their prices and/or losing market share to these
9 unfairly traded imports. In other words they have a choice
10 between losing their shirts or losing their businesses. In
11 fact U.S. firms have been doing both.

12 To hold on to what is left of their market,
13 domestic producers have resorted to double digit price cuts
14 themselves on models that compete directly with Chinese ball
15 bearings. Even so they have not been able to match Chinese
16 competitors so they have watched buyers steadily shift more
17 and more of their ball bearing orders to Chinese producers.
18 These losses, as NTN's testimony has already demonstrated,
19 are not one-time events.

20 In other instances prices were so low U.S.
21 producers completely lost certain accounts.

22 Prices for Chinese ground bearings, as you've
23 heard, those are the ones machined, ground bearings
24 machined to more specific tolerances are now so low that
25 they are competing with domestic unground ball bearings.

1 U.S. producers of unground bearings have already lost
2 millions of dollars in sales to Chinese ground bearings.

3 But there can be no equilibrium when the Chinese
4 undersell year in and year out by as much as 50 percent in
5 certain lines.

6 The domestic industry is not only losing business,
7 it's making less on each sale it retains. Price pressure
8 has been relentless.

9 Consider Exhibit 4 at page 14. It compares
10 pricing for ball bearings of all manufacturers. Now
11 manufacturer prices, as we all know, have been very
12 restrained in recent years. By this conservative measure,
13 ball bearing prices are losing ground further. Year on year
14 prices were actually declining by the end of the year 2000.
15 Even more striking has been the price decline for other
16 regular, single row bearings shown on the bottom line which
17 I referred to earlier.

18 This PPI index contains subject part numbers 6201,
19 6203, and other radial ball bearings. They are high volume
20 items in which the Chinese now dominate.

21 As you can see, their prices are declining even
22 more sharply. They are pulling down all bearing prices,
23 they are so significant.

24 The industry before the Commission today is
25 definitely experiencing price depression. As the exhibit

1 indicates, bearings lines with the greatest Chinese
2 penetration are dragging down everything else.

3 Pockets of stronger demand from aerospace and
4 automotive products industries should have led to higher
5 overall bearings prices. However price pressure from the
6 aggressively priced Chinese bearings exerted such a drag
7 that producer prices for the industry have declined, taking
8 revenues with them.

9 The Chinese impact more than counteracted
10 mitigating factors that should have improved pricing.

11 The domestic economy performed exceptionally well
12 in '99 and 2000. In each year real output rose by over four
13 percent. Manufacturing output expanded even faster in '99
14 and 2000. This growth should have translated into bidding
15 up prices for ball bearings at least as much as they did for
16 overall manufacturing. Instead the Chinese imports
17 depressed domestic bearing prices. With domestic demand now
18 weak and low priced Chinese bearing imports still
19 increasing, price suppression is now the order of the day.

20 The Commission is also directed to assess actual
21 and potential declines in output, capacity utilization, and
22 several other factors on our review. Here again, all the
23 data are declining.

24 We rely on our survey data from 15 ABMA members
25 representing about two-thirds of the industry. It covers

1 the POI except in some cases as noted, and the first figure
2 is unfortunately not noted, up through the third quarter of
3 2001.

4 We supplemented this information as appropriate
5 with Census Bureau data. Both sources tell similar stories.
6 Domestic production is declining and the decline started
7 before the slowdown in manufacturing in the year 2000.

8 U.S. production levels have declined sharply
9 through 2000 likely by more than 15 percent. As Exhibit 5
10 on page 16 indicates, the decline was especially severe in
11 this most recent year because Chinese imports kept rising
12 despite the recession.

13 Exhibit 6 on page 17 shows capacity utilization.
14 Utilization figures at or even above 100 percent were not
15 uncommon in the anti-friction bearings industry given its
16 high capital investment, at least not until recent years.
17 Capacity utilization has now declined to only 75 percent.
18 This industry certainly has the capacity to meet its
19 customers' needs.

20 Sales of domestic bearings are also falling. As
21 shown in Exhibit 7 on page 18, domestic commercial shipments
22 slipped about 20 percent over the POI. The decline in
23 shipments in 2000 predates again, I emphasize, the decline
24 in manufacturing but coincides with increasing Chinese
25 imports.

1 We basically have here an industry that has led
2 the manufacturing sector of the economy down and it's large
3 enough to make a difference.

4 In 2001 Chinese imports captured a rising share of
5 the declining market. While U.S. shipments and imports from
6 other countries diminished precipitously, those from
7 China increased. China now holds a quarter of the market.

8 Consider Exhibit 9 on page 19. From 1999 to 2001
9 the number of hours worked declined by almost nine percent.
10 Wages followed suit with average hourly earnings lagging the
11 trend in national average for manufacturing. Quite frankly,
12 when these companies aren't laying off workers they're going
13 to be losing workers because they can't keep up in the wage
14 competition with alternatives that aren't affected by
15 dumping in the U.S. economy.

16 Exhibit 9 on page 20 shows that productivity has
17 declined as well. And in Exhibit 10 on page 21 we see that
18 R&D expenditures also appear to be falling now. That's
19 based on quarterly comparisons there.

20 Well, the financial data paints an equally grim
21 picture. Despite domestic operational improvements to
22 enhance productivity and administrative changes, to reduce
23 selling and general administrative expenses, there were no
24 increases in already inadequate operating margins. These
25 cost-cutting efforts merely allowed domestic producers to

1 mitigate what would have been an even worse outcome.

2 Overall operating income during the period on a
3 quarterly basis never exceeded four percent of sales over
4 the period. Net income was barely positive and often
5 negative. The operating income margin on sales in 2001 was
6 a meager 2.7 percent. That's far below the levels that
7 prevailed during the 1988 ball bearings investigation and
8 the sunset review in the year 2000. But for one-time
9 factors that helped mitigate this impact the financial
10 performance would have been worse.

11 For instance, fourth quarter 2000 several firms
12 induced extra sales by offering firesale rebates to major
13 customers. The industry's also benefitted from good sales
14 of higher value products like aerospace and wale wheel hub
15 bearing products. But with China moving up the value chain
16 this industry has run out of places to hide. It will hollow
17 out if these trends continue.

18 Steel is the most important raw material used to
19 manufacture bearings. I've been told that it roughly
20 accounts for 35 percent of overall ball bearing production
21 costs. Falling steel prices over the POI helped U.S.
22 bearing producers hold down their cost of goods sold.
23 However, steel prices are now firming and rising. Indeed,
24 the latest issue of World Steel Dynamics confirms that steel
25 prices are rising more rapidly in the United States than in

1 any other region it tracks.

2 Additional firesales as an adaptation technique
3 are likely out of the question. The domestic ball bearings
4 industry is pressing for even greater operational
5 efficiencies, but to do so requires stopping the downward
6 spiral in prices and sales because doing so is an
7 investment.

8 If the industry picture does not improve soon, it
9 will be unable to fund operational improvements that are now
10 possible.

11 In short, the industry can no longer rely on
12 mitigation efforts alone. Having tried all other
13 alternatives and continuing to work with them, it comes to
14 the Commission to help solve the unfair Chinese pricing
15 problem with an antidumping remedy.

16 Investment levels have declined during the period
17 of investigation. Expenditures on plant and equipment fell
18 15 to 20 percent over the period. Exhibit 11 at page 24
19 illustrates the especially sharp drop in 2001. The industry
20 can afford to continue enhancing its facilities which are a
21 lifeblood for this industry only if investor confidence in
22 the future returns and their own financial returns justify
23 it.

24 The current adverse trends in the growth of
25 unfairly traded Chinese imports are impeding additional

1 investments. The domestic industry was earning meager
2 profits at the start of the POI in an expanding market. It
3 is now difficult or impossible for them to justify
4 additional major investments with the Chinese laying ever-
5 wider claim to the U.S. market.

6 Subject imports also threaten the domestic
7 industry with material injury.

8 China has excess capacity in the ball bearing
9 industry and is likely to have more excess capacity in the
10 future. It has a massive trade surplus in bearings
11 including ball bearings. And yes, Virginia, the PRC is
12 still a non-market economy with a five year plan.

13 Beijing's five year plan forecasts a 25 percent
14 increase in Chinese bearing production by year 2005.
15 According to the Fredonia Group, China is planning to expand
16 its production more than will Chinese home market demand.
17 China's trade surplus in bearings is expected to double.
18 Where is this going to go?

19 The United States is the major Chinese export
20 market for all kinds of bearings produced in China. The PRC
21 government is also planning to invest \$250 million in
22 subsidizing the development of its capability in specialty
23 and bearing quality steel. We'll probably see a case on
24 that some day.

25 This will enable Chinese producers to move further

1 up the bearing value chain and manufacture sooner than the
2 clients at this table would like to see, super precision
3 bearings and dump them in the U.S. market.

4 Aggressively low pricing by the Chinese is a
5 function of the need to sell their excess production. With
6 capacity growing, China's incentive to use dumped pricing
7 will increase and as it has over the POI, dumped pricing
8 will directly displace more U.S. product.

9 As the Chinese product range expands, savvy
10 bearings customers, and they are all savvy customers in this
11 industry, will also use this alternative to knock down
12 domestic pricing even further on especially those lines
13 which are now sustaining the meager profitability of the
14 industry.

15 Already Chinese bearings are in fact moving up the
16 value chain. With increased access to subsidized bearing
17 quality steel, China's ability to do so will expand.
18 Chinese bearings are already gaining acceptance with major
19 customers, as you have heard, and they will opt for other
20 Chinese producers with dumped price tags if the domestic
21 producers don't meet those price offerings.

22 China's move into the automotive sector, the
23 industry's single largest customer, is well known. In its
24 home market the Chinese bearings industry is moving into
25 wheel hub units for lucky Chinese motorists. All too soon,

1 dumped pricing will bring them here if allowed.

2 Unimpeded by any need to abide by U.S. trade laws,
3 the Chinese long march up the product value chain could make
4 current operating margins seem like the good old days,
5 except that the good old days, as we've already heard,
6 aren't so good in this capital-laden industry.

7 Well, coming to an end here, the link between
8 Chinese dumping and material injury to the U.S. industry is
9 apparent. Aggressive pricing is a powerful inducement for
10 customers to test Chinese bearings and then curtail or drop
11 their established suppliers.

12 For the last three years bearing users have been
13 made offers they simply can no longer refuse. They are
14 buying Chinese bearings in increasing quantities and that of
15 course qualifies or brings up the possibility of moving and
16 considering them in yet new applications.

17 It is probably fair to assume that the people on
18 the other side of this room did not come here to praise the
19 petition or concede the case. It's also fair to say that
20 U.S. producers at this table have had quite a bit of
21 experience with dumping investigations as Petitioners and
22 also in some cases as targets.

