Before the
U.S. International Trade Commission

Chlorinated Isocyanurates from Japan and China
Inv. Nos. 701-TA-501 and 731-TA-1226 (Final)
USITC Hearing – September 9, 2014

Testimony of Jeff Williams

Good morning. My name is Jeffrey L. Williams, and I am the Senior Business Manager for the ACL, Silicates and Sodium Chlorites business unit within Occidental Chemical Corporation. At Oxy, "ACL" is the brand name for our chlorinated isocyanurates. I have been in this business unit with Oxy for the past fourteen years. For the past four years, I have been the Senior Business Manager for Chlorinated Isocyanurates.

The Isos market is a national market with two major market segments. The first and largest end-use market for Isos is residential swimming pools, including spas and hot tubs. This market accounts for 85 to 90 percent of our sales. We sell to large players like Leslies, Poolcorp and BioLab. Leslie's resells in the retail market, Poolcorp is a distributor to the professional pool service industry and BioLab is a manufacturer of trichlor tablets that supplies mass merchant and big box stores. We supply BioLab with dichlor to fill out its product line.

Water treatment and industrial cleaners account for the remaining 10 to 15 percent of our sales. Customers such as Ecolab use Isos as ingredients in cleaners, scouring detergents and dishwashing detergents.

In the swimming pool market, we sell Isos in bulk bags to repackers and distributors who will break down the bulk bags to retail packages and resell the products. In some cases, we will use toll packagers to break down the bulk bags before shipping to our customers. These repackers will also press the product into tablets, depending upon the form in which the product is to be sold. We do not sell directly to the mass merchandisers or big box retailers. Our customers, who repackage our product into retail containers, supply that portion of the market.

Oxy produces trichlor at our plant in Sauget, Illinois. We produce dichlor in Luling, Louisiana. Unlike Clearon or BioLab, we do not have repacking lines or tablet presses. We will ship to customers in supersacks. If our customers want tablets, we will engage a toll processor to convert bulk trichlor into tablets, before repackaging and shipping the material to our customers. If our customers are distributors, they may have their own repacking lines or they may engage toll processors to repackage or tablet the dichlor and trichlor.

In this manner, we operate just like our Japanese and, until recently, the majority of our Chinese competitors. The imports for years have been shipped to

the U.S. market in bulk supersacks. After the supersacks arrive, the same repackers that handle our material will also repack and, if necessary, tablet the imported material. Only more recently have Chinese imports been pressed into tablets in China and packaged for the retail market before importation. Ultimately, though, all of the dichlor and trichlor produced by the U.S. industry or imported from Japan and China ends up in a swimming pool or some industrial application.

The market is very competitive. There are many suppliers fighting for a market that is smaller than our capacity. In fact, taken together, the three U.S. producers could supply the entire U.S. market without any imports from China or Japan.

Because 85 percent of our market is the swimming pool market, demand is seasonal. Most of our shipments occur within the first six to eight months of the year. In order for chlorinated isos to be packaged and in retail stores when the weather turns warm, we begin building inventory in the first quarter of every year. We will then begin shipping to customers before the pool season starts, so that the product can travel through the distribution chain and make it onto the shelves.

There is another key factor that impacts the market dynamics. Each year, price negotiations start toward the end of the pool season for the next year. We have already been visiting customers, negotiating prices for 2015. We try to have

them done by the end of September. So, our prices will be set months before shipments begin. In these negotiations, we set prices and we try to set target quantities or negotiate "take or pay" arrangements. In most cases, the quantities are basically estimates. Our customers may actually purchase more or less, depending on demand in the swimming pool market and the weather. As a result, in many cases customers will simply reduce their purchases from Oxy and increase their purchases of Chinese or Japanese imports.

Also, several major customers have meet-or-release clauses in their contracts. If low-priced imports undercut my price, we are forced to meet the low price or lose the business. In fact, Customer 1 shifted almost four million pounds of dichlor in supersacks to Chinese competition in 2012. Our price was $1.17 per pound. The Chinese quoted 94 cents per pound. We could not meet that price.

Another factor is the weather. Overall U.S. consumption fluctuates between 240 and 250 million pounds. If the weather is bad, if the pool season is shorter than predicted, the market may fall by a percentage point and competition becomes even more intense. Imports from China and Japan are already in inventory in the first quarter of the year and the domestic producers are filling their own inventories ahead of the pool season. If demand falls because of colder weather, the importers will drop their prices. We will have to match them at the risk of reducing our

production or shutting down our plants. When imports not only drop price, but also increase their market share, we suffer both from lower shipments and from lower prices.

2013 is a good example of the way that the weather can intensify competition in the market. Preparing for this hearing, I looked back at my monthly business reports to my management. On April 5, 2013, I wrote:

> "Moderate temperatures across the US are reducing iso consumption as we approach the heart of pool season. March total iso volume was below outlook by 2.94MM lbs."

On May 10, 2013, I reported:

> "Cold temperatures continued across the US putting pressure on iso sales in April. Meteorologists report the US is headed for the coldest spring on record. Haviland reported that sales are off by 25% vs. last year.

On July 5, I wrote:

> "Even though temperatures have finally risen, volume is still cool in June. June total iso volume was below outlook 2.35MM lbs."

In other words, the pool season started late in 2013 because of cold weather. When this happened, everyone in the market, Oxy, Clearon, BioLab, Shikoku and the Chinese importers, had inventory waiting to be sold. As a result, there was fierce competition in 2013. To try to move inventory and meet our sales forecasts, we had to meet price levels set by the imports from China and Japan. By the end of 2013, our average prices were significantly below forecast. We had to cut prices in order to maintain our capacity utilization. Our prices at the end of the season were even lower than the price levels we had originally negotiated the year before. If I did not have to compete against Chinese government subsidies and Japanese price discrimination, I do not doubt that our prices would have been higher.