23 In this heady atmosphere allow me to conclude by
24 drawing your attention to the summary table on page 26 of
25 the presentation. That table includes key indicators that

1 the Commission relies on for indications of injury and
2 unfair pricing as its cause. Every performance indicator is
3 declining. Capacity utilization is appallingly low. One
4 indicator is merely stable -- the operating income margin as
5 a percentage of sales. But at 2.7 percent it has been
6 woefully inadequate to offer a decent return for investments
7 the industry has already made, no less needs to make.

8 Lest there be any confusion about what a 2.7
9 percent operating margin means in this industry, please
10 recall the prior cases. In the sunset review in 2000 with
11 higher operating margins the duties were kept on the
12 significant players who's original import penetration was
13 lower than China's is today summed together.

14 Furthermore, the operating income margin in the
15 original 1989 ball bearing matter was more than twice
16 today's, a full 6.7 percent, and the industry was less
17 capital intensive then.

18 That was deemed inadequate and a sign of injury
19 then. Today with much more investment under the bridge, the
20 domestic industry is almost certainly more capital intensive
21 and requires even higher income operating margins to return
22 to health. Once foreign producers have long since committed
23 to U.S. production, but those operations are now being
24 injured by Chinese dumping. Antidumping orders are designed
25 to thwart unfair pricing.

1 Furthermore in the 1989 bearings case against
2 eight countries, pardon me. The domestic industry posted
3 operating income margins, as I've mentioned, that were more
4 than twice what they are today.

5 Today the U.S. industry is more capital intensive
6 than ever. The Commission knows that such industries from
7 its experience in cement and other investigations must earn
8 higher operating margins on sales to pay their cost of
9 capital on past investment and to attract new capital, their
10 lifeblood.

11 Unlike the PRC, the U.S. government has shown no
12 interest in forking out hundreds of millions of dollars to
13 make bearing quality steel cheaper for U.S. bearing
14 producers. If anything the opposite seems true, especially
15 today.

16 The U.S. is not a non-market economy. Investment
17 funds follow market performance and expectations. After
18 antidumping duties on imports earlier deemed unfair, those
19 foreign producers, many of them committed hundreds of
20 millions of dollars to U.S. production facilities, joining
21 domestic producers like Torrington at this table in building
22 the U.S. industry. Even those operations are now being
23 injured by equal opportunity for all Chinese dumping.

24 The only remedy not yet tried to deal with this
25 problem is to deal with the dumped Chinese bearings with a

1 good, stiff antidumping order.

2 Thank you.

3 MR. APPLEBAUM: Mr. Featherstone, that completes
4 our testimony. We would submit at this point that the
5 petition, the questionnaire responses from the ABMA members
6 and the testimony you've heard today clearly establishes
7 that there is a reasonable indication of material injury and
8 threat of material injury to the United States ball bearing
9 industry.

10 All of the panelists are now ready for questions,
11 and there are quite a number of support potential question
12 answerers as well.

13 MR. FEATHERSTONE: Thank you, Mr. Applebaum and to
14 all the witnesses for your presentations.

15 As a housekeeping matter we'll accept the
16 Torrington product brochure as Collective Conference Exhibit
17 1; and Mr. Wechsler, your group of exhibits as Collective
18 Conference Exhibit 2.

19 (The exhibits referred to were
20 identified as Commission
21 Exhibits 1 and 2 and received
22 in evidence.)

23 MR. FEATHERSTONE: Mr. Ruggles?

24 MR. RUGGLES: (No audible response)

25 MR. FEATHERSTONE: Ms. Jones?

1 MS. JONES: I just want to remind you in your
2 post-conference submission if you're going to address the
3 issue of threat to address the specific statutory factors.

4 I'd also like you to address the issue of related
5 parties if there are any such issues in this investigation.

6 Also, I'm gathering that you generally feel that
7 units rather than value is the appropriate measure for the
8 Commission to be looking at. I know in some of the previous
9 bearing cases we've looked at, we've focused primarily on
10 value of production imports.

11 MR. WeCHSLER: It's particularly important in a
12 dumping case like this where we anticipate very large
13 margins and extremely high underselling. If you use value,
14 you're in fact allowing the Chinese to benefit from the
15 unfair act in the first place because they're flooding the
16 market with low value/high volume imports.

17 So value is out.

18 For certain kinds of analyses weight, which adds
19 up a little bit differently than units may be useful as a
20 double check on what's going on, but the value one is really
21 a distortion of what's going on in the market.

22 The bottom line is that when prices decline on a
23 high volume bearing, a radial bearing for instance like Ms.
24 May's company produces, producers don't put more of them in
25 each item they design. They have a fixed number for a

1 particular product.

2 So by looking at either units or weight you're
3 going to get at what's actually going on and what the real
4 displacement is and the real substitution is.

5 Thank you.

6 MS. JONES: And I'm gathering that this time the
7 scope includes all the types of bearings that -- There were
8 some like product issues raised in the sunset, and I'm
9 presuming the scope still includes all of those type of
10 bearings that were discussed in the sunset and that you
11 would argue this time as well that we should still have one
12 like product consisting of all the bearings.

13 MR. APPLEBAUM: As I said at the outset, we
14 intended to have the scope of this petition and this
15 proceeding identical to that used in the sunset reviews and
16 the prior orders other than the inclusion of unground
17 bearings.

18 The Commission has consistently concluded that
19 there is one ball bearing like product industry and we think
20 you should continue to follow that. But as you've heard
21 from the National testimony, and as we'll certainly include
22 in our post-conference brief, we believe that like product
23 does include unground bearing as well.

24 MS. JONES: That's all I have.

25 MR. FEATHERSTONE: Mr. Levy?

1 MR. LEVY: I believe Mr. Wechsler probably
2 addressed this question in his testimony somewhat, but I
3 guess to the U.S. producers, are there significant quality
4 differences between the Chinese ball bearings and the U.S.
5 ball bearings?

6 MR. PANGRAZIO: I guess I will jump in with the
7 first response to that.

8 I think that we've seen that quality difference
9 disappear over the last couple of years so we're now looking
10 at product that competes and fills the technical
11 applications appropriately, and in those instances they're
12 coming in with pricing that is substantially less than ours
13 for products that serve the purpose and is comparable from a
14 quality standpoint.

15 MR. WeCHSLER: If I can add just a little bit.

16 The bearings that arrive here are sold because
17 they meet the specifications of the customers. So by dint
18 of being sold and not sent back they have qualified and are
19 up to the equality standards here. I think you're asking
20 competitors to -- They don't want to give you quotations
21 that can be put in Chinese brochures, that would make the
22 problem even worse. But we're seeing substantial
23 substitution in the bearings that are here.

24 To be frank and forthright, no one's claiming that
25 the Chinese are yet capable of producing bearings that are

1 going to make a big penetration in the aerospace market. So
2 there are applications that the home market production is
3 not yet capable of coming in, and what we are seeing and as
4 the testimony showed you is just a progression up the
5 product chain and testing at higher and higher levels.

6 There's three aspects of bearing production that
7 are helpful in answering your question. Volume, and the
8 Chinese are in the highest volume bearings and they dominate
9 the lowest price of the highest volume bearings. Size,
10 where the Chinese started with the smallest and are moving
11 larger. And application, from less demanding to most
12 demanding, and they're moving up that chain as well, ma'am.

13 MR. APPLEBAUM: Mr. Levy, I would note that in his
14 testimony Mr. Bodell of Torrington said that at one time
15 there was a quality advantage in the high volume product
16 lines we're talking about, but as he put it for many
17 accounts -- It's too attractive now, and for many users the
18 product has proved acceptable in quality. That was in his
19 testimony as well.

20 MR. LEVY: I guess either now or in post-
21 conference brief if you could give us some idea, I'm trying
22 to get an idea for the size of the market segment that the
23 Chinese currently aren't competitive in such as aerospace
24 or, to the extent that you can address that.

25 Another question, are Buy American requirements a

1 significant factor in this market?

2 MR. PANGRAZIO: I'd like to answer that one.

3 MR. LEVY: Sure.

4 MR. PANGRAZIO: That has disappeared almost
5 completely in every industry for us. That used to be a very
6 important point, just as recently as two or three or four
7 years ago, but now that has disappeared almost completely,
8 even in places like the trucking industry and places where
9 you would think that they hard core Buy American, that has
10 gone away and we're losing business in those industries too.

11 MR. GRIDLEY: Dave Gridley, Executive Director of
12 Marketing Services and Government Affairs at Torrington.

13 I think you're referring to the Buy American
14 statute. The estimated value of the total market for ball
15 bearings that's covered by that is five to six percent of
16 the total market.

17 MR. LEVY: Okay.

18 MR. APPLEBAUM: We would also note, looking to the
19 future China is now a member of the WTO and there's a
20 possibility that it may become a designated country under
21 the Trade Agreements Act so that at some point in the
22 future, perhaps near future, we don't know, it could become
23 eligible to make purchases, I mean to sell to government
24 agencies otherwise blocked off.

25 MR. LEVY: Okay. Thank you.

1 Those are all the questions I have.

2 MR. FEATHERSTONE: Mr. Jee?

3 (No audible response)

4 MR. FEATHERSTONE: Mr. Walworth?

5 MR. WALWORTH: I'd like to ask maybe a follow-up
6 question on the quality issue.

7 I was wondering, have the purchasers of bearings
8 shifted to, maybe changed to lower quality tolerances that
9 Chinese bearings can now satisfy?

10 It seems that we've agreed that maybe the Chinese
11 bearings were of lower quality and have improved a little
12 bit, but at the same time have buyers shifted to lower
13 quality tolerances at all?

14 MR. GRIDLEY: Dave Gridley again.

15 In the ball bearing industry there is a set of
16 standards, ABEC 1, ABEC 3, 5, 7, 9 which specifies the
17 tolerance, the bore, the outside dimensions and the run-up.

18 It is common that in order to be at the minimum
19 requirement for ground bearings you would be at ABEC 1, and
20 more likely the producers are producing up in the ABEC 3 to
21 ABEC 5 range which is a tighter tolerance.

22 Our experience is that the Chinese production is
23 clearly in the ABEC 1 category or above, the minimum
24 requirement for most applications. Consistently in that
25 range.

1 MR. WALWORTH: Okay. Let me understand a little
2 better. If I was purchasing a bearing and I had been
3 purchasing at a certain level because that was acceptable
4 for the use, would I at any point say you know what, I can
5 actually get away with a lower quality bearing and therefore
6 maybe some of these lower quality bearings are acceptable?

7 MR. GRIDLEY: Yes, you could potentially move
8 down. That is one of the factors in the use of unground
9 bearings. But the norm in the industry is not to go below
10 ABEC 1 levels which is the Chinese production level, if
11 you're looking for 75-80 percent of the market.

12 MR. MALMSTROM: It depends on the application. In
13 the automotive industry you have critical applications and
14 the customers always ask us to make a so-called failure mode
15 evaluation analysis which means that what happens if the
16 bearings break down? Could there be an accident? A real
17 serious accident? Those applications we haven't seen any
18 yet, any significant penetration of the Chinese bearings.
19 I'm in particular referring to wheel hub units where you
20 connect the bearings with the flanges in what we call
21 generation three. You also include ABS sensors and things
22 like that.

23 Another very critical typical application is of
24 course aero engine bearings. You wouldn't like to have a
25 bearing in the engine fail, would you? So it depends on the

1 application.

2 MR. WeCHSLER: This is Drew Wechsler.

3 If I could give you some qualitative information.
4 One of the great phenomena of consumer products in this
5 country is in fact the unheralded improvement in quality
6 across the board. If you think of anything that moves
7 that's mechanical it's got a bearing in it.

8 The Chinese are making phenomenal quality toys
9 which have bearings in them. These are not competing with
10 U.S. bearings because they're produced in China, but the
11 point is that the bearings in these lowest grade, lowest
12 demanding applications are in fact much higher quality than
13 they ever were 20 years ago. You just see it across the
14 board in U.S. consumer products. All kinds of motors are
15 lighter weight and more quiet and the bearings used in them
16 are a factor in that. They're not all ball bearings, but
17 the phenomenon, there aren't many indications that end users
18 are simply going cheap and lowering their standards. It's
19 much more that the standards are being met by the Chinese
20 and by others at much lower price levels.

21 MS. MAY: One of the examples that I cited was an
22 example where our unground bearing was replaced by a Chinese
23 ground bearing which would be the reverse of the example
24 that you're asking about.

25 MR. PANGRAZIO: Can I add one point?

1 When you look at bearing purchasers it's seldom
2 that they will change the performance specifications in the
3 middle of a product line. So if you have a power tool like
4 a drill and it's a such and such model, the engineers
5 generally do not go back to that particular model while it's
6 in its product life cycle and redefine the performance
7 specifications.

8 So if you lose a bearing application on an
9 existing product they haven't changed the spec. The spec is
10 still what it was when we first won the sale two years ago
11 or three years ago whenever that happened. So the engineers
12 will keep that consistent.

13 MR. WALWORTH: Thank you.

14 A question on scope, and I know we've talked a
15 little bit about it already. In previous bearings cases
16 including the sunset review, linear ball bearings have been
17 excluded from the scope of the investigation? Those are HTS
18 numbers 8482.10.5012, and 8482.80.0060. Can you comment on
19 why linear ball bearings have been excluded in the past and
20 again in this investigation?

21 MR. APPLEBAUM: I'm not sure I can tell you why
22 they've been excluded in the past. It is my understanding
23 that we do intend for them to be excluded in this petition
24 and in this proceeding.

25 The prior cases were brought by the Torrington

1 Company under different circumstances, but there's no effort
2 here to include anything that was excluded from the prior
3 proceedings other than unground ball bearings which were not
4 necessarily excluded, they just weren't included in the
5 previous petitions.

6 MR. GRIDLEY: In the previous case the Torrington
7 Company did not make linear bearings. So it was not in the
8 scope for that reason.

9 MR. WALWORTH: Okay. I guess I have one more
10 question unless someone else has something else to say about
11 that?

12 Different types of bearings are used for different
13 purposes and I understand that ball bearings are used when
14 speed is a more important factor than load bearing capacity.
15 However, it seems there may be some ball bearing sizes and
16 load capacities that are comparable with roller bearing
17 sizes and load capacities. Are there some applications
18 where the roller or any type of bearing could be easily
19 substituted for a ball bearing if the cost reduction for
20 making such a switch warranted doing so?

21 MR. GRIDLEY: Dave Gridley again.

22 In the previous cases where we included all
23 bearings other than tapered roller bearings we addressed
24 this issue of substitutability. Our position always was
25 that a needle bearing, for example, of a cylindrical bearing

1 or maybe even a spherical roller bearing could be
2 substituted for a ball bearings at the design phase, before
3 the machine is designed. If the application was
4 appropriate. But once the bearing has been built into the
5 machine there's no substitutability.

6 MR. WALWORTH: Okay, that's all I have. Thank
7 you.

8 MR. FEATHERSTONE: Mr. Carpenter?

9 MR. CARPENTER: If I could start with some
10 questions about consumption. I think I'll start with you,
11 Mr. Wechsler.

12 As I understand it consumption has generally
13 decreased during the three year period. If that's the case
14 and if you could explain what effect the recession has had
15 on that as opposed to other factors?

16 MR. WeCHSLER: Now is a good time to have my
17 colleague Mr. Szamosszegi, who has been buried in the data
18 answer that question.

19 MR. SZAMOSSZEGI: Hi. I'm Andrew Szamosszegi.

20 The demand actually rose somewhat in 2000 and fell
21 again in 2001, or fell in 2001. And I think that obviously
22 the recession was a part of that. But what we see is that
23 even despite this fall in consumption there has been an
24 increase in ball bearing imports from China and all things
25 being equal, even if demand goes down or consumption goes

1 down, you would expect both domestic production and imports
2 to decline. And you got the decline in domestic production
3 and you also got a decline in imports from other countries.
4 The only one who increased was China in fact. So China was
5 able to increase its market penetration precisely because it
6 was able to import into a declining market while others were
7 selling less.

8 MR. WeCHSLER: If I might add, the necessity of
9 that long explanation is the reason why we left consumption
10 off the summary sheet at the end of my testimony.

11 MR. CARPENTER: Is it your belief that because
12 ball bearings are used in such a wide variety of products
13 that consumption tends to follow the general economic trends
14 in the manufacturing sector?

15 MR. SZAMOSSZEGI: Yes, it's often considered in
16 fact a leading indicator.

17 Now there are different products that go through
18 different cycles. There were some manufacturing sectors
19 that were relatively soft before the recession occurred, but
20 at the same time there were other sectors such as automotive
21 and aerospace that were relatively strong. So there's a mix
22 of sectors, but in general I think you're right. If there
23 is an economic slowdown consumption will generally decline
24 in the bearings industry.

25 MR. CARPENTER: Just kind of a follow-up to Mr.

1 Walworth's question about competition with other types of
2 bearings, I think in the review cases there was some
3 testimony that ball bearings competed with tapered roller
4 bearings on the fringes and I understand what you were
5 saying about the substitution has to take place before the
6 specifications are established, but the fact that as you've
7 alleged the Chinese ball bearings are coming in at such low
8 prices, have you seen any impact on that on the tapered
9 roller bearing industry?

10 MR. GRIDLEY: I don't know that I can really
11 comment on that because we aren't in the production of high
12 volume small tapered roller bearings, but possibly we can
13 advise you on that in the post-hearing brief.

14 I know that it is having an effect on the needle
15 bearings and the unground part of our ball bearings.

16 MR. APPLEBAUM: We do have some members that make
17 tapered roller bearings. We'll see if we can get you an
18 answer to that question.

19 MR. WeCHSLER: Mr. Carpenter, you raise an
20 interesting question there. In our discussions if this is
21 occurring, it hasn't been a factor that's been on the radar
22 scope in any scale, but it does make me recall something
23 from industrial organization antitrust economics, which is
24 the cellophane fallacy where you're trying to define a
25 market and people look at cross price elasticities between

1 something in the market and outside the market and if there
2 is a very high cross price elasticity the knee jerk reaction
3 to that is oh, there's high substitution here. I think that
4 would be a fallacy to go that route in this case where you
5 have such price depression and such dumping in the antitrust
6 world they don't go that route because the very fact that
7 there's that leakage at the boundary is evidence, one way or
8 the other, of whether there's market power in the market
9 they're looking at, and in this case if we want to draw the
10 analogy, if there's any substitution that occurs as a result
11 of the effect of the dumping which is at issue, I wouldn't,
12 I think it would be a very strange conclusion to say that
13 it's non-subject product causing the injury. That's the
14 effect, not the cause.

15 MR. CARPENTER: Thank you.

16 I have some questions related to competition, the
17 overlap of competition between U.S. producers and Chinese
18 producers and market segmentation. I'm sorry, the gentleman
19 from Torrington, I didn't catch your name.

20 MR. GRIDLEY: Dave Gridley.

21 MR. CARPENTER: Mr. Gridley, I think you said that
22 ABEC 1 is the typical Chinese level and that accounts for 75
23 percent. ABEC 1 accounts for 75 percent of the ball bearing
24 market.

25 MR. GRIDLEY: ABEC 1 to 3.

1 MR. CARPENTER: Okay.

2 Is it your judgment that there are very few if any
3 Chinese bearings coming in above ABEC 3?

4 MR. GRIDLEY: I think that's a fair statement.

5 MR. CARPENTER: Is it true that the ABEC 1 through
6 ABEC 3 tend to be the high volume items, I assume?

7 MR. GRIDLEY: Yeah.

8 MR. CARPENTER: Okay. I think Mr. Levy asked a
9 similar question, but if you could in your post-conference
10 brief give us an estimate for the U.S. market as to what
11 percentage of consumption is accounted for by the ABEC 1, 3,
12 5, 7 and 9 categories?

13 MR. GRIDLEY: The --

14 MR. FEATHERSTONE: You're going to have to talk
15 into the microphone to get it on the record.

16 MR. GRIDLEY: I was mentioning that I think some
17 of the Census Bureau information does have a split on the
18 ABEC level which we will mention in our post-hearing brief.

19 MR. CARPENTER: That will be great. Thank you.

20 In addition to the ABEC ratings, if there are any,
21 like the aerospace application was mentioned. If there are
22 any other areas that the Chinese don't compete in, we'll be
23 asking them for that information too, but if you could help
24 us out on that we'd appreciate it.

25 MR. APPLEBAUM: I would comment that I think all

1 of the testimony from the companies and from Mr. Wechsler
2 indicate that the current state of where the Chinese are is
3 changing, and as they said, China's moving up the value
4 chain and it's expected that that will continue so that
5 needs to be taken into account, obviously. At least on the
6 threat side of the case.

7 MR. CARPENTER: Mr. Pangrazio, you mentioned in
8 your testimony that some U.S. purchasers were typically
9 reducing their purchases from U.S. producers and in the mean
10 time they were buying Chinese product and testing it over a
11 period of months and then if it worked out they would switch
12 to the Chinese product.