Make no mistake, Oxy has lost money for the past three years. Our only hope is that this case will stop the imports from quoting subsidized and dumped prices so that we can increase prices and increase our sales volume.

From the production standpoint, sales volume is critical to our business because we have high fixed costs and our plants are geared to run at high rates. Fewer orders means running at lower capacity, and providing fewer U.S. manufacturing jobs.

Within Oxy, my business is judged on segment earnings, meaning gross profits. When that is calculated, the isos business is treated as a "customer" of the chlor-alkali business. We buy chlorine and caustic at competitive prices that are linked to a public index (CMAI, now IHS). All of our chlorine and caustic contracts are based off of this market standard. This means that, internally, the isos business is judged by the same standards that would be applied to Clearon or BioLab.

This generally accepted accounting methodology is standard across all product lines for our company. Our product line has lost money the last three or four years, because our product line is a poor performer. My goal is to bring this business back to positive earnings.

Our industry is in terrible shape. We have two plants, a dichlor plant and a trichlor plant. We could phase out and shut down the dichlor plant if things get really bad, but it is not possible for us to consolidate the two lines and produce both. To do that would require additional investment. But Oxy is not going to put additional investment into a business that is chronically losing money. Instead, we would have to leave the dichlor market altogether in order to shut down one of our plants.

At the preliminary hearing, witnesses for the Japanese argued that quality has an impact in the market. I do not agree. The repackers and tableters that buy our product are not concerned about the quality of the product, the service or even the source. The customers will simply look at a bucket and say "what is the price?" Most people have the perspective that all brands perform equally well. And, even though the market is seasonal, the importers maintain inventory in the United States. As a result, we do not have an advantage, even regarding delivery time.

At the end of the day, our customers buy on the basis of price, not quality. For example, Customer 2 purchased some 30 million pounds of trichlor in bulk supersacks from China. The customer told me directly that "your price is a dollar, but we can get the Chinese for 95 cents."

Customer 3 is one of our top customers. This customer purchased 10 million pounds from us in 2013. We estimate that they bought 10 to 15 million pounds from China. They refused to take the entire quantity identified in our contract. Then, when I protested, they refused to allow us to audit their purchases. I have no doubt that they purchased imported isos in order to get lower prices.

Price is, overall, the single most important factor in making sales in this market. This is true for all suppliers, including Japanese suppliers as well as

Chinese. For example, in October 2012, Customer 4 rejected a supply proposal from Oxy for two million pounds because the Japanese offered to supply at a price that was two pennies lower than our price.

One of the ways that the Commission can really see the impact of the unfair trade is to look at what has happened since antidumping and countervailing duties were imposed. Since we filed this case a year ago, our shipments have increased, particularly in 2014. Because the customers must pay antidumping or countervailing duties, they have come back to domestic suppliers. None of the customers are willing to pay more for imports because of quality. In fact, Shikoku is purchasing from us and shipping our product to their customers. Our quality is every bit as good as the isos from Japan.

Just this past July, I announced a price increase. As shown by the "talking points," this is the first price increase by Oxy since 2011. In fact, when we announced a price increase in 2011, no one paid the higher prices. I either had to hold my existing prices or lose the business in 2011. In 2014, by contrast, I fully expect that this price increase will stick. With the new duties in place, in the first half of 2014 our trichlor capacity utilization has been close to 100%. This investigation is the only reason we have experienced this rebound. We were injured by imports, but once duties were placed on these imports our business

turned around. An affirmative vote from the Commission will enable us to continue this turnaround and strengthen our industry.

Before I close, I would like to say a word about fraud. Since I became the manager of the isos business, I have been amazed at the amount of outright fraud that I have encountered in this business. Back in 2011, there was a rising volume of imported isos that was marked as Vietnam origin. However, there was no isos producer in Vietnam. We brought this to the attention of Customs and, two years later you do not see any imports reported as "Vietnam."

Now we are seeing imported isos that show an EPA registration for Taiwan, Panama, or the Philippines. Once again, there are no isos producers in Taiwan, Panama, or the Philippines. Data published by SRI shows that these countries are net importers of isos. One of our customers, who also buys from Shikoku, has been to Washington to meet with Customs about these imports. This customer has done exhaustive research to show that mis-marked Chinese isos are being smuggled into the U.S. market. I have also been contacted by Customs and I believe that an investigation is ongoing.

The fact is, the U.S. market is the largest market in the world for isos. Producers in China and Japan have far more capacity than is justified by their home market demand. Isos factories were built in these countries to supply the

U.S. market, even though the U.S. industry has plenty of capacity to serve this market. It would be one thing if the imports were sold in the U.S. market at fair prices. They are not. Imports from China are dumped and they receive subsidies that substantially reduce their electricity costs and even their tax rates. Imports from Japan are sold at prices in the U.S. market that are one-half the level of prices in Japan. Because companies like Shikoku and Nankai are very profitable at home, they can afford to cut prices in the U.S. market and still cover their costs.

We cannot do the same. We do not receive government subsidies and there is no market where we can earn high profits that allows us to supply the U.S. market below our costs. At the same time, if the subsidies and dumping stop, we absolutely can compete. Since we filed this petition, we have experienced a turnaround with respect to our shipments and capacity utilization. We are now anticipating that prices will rise to a profitable level. I ask you to make an affirmative determination in this case, so that we can revive our industry. Thank you.