13 I was wondering if you were talking about
14 purchases there of commercial quantities, or if that was
15 just test quantities that -- In other words if it was just
16 simply a qualification process that they typically follow
17 before they decide to qualify --

18 MR. PANGRAZIO: Yes, I was talking about the
19 qualification process and how it slowly creeps across all of
20 the purchases. And essentially it will start out with a
21 test volume, then they'll move into one application, and
22 then once that's comfortable they'll spread across all of
23 them.

24 But usually they go from test to one real or two
25 real applications, and at that point it's really more to

1 test the commercial viability of the supplier than the
2 actual technical performance characteristics of the
3 bearings. So they'll do that first, meaning technical
4 verification. Then they'll do the commercial verification
5 with actual production needs, and then they'll spread across
6 the rest of their production needs once they're satisfied
7 that both are met.

8 MR. WeCHSLER: Mr. Carpenter, to follow on in a
9 more aggregate level to your question, we're talking about a
10 six percentage point increase in market share in three
11 years. Not the market, just the Chinese bearing imports are
12 on the order of 300 million dollars a year. So we're not
13 talking about test quantities here.

14 MR. PANGRAZIO: Quantities is dipping, is more for
15 the threat, not for the past injury.

16 MR. CARPENTER: Yes, sir?

17 MR. MALMSTROM: Maybe I can add on that one. In
18 two cases we have already lost 50 percent and the remaining
19 50 percent we have been told that we will lose that as well,
20 so that's what typically happens. I just want to verify
21 that. Testing and then commercial quantities, if that is
22 okay they lose the rest.

23 MR. CARPENTER: If I could ask you, as U.S.
24 producers in terms of the qualification process, do
25 purchasers -- some of you represent very large companies who

1 have been doing business for, in a lot of these areas for a
2 long time. If you're working with a supplier that you've
3 worked with for a long time and they come out with a new
4 product line, do you still have to get your product
5 qualified by them?

6 In other words, it's an individual thing. It's
7 not that you, like SKF or Torrington is just automatically
8 qualified to produce bearings for all products. It's an
9 individual --

10 MR. MALMSTROM: No. Each case is new. Whenever
11 there is a new design the present suppliers are invited and
12 of course those who are not delivering today they may also
13 be invited to quote.

14 MR. CARPENTER: Are there any purchasing sectors
15 that tend to prefer, I guess Mr. Levy had asked this too,
16 that tend to prefer U.S. suppliers are -- not necessarily
17 just U.S., but long established suppliers where it would be
18 difficult for a more recent entrant like China to make
19 incursions into their market? For example, the automotive
20 area, although I think there was some testimony that they've
21 already made significant inroads in the automotive area.
22 But are there any sectors like that where it's difficult to
23 penetrate that you're aware of?

24 MR. PANGRAZIO: I would just repeat my last
25 comment. I've seen all of that resistance disappear over

1 the last five years and companies that we thought would
2 never buy off-shore are now suggesting that we should invest
3 in China and produce in China, as a matter of fact. So in
4 our experience it's gone. I don't know what the other
5 people are seeing, but that's what we're seeing.

6 MR. BODELL: I would say that it's a similar
7 experience for us. We've had some long term relationships
8 with companies, but it's a decreasing pool of people that
9 would not consider, and we have also been encouraged to look
10 at Chinese production and off-shore production.

11 MR. CARPENTER: Do you feel that the Chinese have
12 made significant inroads in both the OEM market and the
13 after-market distributor segment?

14 MR. BODELL: From our perspective I would say
15 absolutely yes. Definitely in the OEM, and then when you're
16 out there in the after-market people will, especially as
17 something gets older, be buying on price there and they see
18 the huge price differential.

19 MR. PANGRAZIO: I guess I could throw in one
20 particular example where we have the same situation going on
21 where they've had, they create what they call, one of our
22 major distributors has created what they call a white box
23 line which is essentially a generic product line that is all
24 filled with Chinese products that they then supply to their
25 entire network which is in direct competition with the

1 products we supply. That's automotive aftermarket.

2 MR. CARPENTER: Okay.

3 I think just one last question for Mr. Wechsler.
4 Ms. Jones brought this up, but it's still a concern of mine.
5 That's the emphasis of units rather than value. As you know
6 in the review case the Commission decided to heavily rely on
7 value data as opposed to quantity data mainly because of the
8 product mix problem. You have thousands of different types
9 of bearings and they vary greatly in size and tolerances and
10 so on, so unit values are all over the place. Unless you
11 have a product mix from the various suppliers that stays
12 constant from year to year you may have some real
13 distortions if you use units.

14 I understand your point about values, the Chinese
15 product is priced lawyer, then it's going to tend to
16 understate import penetration if you use value, but I still
17 have serious concerns about the product mix issues.

18 MR. WeCHSLER: Mr. Carpenter, those are reasonable
19 concerns to have. It's a tradeoff of distortions.

20 If you use weight, some bearings require more
21 matching than others and you miss that in the weight.

22 If you use units, some units are significantly
23 higher priced, higher value, more in them than others,
24 unfortunately.

25 If you go to price you face the problem of, you

1 introduce the very distortion we're trying to attack in the
2 case. And the most exaggerated form of it is if they gave
3 away the bearings you'd have zero values imports, hundreds
4 of millions of units and no market penetration. So we
5 understand that and my suggestion is that in fact you look
6 at all three in wherever area you think you may have a
7 problem and see if you're getting a different picture. Then
8 if you're getting a different picture you have to sort out
9 which one is most relevant to the standards.

10 We struggled with it a bit and for clarity of
11 line, we didn't want to pop back and forth from one part to
12 another, we thought units were best. But it takes Solomon
13 to ferret it all out definitively, and I think your concerns
14 are valid.

15 To the extent you think you have something more to
16 gain from looking at just units, you might look at value,
17 but I can't see it on the import penetration. That's
18 basically, well, you've heard the jokes about the person who
19 kills his parents asking for sympathy is an orphan. That's
20 the problem with that.

21 MR. CARPENTER: Thank you very much for your
22 testimony and for your responses to questions.

23 MR. FEATHERSTONE: We would also like to thank all
24 of you for your questionnaire responses. However on that
25 topic we have a number of what could generally be

1 characterized I guess as reconciliation issues on a number
2 of the questionnaires, and we've had some problems getting
3 the responsible company officials that may not have been
4 around or in the office to respond. I'd just like to ask
5 for your help on this. If we have questions, especially in
6 Mr. Jee's area, if we can't get a company official, if we
7 could get in touch with your firm, Mr. Applebaum, we would
8 appreciate that.

9 MR. APPLEBAUM: We'll be pleased to do that. When
10 the conference is over, either later today if you want to
11 give us the names of the companies, we'll certainly be happy
12 to do that.

13 MR. FEATHERSTONE: We'll be happy to do that.
14 Are there any follow-up questions?

15 MS. JONES: Could these unground bearings, do they
16 have any ABEC ratings?

17 MS. MAY: No.

18 MS. JONES: That's all, thank you.

19 MR. FEATHERSTONE: Thank you very much.

20 We'll take about a ten minute break. We'll resume
21 at quarter after by this clock.

22 I understand that we haven't identified all of the
23 witnesses who will be appearing in the second half, so if
24 you could provide especially the Court Reporter with a card
25 so we have your names we'd appreciate that. Thank you.

1 (Recess taken from 11:03 to 11:15 a.m)

2 MR. FEATHERSTONE: Could we resume the conference,
3 please?

4 Welcome Mr. Greenwald. Please proceed at your
5 convenience.

6 MR. GREENWALD: Thank you, Mr. Featherstone,
7 Commission staff. My name is John Greenwald. I'm with
8 Wilmer, Cutler & Pickering. We are representing a group of
9 Chinese exporters.

10 I hope that the testimony that we will give which
11 will be by myself, by Mr. Hoo of General Bearing, by Mr.
12 Dutton and by counsel for Peer Bearings will serve as a
13 reality check on a story that you heard today that there is
14 precious little relationship to reality in a number of
15 important issues.

16 Let me begin by noting that this is a case that
17 has been brought on behalf of a group of multinational ball
18 bearing producers, some but only a few of which are
19 headquartered in the United States. It has been brought
20 against imports from China and not from other countries for
21 the primary purpose of protecting their offshore production.

22 If you look at the handout that we gave and you
23 focus on the first page what you will see are the major
24 producers of ball bearings in the United States. You will
25 see their headquarters identified by country, and then the

1 arrows going in show their offshore production plants.

2 One of the ironies in this case is that most of
3 the major U.S. producers are in fact also producers in China
4 and are importers of product from China. One of the
5 questions is why would a group of producers in the United
6 States bring a case that sweeps in their own exports to the
7 United States. Mr. Hoo I think has the answer. That is one
8 of the glories of the Byrd Amendment. What you can do if
9 you're smart enough is file a case against others and
10 yourself, win the case -- in other words lose it from your
11 point of view of a producer in the target country, but with
12 a little luck you get your money back on the Byrd Amendment.
13 And it is, I think, one of the dangers of the way in which
14 the antidumping statutes are being implemented.

15 Anyhow, if I can get back to the major point, a
16 good portion of the petitioning companies are in fact
17 producers and exporters in China and elsewhere.

18 Now another, and I believe the major purpose of
19 this case has been brought not to protect U.S. production,
20 because the imports from China as you will see, do not
21 compete in any material respect with U.S. production, but
22 rather to protect production platforms that are offshore.

23 An allegation that you heard today is that imports
24 from China have been increasing. This is true for small
25 bearings but not for large bearings. However the import

1 data which we will go into show quite clearly that any
2 increase in imports from China have been balanced by a
3 decrease in imports from other countries. Whether you're
4 talking volume or you're talking value. In fact there is no
5 evidence in the aggregate data that the increase in the
6 imports from China have come at the expense of the United
7 States industry.

8 This is also a case that according to Petitioners'
9 own data has been brought at a time when the Petitioners'
10 operating results are stronger at any time, than at any time
11 over the past three years, and this is true despite a
12 cyclical drop in demand that occurred in some end-using
13 industries that occurred in 2001.

14 The testimony danced around this point. They
15 talked about low returns. In fact if you look at the data
16 what you see is in terms of operating results, a steady
17 improvement right through the full period of investigation
18 under Petitioners' own data and these data, frankly
19 speaking, are selective. They are data that have been
20 compiled from a subset of U.S. producers in the United
21 States.

22 When you see your questionnaire response
23 information and you aggregate it, I suspect that you will
24 see a U.S. industry that in fact is doing quite well. In
25 other words, not only is the causation claim very weak by

1 any objective standards, but the injury claim, the
2 fundamental injury claim is very weak.

3 As we get into our testimony we will get into
4 details of issues on like product, conditions of
5 competition, the condition of the U.S. industry, trends in
6 subject and non-subject imports, the differences in market
7 segments into which different producers fell, et cetera,
8 with one fundamental point. Again, it was understated,
9 alarmingly understated in the testimony today. That point
10 is that most U.S. production is in fact shielded from
11 competition with imports from China because of qualification
12 requirements at major producers, and at the extreme, because
13 of Buy America provisions.

14 When you think about who's bringing the case and
15 you think about the end using industries please think about
16 things like corrective relationships. There are in the
17 group of Petitioners Japanese companies, some of which are
18 affiliated with Japanese automotive companies. Japanese
19 automotive companies are large consumers of ball bearings.
20 The auto sector is the single largest consumer.

21 You know from the many cases you've had that the
22 relationships amongst buyers do not permit outsiders to
23 penetrate even if there were not a qualification problem.
24 And we're not talking here about a minor part of the
25 business companies like NSK or Koyo Seiko or NMB.

1 I'll get into that in more detail later on and
2 obviously in the post-conference brief.

3 Let me now turn the microphone over to Mr. Joe Hoo
4 who is Vice President of General Bearing. He will provide
5 you details about the U.S. ball bearing market and the role
6 of imports from China in that market and the role of other
7 suppliers to the market, both third country and domestic,
8 with one major point. That is that the competition between
9 imports from China and domestic production is very, very
10 limited.

11 Thank you.

12 MR. HOO: My name is Joseph Hoo. I am the Vice
13 President of General Bearing in their Chinese operation. I
14 have worked 42 years in the bearing industry with the past
15 12 years in China. I come here as a representative for the
16 Chinese Chamber of Commerce for electrical and mechanical
17 products in a branch called Mechanical Components for which
18 the bearing is a part of.

19 To begin with, I categorically state that most
20 Chinese exports are commodity grade ball bearings that do
21 not compete against more sophisticated U.S. produced ball
22 bearings.

23 We mentioned in the previous testimony about the
24 quality. To separate the quality by dimensions or by the
25 accuracy of dimensions as expressed in ABEC numbers, ABEC 1,

1 3, 5, 7, is oversimplification.

2 The bearing, besides the precision it is important
3 to know what is the noise level of the bearing in the
4 application; what is the material difference in the bearing;
5 and how the bearing is made; what is the dimensional
6 stability of the bearing over the years, and what is the
7 life of the bearing.

8 Now if you take all this into consideration you
9 will see the 608 bearings of a given dimension, actually
10 they are different families of bearings. One type of 608
11 bearing is made for commodity type of application and
12 another type is specially made for a much higher
13 sophisticated application.

14 The Chinese ball bearings have applications almost
15 totally different from the U.S. made ball bearings. Typical
16 applications on Chinese bearings used in wheel chair, in the
17 skate, roller bike, in the scooter, in the recreational
18 equipment such as fishing rods, in automotive steering
19 systems where the rotation is very slow, and the Chinese
20 balls are imported in this country not for the use of ball
21 bearings but used in many other applications such as in a
22 spray can where you use a ball as a valve, in the air bag,
23 in the hardware, and these are industries not represented by
24 the ABMA, the Petitioner.

25 So the bearings are selected in the use of, in the

1 selection of bearings the engineers normally consider the
2 speed of the bearing, the noise level of the bearing, the
3 load, and the life.

4 Now for U.S. companies represented by the
5 Petitioner, they make bearings for the aerospace industry;
6 for the defense industry; for the automobile control systems
7 such as the ABS, operating the brakes; such as the cruise
8 control, the amount of fuel pumped into the engine; and in
9 the automotive power train system such as the wheel, the
10 water pump, the alternator and the transmission; in computer
11 disk drive area where you need a very high speed and with
12 very little, does not tolerate any temperature rise; and in
13 dental wheels.

14 Now this Chinese product and the U.S. product,
15 they are different principally in the price in the area that
16 they are used. For example, for bearings, ball bearings
17 under nine millimeter the Chinese average price is 26 cents.
18 The average U.S. production, U.S. price for U.S. shipments
19 as we've taken from the industrial report from the Census
20 Bureau of the Department of Commerce is \$3.93. For bearing
21 of nine to 30 millimeters the Chinese price is 30 cents, the
22 U.S. production price is 89 cents. For a group of 30 to 52
23 millimeters, the Chinese price is 42 cents, the U.S.
24 domestic production is \$1.58.

25 You can see these big price difference dictates

1 that these bearings are used in totally different
2 applications.

3 Are they interchangeable? In some degree, yes. A
4 higher priced bearing can be used to replace a lower priced
5 bearing. For example, you can put a domestic produced \$1.60
6 bearing in a wheel chair which now has been using a 40 cent
7 Chinese bearing successfully for the past ten years.

8 As a matter of fact I am an engineer, in the
9 profession of engineering we consider to make something is
10 the first target of the engineer. But more important that
11 we should make the product at the lowest cost and that makes
12 the difference of a good engineer and a bad engineer.

13 So we do not believe that the U.S. engineers
14 would, because of from their engineering training, to
15 substitute a 40 cent bearing for a \$1.50 bearing if you
16 consider this purely from the engineering aspects.

17 Now we see the statistics of imports in year 2000.
18 69.1 percent in dollar value of the Chinese ball bearing
19 imports are under, are ball bearings under 52 millimeters
20 diameters. 79.5 percent of the volume of the Chinese ball
21 bearing imports are under 52 millimeters.

22 So these three categories of product carries the
23 predominant, the major import of the Chinese ball bearings.

24 Now we say, I made a statement, the Chinese
25 imports are not competing with domestic produced ball

1 bearings. Now you look at the three size ranges where the
2 Chinese ball bearing imports are the heaviest. In year 2000
3 for size range under nine millimeters OD, the domestic
4 shipment is 19.2 million units. No, this is dollars. \$19.2
5 million. The import is only \$10.9 million. All imports.

6 In the 9 to 30 millimeter range the domestic
7 shipment is \$69.8 million. The import is \$139.6 million.
8 The imports already in the dollar value is almost four
9 times, imports from all countries of the domestic production
10 shipment.

11 In the 30 to 52 millimeter range the domestic
12 shipment is \$171.9 million U.S., and the imports is \$167.7
13 million, is almost 50 percent.

14 Now looking at the units, for 0 to 9 millimeter
15 range, domestic production is only 4.9 million units. The
16 imports are 24 million units which is five times more than
17 the total domestic shipment.

18 For the size range of 9 to 30 millimeters the
19 domestic production is 78 million. The imports is 312
20 million.

21 For the 30 to 52 millimeter size range the
22 domestic shipment is 108 million units and the import is 196
23 million units -- again, double.

24 Now we say the Chinese ball bearing imports to USA
25 replaces other imports from many other countries and all

1 these are operated, these countries, with plants set up by
2 this group of multinational companies that filed this
3 petition.

4 These Petitioners, same group of people, the names
5 you are very familiar with. Sometimes they appear here as
6 Petitioner claiming somebody is damaging them. Other times
7 they come before this Commission saying they appear as
8 perpetrators of dumping. So really we don't know their
9 argument, whether they are presenting to this Commission a
10 totally inconsistent argument.

11 These companies also operate plants in China.
12 They are NTN Company, Torrington Company, NM Bore and Roller
13 Company, SKF Industries, NSK Bearing Company, Koyo Bearing
14 Company, NMB Company otherwise known as Minnebea, Hoover
15 Bore Manufacturer, FAG Bearing Company, Ina Bearing Company.

16 Now we know the rationalization made by the Court
17 of International Trade in a case in 1992 with U.S. versus
18 Torrington Company. The Court says that the related
19 parties, since all these companies are related, the related
20 parties had rationalized their production to meet the
21 particular needs of each country market and does not, to say
22 that, to meet the particular needs of each country market
23 which I don't think this consideration is true anymore.
24 Because the import statistics clearly show that.

25 The U.S. affiliates of these multinational

1 companies import large volume of small ball bearings they do
2 not make here. Again, imported statistics show clearly this
3 is the case.

4 The Chinese affiliates of these multinational
5 companies also are engaging heavily in the ball bearing
6 export from China. In year 2000 the Chinese statistics show
7 the number one exporter of ball bearings from China is NMB,
8 or otherwise known as Minnebea who is also a Petitioner in
9 this case here today. The second largest ball bearing
10 exporter today from China is Koyo Seiko Company who is also
11 today in the name of a list of Petitioners here. Together
12 over 20 percent of the Chinese ball bearings to the world
13 market are conducted by this group of multinational
14 companies.

15 Not only they export a large volume of bearings,
16 but they keep on driving the Chinese export price down. In
17 year 2001 we have proof they, NSK, NMB and Koyo, cut down
18 their Chinese export price by over 20 percent in an effort
19 to drive down the Chinese ball bearing price.

20 The question is the reason for this multinational
21 to file this petition we think number one, these companies,
22 they want to eliminate the Chinese competition to create a
23 big void in the U.S. market.

24 Then they ship bearings made in countries other
25 than China to fill this void.

1 Then ship their Chinese-made ball bearings to
2 other countries.

3 This is a worldwide business plan to monopolize
4 bearing trade, excluding other competitors principally from
5 China.

6 Now even if they ship their product from their
7 Chinese affiliate, then even they would causing dumping
8 problems in the USA. And then they will still go ahead with
9 it because the counsel, their counsel advises them that if
10 they pay a dumping penalty for their Chinese imports they
11 will get the penalty back by the U.S. law known as the Byrd
12 Amendment.

13 The third point is in this petition they asked the
14 semi-finished or unhardened ring to be excluded from the
15 petition. Today this same group of companies, ball bearings
16 manufacturers, they import large volume of turned rings,
17 unhardened rings from China. This may be one of the reasons
18 this morning the company Torrington saying they lost some
19 jobs in some of the plants in Georgia. One of the reasons I
20 suggest is because they themselves imported a lot of turned
21 rings from China. So of course they have to stop their part
22 of their U.S. operation.

23 The soft rings, up to the state of turning, before
24 hardening, constitute at least 60 percent of the total cost
25 of a finished bearing. They want in the U.S. expression,

1 they want to have the pie and eat it. That means they want
2 to continue to bring in the unhardened Chinese rings to the
3 U.S. market, perform the hardening and grinding and exclude
4 the Chinese imports, raise the price of finished bearings at
5 the expense of the American consumers.

6 Now China today is a member of WTO. When we
7 joined WTO and strangely, our counsel represented today by
8 Mr. Greenwald, Mr. Nodeff [ph] and Ambassador Charlene
9 Bejeski [ph] are the principals worked in the U.S. Trade
10 Representatives office, negotiated the terms for China to
11 enter WTO.

12 The Chinese government and the Chinese people have
13 been told that by joining the WTO you have to act fairly.
14 When you act fairly you will be treated fairly.

15 Today we come here. Fair play is the only thing
16 we ask. Thank you.

17 MR. DUTTON: My name is Mitchell Dutton. I'm the
18 President of AST Bearings in Montville, New Jersey. Our
19 business is the sale of bearings of all types in the
20 original equipment market and the after-market through
21 retail distributors.

22 The majority of our product offering is imported
23 ball bearings. These types of bearings encompass a wide
24 range of applications in almost every type of rotating
25 component and other precision application.

1 I've been in the business over 30 years. We began
2 to look outside the U.S. for suppliers when domestic
3 manufacturers began to limit their production range in the
4 early '70s. In addition, many of the manufacturers went out
5 of business leaving a capacity problem. Several U.S.
6 producers were bought by foreign companies and then made
7 product offerings to us as individual importers.

8 In the past 13 years since the last dumping action
9 which we were also involved in, many things took place.
10 Prices went up. Consumers paid more money for goods that
11 use bearings. Foreign makers shifted production to countries
12 that are not named in the dumping. So if France was in the
13 dumping they took that product line and moved it to
14 Argentina, and of course were then able to compete.

15 Except for foreign-owned factories there's been
16 very little or no new bearing factories of any significance
17 built in the United States since the dumping took place. So
18 with all that relief they didn't seem to make any investment
19 in any new factories.

20 Many Japanese companies came here and started
21 limited production to target certain markets of high volume
22 users which is the same, similar market to the Chinese
23 bearings are now such as automobile companies and power tool
24 companies. However, there is a quality difference here that
25 we spoke about before.

1 Many of the applications that are requiring high
2 volume bearings cannot use the quality of the Chinese.

3 Don't be misled by this ABEC. It's like when the
4 kids go into the store to buy ABEC bearings for their roller
5 blades, they're wowed by the ABEC 5 or the ABEC 7. Are we
6 all familiar with ABEC, what it is and what it stands for?

7 It's a quality standard not unlike ISO standards
8 for certain parameters of manufacturing to try to keep a
9 constant grade of precision.

10 Bearings coming from China are ABEC 1 by virtue of
11 their envelope dimensions, meaning inner, outer, and width.
12 We do a lot of testing for a multitude of Chinese individual
13 bearing companies that come in, and the Chinese basically
14 can make an ABEC 1 but they cannot make an EMQ quality for
15 any great degree, electric motor quality. That encompasses
16 an enormous part of our market. Those EMQ bearings that are
17 sold in high volume are being produced by the companies that
18 are being represented here outside of this country. There
19 are some facilities that manufacture some volume of these
20 high quality, high quantity bearings. Their capacity is
21 limited and their product range is not very broad.

22 This focus seems to be on a couple of sizes of
23 bearings when in fact there are thousands of types of
24 bearings, and to penalize many companies worldwide as well
25 as people in the United States having to buy products that

1 use bearings that are really not affected by the Chinese
2 imports at all. You take the nine millimeter market in
3 down, although it's not very big, there's two producers in
4 the United States that make the majority of those and their
5 product cannot be replaced with Chinese imports. The
6 quality is just not there. Those bearings from China are
7 being used in the radio control market for the little cars
8 and roller blades. Roller blades is over the nine
9 millimeter but also, that's probably the bulk of the 608
10 bearings because that's the star of the show here, that are
11 coming in from China.

12 That business displaced the market that was owned
13 by the Japanese. It was not owned by the U.S. It was the
14 Japanese that owned that market many years ago. Most of the
15 bearings that are being replaced by Chinese bearings were
16 replaced by the Japanese many many years ago, the Japanese
17 replaced the domestic market.

18 The people that are in the ABMA, some being
19 foreign producers, I believe there's five of them, really
20 have the most to gain. Their markets are the ones, and it's
21 absolutely in black and white if you look at the statistics
22 that are published. You can see the decline of imports is
23 in most cases countries like Thailand, Singapore, Poland,
24 Japan, and those numbers stick out. And those companies are
25 represented here in the United States but they're losing

1 their market share in their exports to the U.S. by the
2 Chinese. Not by USA made companies.

3 You can open up a box from many domestic bearing
4 companies and when you open it up it says Made in France,
5 Made in Argentina, Made in Mexico, Made in Japan. They are
6 taking advantage of these lower cost offshore factories.

7 It is very apparent that the thrust of this
8 petition is to protect their offshore interests moreso than
9 their domestic interests. I only say that because the
10 applications that the majority of Chinese bearings are being
11 put into are applications where the domestic producers were
12 not really participating.

13 I defy anybody to look in a set of roller blades
14 to find a bearing made in the USA in there. It doesn't
15 exist. Companies like Black & Decker who buys tens of
16 thousand, millions of tools for power tools, they're buying
17 those from Japanese companies who are producing some of
18 those bearings here in the United States. There are
19 companies like Mekita who are making power tools here.
20 They're buying bearings from Japanese companies that are
21 making bearings in the United States. They wouldn't dare go
22 to China. The Japanese are very patriotic. They like to
23 buy Japanese products.

24 So where we see the greatest injury, and I don't
25 like to use that word, but the greatest injury, it appears

1 to be in the markets that are being served by these
2 companies offshore. It is not replacing domestic
3 production.

4 As I said, nine millimeters and below, a lot of
5 that market is protected by a FAR regulation, a Federal
6 Acquisition Regulation which deems the bearings to be 100
7 percent Made in the USA for military. Military applications
8 cannot use imported bearings so they have some protection
9 there.

10 The quality of the bearings that is coming out of
11 China for these nine millimeter and below, and even 52 and
12 below, are not what we consider electric motor quality.
13 Electric motor quality is not a written standard, it really
14 kind of is subjective to each manufacturer, but it's a
15 decibel level of noise, and ABEC does not cover that. The
16 internal designs of the bearings and the ball quality and
17 the raceway curvatures and the honing and the polishing can
18 determine the finished product. The Chinese are not in that
19 market. They can't do it. We've tested tens of thousands
20 of Chinese bearings. You cannot replace a good quality
21 bearing with the equality we're seeing coming out of China.
22 So don't be fooled by the ABEC. ABEC 9 -- I've seen ABEC 8
23 Chinese bearings. I might put them in my roller blades. So
24 don't be fooled by that.

25 As I said before, it's clear that several members

1 of the ABMA are foreign-owned and they are trying to use
2 dumping laws in the U.S. to protect their interests outside
3 the U.S.. They have the most to gain by doing this, and I
4 think it's unfair that they use our laws to protect their
5 interests outside of the country. But that's in essence
6 what they're trying to do.

7 And I think it's important that the ITC staff
8 determine exactly which type of ball bearings these
9 companies produce in the U.S. and the capacity versus
10 demand. And which type they make offshore. Are we talking
11 about the products that they're being made offshore, or are
12 we talking about products that are made domestically? What
13 is the demand for these products and what is their capacity?
14 If they only have a small capacity to fulfill the domestic
15 demand and everything else is coming from overseas, then of
16 course the Chinese bearings are hurting them much more
17 greatly from their overseas factories, not from their
18 domestic factories.

19 I did give you the example of roller blades.
20 There are 16 ball bearings in every roller blade. Another
21 thing, and this is very typical, if the domestic
22 manufacturers of roller blades are forced to pay more money,
23 we're going to be paying more money for roller blades and
24 we're going to lose our market share to roller blades that
25 are coming in complete with the Chinese bearings already in

1 them because they're not taxed on the dumping on a fully
2 assembled product.

3 This is across the board. Anything from a motor
4 to a gear assembly, a transmission. If they come in with
5 foreign bearings, they don't pay on that. If we're raising
6 the price of these bearings then we're going to be non-
7 competitive in the finished product. We saw evidence of
8 that in the dumping of 1989.

9 As I said, a lot of these companies have moved
10 their production to countries that are not named in the
11 dumping action, and this will happen again. There are
12 countries such as Russia and many Eastern European countries
13 that make bearings of acceptable quality -- India, Malaysia
14 and Indonesia to name a few more. In ten more years are we
15 going to be doing this again? Is it going to become the
16 U.S. versus the world?

17 So that is our opinion, and thank you very much
18 for your time.

19 MR. GREENWALD: Let me try and continue this and
20 bring you back to the handouts. I want to march through if
21 I may some of the provisions of the statute.

22 First, on like product we will be addressing the
23 issue at some length in the post-hearing brief. All I
24 propose to say now is we fail to understand the rationale
25 that allows the inclusion of unground bearings but

1 distinguishes between unground bearings, and keeps the non
2 heat treated bearings or parts out of the equation.

3 Second, let me go to conditions of competition.
4 If you would turn to the second page in this handout there
5 are a number of them that you have to pay attention to as
6 you collect data. First, it's not listed on this sheet, but
7 is the business cycle. Demand for bearings is derived.
8 There are some industries that witnessed a downturn in 2001.
9 Motor vehicles is an obviously example. Aeronautics in
10 contract did fairly well. But what you will find is that on
11 the whole there should be an aggregate drop in bearing
12 demand, especially in some of the high end uses by the
13 United States. So we are not at all surprised to see a drop
14 in bearing production and bearing shipments by the U.S.
15 producers during the period. In fact the real surprise is
16 the number is not significant.

17 Second, when you look at the market structure you
18 have to bear in mind what happens to demand in various
19 segments but who's in what segment. This goes to points
20 raised by Mr. Hoo and Mr. Dutton. There are low end
21 applications. If you turn to this chart we've listed them
22 for you.

23 Chinese bearings are overwhelmingly in these
24 segments and they are small bearings.

25 There are high end applications. Chinese bearings

1 are almost entirely absent from those applications.

2 And it isn't enough to talk about automotive.
3 What you will see in automotive is there are some Chinese
4 sales to a steering unit which is relatively low stress.
5 There are almost no or no Chinese bearings sold in cruise
6 control, power train applications.

7 I think what you will find, and this leads me to
8 another condition, competition, is that all major OEM
9 suppliers have certification requirements, and that you may
10 find one or two Chinese producers that are certified to
11 supply bearings for one or two applications. It would
12 surprise me greatly if at a company like GE or any of the
13 major motor vehicle manufacturers, Chinese suppliers were
14 qualified to supply the bulk or anything close to the bulk
15 of their bearing demand. They're excluded from the market.

16 In addition there is this very important issue of
17 what I will coretsu [ph] type relationships. Whether or not
18 there's a certification requirement at Honda or Toyota, it
19 will be a cold day in hell before Chinese, or I suspect for
20 that matter American companies supply bearings to meet that
21 demand. There is an informal network of relationships that
22 matters.

23 Let me get down finally to size ranges and prices.
24 What I've done here is listed for you prices in different
25 sizes. The most dramatic is in the under nine military

1 where you see extraordinary differences in prices. Those
2 differences in prices actually reflect different end uses.
3 Market segmentation and specific end use matters enormously.

4 Finally with regard to military procurement, it's
5 not in volume terms huge, but it is significant and because
6 of the high price/high value application, and of course the
7 Chinese are barred from that.

8 When you put it all together what this means is
9 that the segregation that people are talking about in
10 narrative terms in fact should come through loud and clear
11 in the questionnaire responses and your talks with
12 purchasers. In those talks with purchasers you have to be
13 precise. You have to ask, if you're talking to an
14 automotive company, what percent of your business has a
15 Chinese producer qualified? How many Chinese producers? I
16 think you will get the answers from the customers that I am
17 giving you.

18 Now let me turn to the condition of the U.S.
19 industry. If you go to the last page of the handout you
20 will see what for me was frankly the most surprising part of
21 this whole case. Please bear in mind that this material is
22 from the petition and it is self-selective.

23 Those data show a steady improvement in the
24 performance of the U.S. industry and I suppose if one were
25 to look for causal links and trend analysis the conclusion

1 you would reach would be the more Chinese bearings come in,
2 the better.

3 The idea that there is a respectable injury case
4 to be built on these numbers for all the fine talk early in
5 the morning is nonsense.

6 Finally, one of the questions you should be asking
7 yourself is why wouldn't there be a correlation between the
8 allegation of rising Chinese imports and declining U.S.
9 industry performance? The answer again goes back to the
10 nature of the imports and the segments in which they
11 compete.

12 Let me take you quickly through the last two
13 charts here. If you go to the third chart, it is actually a
14 list of import statistics on large bearings, defined as
15 anything over 52 millimeter.

16 We have taken Petitioner's preferred approach,
17 which is quantity. It is, as some of the questions
18 suggested, highly questionable that quantity offers any
19 meaningful insight given product mix, but because that's
20 what Petitioners want to do we've done it.

21 I'd like you to look at the bottom, sort of the
22 highlighted portion at the bottom. Those are the volumes of
23 imports from China. They go down. It's very difficult to
24 sustain the argument presented this morning on large
25 bearings given this trend.

1 Now if you turn over to the next page, here you
2 have small bearings. We've selected countries, these are
3 not the world. What we've done is we've selected countries
4 on the basis of average import unit values. And the reason
5 we did this was to give you a universe of foreign producers
6 that compete most directly with China. And what you see in
7 the aggregate data substantiates without any question the
8 narrative testimony you heard from the witnesses.

9 If you would go down to the bottom line again, and
10 bear in mind this is in quantity, you see imports from China
11 in units rising. It's far less than the rise that was
12 talked about this morning. I don't know where they're
13 getting their data. But then look at the total for the
14 countries including China and you will see that has remained
15 absolutely flat.

16 In other words, there is a perfect correlation
17 between the rise in imports from China and the drop in
18 imports in the small bearings of relatively low priced off-
19 shore producers, many of whom are owned and operated by
20 Petitioners.

21 The notion that the aggregate data show a market
22 share loss by the United States simply does not pass the lap
23 test. I believe the questionnaire responses will show this.
24 To the extent there were data presented by Mr. Wechsler that
25 claimed otherwise, it is in the aggregate and it is I

1 believe because of differences in product mix when you go to
2 a standard of quantity of bearings over the full range of
3 production.

4 In sum, the causation argument doesn't hold water
5 and the injury argument really doesn't hold water.

6 I believe the questionnaire responses you see will
7 confirm the obvious implications from this data and we'll be
8 obviously addressing it at length in the post-conference
9 brief.

10 We have one final witness.

11 MR. GURLEY: Good morning, my name is John Gurley.
12 I'm counsel for Peer Bearing Company. Peer Bearing Company
13 is a large U.S. importer of Chinese ball bearings and is
14 also a producer of Chinese ball bearings.

15 I agree, of course, completely with the testimony
16 that's been put forward today by the Respondents. I'd like
17 to just say a few words about the issue of the threat.

18 One of the more memorable phrases uttered this
19 morning was, "Yes, Virginia, China is still a non-market
20 economy" like it's some badge of dishonor. I'd like to
21 parse that sentence a little bit and tell you what it really
22 means in real life.

23 One, everybody here either is a private company or
24 imports from a private company, so the notion that China is
25 somehow micro-controlling everything from Beijing in all the

1 different plants throughout China is preposterous. Many of
2 the biggest players in China are private. Including, for
3 example SKF. It would be a large shock to SKF's
4 shareholders to know that SKF made such a large investment
5 in China only to find out that they are in fact controlled
6 by the Chinese government. So the fact that the Chinese
7 government is a non-market economy under our law means
8 nothing in terms of the threat analysis.

9 Second, I'd like to point out that many of the
10 Chinese producers which would be participating in ball
11 bearing case are the very same producers who have been
12 involved in the tapered roller bearing case for years. If
13 the Commission looks at the results of the tapered roller
14 bearing case it will see that the margins there for years
15 have been from zero to five percent for the largest majority
16 of the Chinese companies. I know you're not too interested
17 in looking too much at the margins, but Petitioner brought
18 them up and they've alleged 17 to 247 percent. But the
19 reality is the Chinese have been investigated for years.
20 The same companies you'll see in the ball bearing case have
21 had extremely low margins.

22 So if you counterpose those with Mr. Greenwald's
23 charts that show the vast differentials between the Chinese
24 bearings in the U.S. and the prices you'll see that dumping,
25 even if it's alleged it is true, has nothing to do with the

1 problem in the United States market.

2 I'm here on behalf of Peer to answer any questions
3 you might have. Thanks.

4 MR. GREENWALD: We're just about done.

5 Let me end by quoting a statement from the ABMA
6 DOC statistical handbook.

7 "Countries with advanced economies are not
8 competitive in small bearings except for special varieties."

9 That's true. It underlies this case. It is
10 Petitioners' own recognition of the merits of the testimony
11 that we've presented.

12 With that we'd like to close.

13 MR. FEATHERSTONE: Thank you, Mr. Greenwald and to
14 all the witnesses for your testimony.

15 We'll accept your collection of documents as
16 Commission Exhibit 3.

17 (The documents referred to
18 were identified as Commission
19 Exhibit 3 and received in
20 evidence)

21 MR. FEATHERSTONE: Mr. Ruggles?

22 MR. RUGGLES: Just one quick one.

23 Could you in your post-conference brief just put a
24 brief overview of the Chinese bearing industry, basically
25 what was involved and how many companies?

1 MR. GREENWALD: Yes.

2 MR. RUGGLES: Thanks.

3 MR. FEATHERSTONE: Ms. Jones?

4 MS. JONES: As I requested of Petitioners earlier
5 this morning, in your post-conference submission if you're
6 going to address the subject of threat I would ask you to
7 please direct it to specific statutory factors. Also any
8 information or arguments you might have on the question of
9 related parties we'd like to hear about.

10 Mr. Dutton, I'm gathering from what you're saying
11 that you're arguing that the ABEC ratings do not tell the
12 full story in terms of competitiveness or
13 interchangeability.

14 MR. DUTTON: Quality.

15 MS. JONES: Quality, okay.

16 Are there subject imports of China of bearings
17 that have a higher ABEC rating coming in? Are there ones
18 that have anything above the -- They talked a lot about the
19 ABEC 1.

20 MR. DUTTON: Very few. Very few. To the best of
21 my knowledge, I couldn't quantify it of course but I don't
22 think it's significant. The only thing is there was some
23 demand by the kids for higher ABECs in their in-line skates
24 thinking they could skate faster. Of course it was untrue.
25 That's the only knowledge that I have that anything other

1 than an ABEC-1 was ever, is imported out of China to the
2 United States, and that's a small part of the market.

3 MS. JONES: That's all I have.

4 MR. FEATHERSTONE: Mr. Levy?

5 MR. LEVY: As I requested from the Petitioners, if
6 you could, to the extent possible that you could quantify
7 the market segment that the Chinese are not competing with
8 the domestics I'd appreciate that in a post-conference
9 brief.

10 Also if you could address the significance of Buy
11 American agreements.

12 MR. GREENWALD: You want those both in post-
13 conference?

14 MR. LEVY: But in a post-conference.

15 MR. GREENWALD: We'd be happy to.

16 MR. LEVY: That's all the questions.

17 MR. FEATHERSTONE: Mr. Jee?

18 (No audible response)

19 MR. FEATHERSTONE: Mr. Walworth?

20 MR. WALWORTH: Yes.

21 Mr. Dutton, if you could just take me through one
22 more time this concept of EMQ quality and how it differs
23 from ABEC quality?

24 MR. DUTTON: The EMQ quality standard is not
25 published by any organization that I know of. Each

1 manufacturer deems a bearing to meet their EMQ standard and
2 it's a decibel level of noise.

3 When bearings are manufactured they go through a
4 process of noise testing. Now you can buy bearings that are
5 not noise tested but it doesn't really make sense for the
6 major producers to make a second quality bearing. They
7 basically make them all one way. Many of their lines are
8 automated.

9 The noise testing is done in the manufacturing
10 line as the bearings are being produced. There's generally
11 a meter that gets read and if the bearing falls into a
12 certain level of decibel reading it's deemed to be EMQ.

13 Now SKF's EMQ could be different than NSK's EMQ,
14 however they're generally close. It's really a decibel
15 level of noise based on the quality of the finished product.
16 Where we see the Chinese having difficulty and I haven't
17 seen much improvement over the years is that the ABEC
18 specifications which just really call out boundary
19 dimensions -- it's measured in tenths and in some cases half
20 a tenth. When you put it on a gauge it measures certain
21 boundary dimensions and it either meets it or it doesn't.
22 It has nothing to do with noise.

23 Many many, one of the biggest consumers of radial
24 ball bearings that fall into that 30 to 52 millimeter OD
25 range are in the electric motor business. They consume an

1 awful lot of bearings. Most of those people, if not all,
2 will not use and cannot use the quality coming from China if
3 they can't meet the EMQ specification. So it's just a noise
4 level.

5 MR. WALWORTH: This may be stating the obvious,
6 but it is less expensive to produce bearings that end up
7 producing more noise, is that correct?

8 MR. DUTTON: It's one less process. It would
9 reduce the cost a bit.

10 MR. WALWORTH: Thank you. That's all I have.

11 MR. FEATHERSTONE: Mr. Carpenter?

12 MR. CARPENTER: Just as a follow-up, as I
13 understand your testimony you said that EMQ bearings could
14 not be made in China, and in relation to Mr. Levy's question
15 if you could quantify as one of the segments that you are
16 going to quantify in your post-conference brief, if you
17 could quantify the size of that market segment in the U.S.
18 accounted for by EMQ bearings.

19 MR. DUTTON: There might be a few companies in
20 China that are capable of making what we consider an EMQ
21 quality bearing, but it is few, very few.

22 MR. CARPENTER: Thank you.

23 MR. HOO: May I take a little exception of the
24 statement that China cannot produce quiet, good EMQ grade
25 bearings.

1 What we are talking is the Chinese export of ball
2 bearings to the USA. This export does not contain a lot of
3 EMQ requirements, required EMQ levels required in bearings.
4 Whether China as a country is capable of making that grade
5 of bearing that's, I take exception to many, to the
6 statement just made. He doesn't see it because that type of
7 bearing are not being exported to the USA.

8 The same thing is for aerospace bearings. China
9 is not exporting one aerospace application bearing, but
10 China has a big space missile industry. As a matter of fact
11 China has been asked specifically by U.S. government not to
12 export any missile-related components to any of the South
13 Asian countries.

14 So it's not that we cannot make, it's a matter
15 that we don't export that type of bearings to the USA.

16 MR. CARPENTER: Could I ask you then what the
17 reason is that you do not export especially the electric
18 motor quality bearings to the U.S.? Is it because of
19 qualification processes of the U.S. consumers or --

20 MR. HOO: Yes. One, as Mr. Greenwald stated there
21 is a problem on certification. And many of these, the
22 process in the trade, what we call the PPAP, production
23 process approval process. That means you have to go through
24 a series of tests starting from the beginning to material
25 testing before you reach that a customer can qualify your

1 bearing. Of course when you go through all this process
2 including the material, including all this, your costs start
3 to go up. So it is a total different requirement in those
4 applications.

5 MR. CARPENTER: How long of a qualifying process
6 is that typically? And are you in the process of trying to
7 qualify some of your bearings of this type right now?

8 MR. HOO: It would be at least one year, sometimes
9 longer. They have to conduct a field test. Say like an
10 automobile they put in the car and the car must run a
11 minimum 50,000 miles. That will take almost a year before
12 you can accumulate that mileage.

13 MR. CARPENTER: Are you in the process right now
14 of trying to qualify any electric motor quality bearings
15 with U.S. customers?

16 MR. HOO: No.

17 MR. CARPENTER: Thank you very much.

18 MR. FEATHERSTONE: I'd just like to thank you
19 again for your testimony and acknowledge all three of your
20 company questionnaires. We'd especially like, Mr. Hoo, to
21 express our appreciation to the Chamber that you're
22 representing who I think probably was instrumental in
23 getting us a number of Chinese producer questionnaires in.
24 That's very helpful to us and we do appreciate your
25 assistance in that.

1 Any follow-up questions?

2 (No audible response)

3 MR. FEATHERSTONE: Mr. Applebaum, would you like
4 five minutes, ten minutes to prepare?

5 MR. APPLEBAUM: Ten minutes.

6 MR. FEATHERSTONE: We'll adjourn for ten minutes
7 and then return for closing statements.

8 (Recess taken from 12:13 to 12:26 p.m.)

9 MR. FEATHERSTONE: Can we resume the conference
10 please?

11 Welcome back, Mr. Applebaum. Please proceed.

12 MR. APPLEBAUM: Thank you, Mr. Featherstone.

13 I will make a few comments and then Mr. Grace will
14 have some thereafter. To the extent we need to do so or
15 staff wants us to do so, we can respond to some of these
16 points Mr. Greenwald and his clients made in the post-
17 conference brief.

18 Let me state at the outset that the antidumping
19 law does not preclude a multinational from filing a
20 petition. There wouldn't be very many cases before the
21 Commission without the multinationals, whatever that means.
22 I've spent many years bringing cases and/or supporting cases
23 for Motorola which is a very multinational company but as
24 everyone knows is headquartered in the Chicago suburbs.

25 The fact that some members of the ABMA have

1 facilities in other countries, off-shore as it was called,
2 is totally irrelevant. The only potential relevant fact is
3 the extent to which they have facilities in China. We'll be
4 addressing the related company provision in that regard.

5 These companies are U.S. producers, they have
6 plants all over the United States. They're simply
7 exercising their right to bring a petition under the U.S.
8 antidumping law.

9 We can address if the staff wants us to the issue
10 of members of the ABA, that is multinationals who have
11 facilities in China. I would note, I just learned this over
12 the break, that the largest exporter from China according to
13 Mr. Hoo is Minnebea. I am advised that they do not export
14 any ball bearings to the United States. The same is true of
15 SKF's China facility.

16 It was interesting to me that Mr. Hoo concluded by
17 stating that China is now a member of the WTO and it expects
18 to be treated fairly. The WTO has a code on dumping and
19 United States law, similar to the Chinese antidumping law,
20 is simply an implementation of the WTO code.

21 Just as in China, many Chinese industries invoke
22 the antidumping law, so I might add to multinationals in
23 China, so do U.S. multinationals have that right under the
24 WTO code.

25 I think we've joined issue on the question of

1 whether there's competition between the Chinese and U.S.
2 industries in the petition, particularly the five
3 confidential affidavits, in the questionnaire responses and
4 in the testimony you've heard here today. I think there's
5 ample documentation of direct, head to head competition and
6 many many million dollars of lost sales on the part of U.S.
7 producers to the Chinese.

8 I think the emphasis on small versus large simply
9 doesn't hold up.

10 We were very interested in Mr. Hoo's taking
11 exception at the end to whether or not the Chinese had the
12 capability of producing the higher end bearings. I think he
13 said they do. In fact they can produce aerospace bearings.
14 Perhaps this is another example of the non-market economy,
15 the only thing foreclosing them from exporting them to the
16 United States or elsewhere is the Chinese government.

17 We testified throughout this morning that China is
18 moving up the value chain and Mr. Hoo has confirmed they
19 have the capability of producing the high precision
20 bearings.

21 Finally, Mr. Greenwald's comment that there's been
22 steady improvement in this industry according to his view I
23 think is totally rebutted by Mr. Wechsler's analysis and
24 testimony and we will add to that.

25 We wouldn't be here if the industry thought it had

1 recent steady improvement.

2 I'll turn the microphone over to Mr. Grace.

3 MR. GRACE: Just a few additional comments.

4 First I'd like to comment on the charted
5 conditions of competition which we saw for the first time
6 today. In our view it is very defective because it does not
7 set out a host of applications that fall between these two
8 extremes and it's in this middle ground where we have the
9 lost sales in direct head to head competition with Chinese
10 imports. Moreover the chart does not indicate what ABEC
11 ratings are of these bearings. It simply provides the
12 average unit values. There is clearly an overlapping area.

13 The quote at the top of the chart that Mr.
14 Greenwald referred to says, "Countries with advanced
15 economies are not competitive in small bearings except for
16 special varieties."

17 We would submit they're not competitive precisely
18 because of pricing issues, and in this case because of the
19 unfair pricing of the Chinese.

20 Turning very briefly to the import data that have
21 been provided, I think Mr. Greenwald said in his statement
22 that the numbers were not adding up. We submit the numbers
23 do add up. They add up in the way that was presented this
24 morning by Mr. Wechsler and when you look at overall numbers
25 it is quite clear that the imports from China are increasing

1 and that those imports are taking market share away from the
2 United States producers, not from other importers.

3 Finally, I think just in concluding I'd want to go
4 back and just revisit the key facts before you that you'll
5 have to make decisions on.

6 First, the alleged dumping margins here are
7 extremely large and we think the Commerce Department will
8 confirm that in their notice that will be released today.

9 Second, as I've just said, the volume of the
10 Chinese imports are significant by any measure and they've
11 been increasing. And they have been setting actually new
12 records each year.

13 We've had testimony today, there are affidavits in
14 the petition that U.S. Petitioners have lost millions of
15 dollars of sales in head to head competition with the
16 Chinese and that that has been due to very low prices on
17 Chinese imports.

18 There is evidence here that the U.S. industry is
19 clearly hurting. Production, shipments, sales, capacity
20 utilization, employment, wages, productivity, R&D, and
21 investment are all down and the profitability is clearly
22 depressed. This is an industry suffering material injury.

23 Finally, clearly there is a threat of even further
24 injury in the future as the Chinese manufacturers move up
25 the value chain.

1 Thank you very much.

2 MR. FEATHERSTONE: Thank you, Mr. Grace, Mr.
3 Applebaum.

4 Welcome back, Mr. Greenwald.

5 MR. GREENWALD: Thank you.

6 You will have the opportunity to test which of the
7 versions of truth you heard is accurate when you get the
8 data. From everything I have seen, everything that we said
9 about the differences in market segmentation, the lack of
10 competitive overlap, the fact that imports from China to the
11 extent they have risen come at the expense of third country
12 imports and not domestic production is accurate, and we
13 will, like Petitioners, be going through the evidence you
14 have collected to prove those points.

15 Let me close by saying that the antidumping
16 statute does not prevent multinationals from bringing
17 antidumping cases. In fact the antidumping statute does not
18 even prevent multinationals from bringing bad antidumping
19 cases. But your job is to turn off bad antidumping cases
20 before they become simply a vehicle for pouring money into
21 the pockets of lawyers.

22 Thank you.

23 MR. FEATHERSTONE: Thank you, Mr. Greenwald.

24 Just a couple of quick reminders.

25 The deadline for submission of corrections to the

1 transcript and briefs on this investigation is next Monday,
2 March 11th.

3 If briefs contain business proprietary information
4 a non-proprietary version is due the next day, March 12.

5 The Commission is scheduled to vote on the
6 investigation for 2:00 p.m. on Monday April 1st, and it will
7 report its determination to the Secretary of Commerce later
8 that day.

9 Commissioners' opinions will be transmitted to
10 Commerce and placed in the public record a week later, April
11 8th.

12 Thank you again for your participation. This
13 conference is adjourned.

14 (Whereupon, at 12:35 p.m. the preliminary
15 conference was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: BALL BEARINGS FROM CHINA
INVESTIGATION NO.: 731-TA-989 (Preliminary)
HEARING DATE: March 6, 2002
LOCATION: Washington, DC
NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: March 6, 2002

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: Lorenzo Jones
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: Sharon Bellamy
Signature of Court Reporter