Before the
U.S. International Trade Commission

Chlorinated Isocyanurates from Japan and China
Inv. Nos. 701-TA-501 and 731-TA-1226 (Preliminary)
USITC Staff Conference – September 19, 2013

Statement of Scott B. Johnson

Good morning. My name is Scott Johnson and I am the Executive Vice President of Clearon Corporation. I have been with Clearon now for over 18 years, and in that time I have always been in the Isos business. I was involved in the first case in 2005 and appeared before the International Trade Commission that hearing in 2005.

In 2004, we filed the antidumping petitions against China and Spain because our sales were declining, the volume of imports was steadily increasing, and dumped imports had sufficiently degraded market prices to the extent that Clearon was losing money. Given the condition of the industry at that time, the Commission unanimously found material injury. In the first few years after the antidumping duties were imposed, our industry regained sales volume, market prices improved and we experienced profitable operations. In other words, for several years, the antidumping orders on China and Spain were effective in creating conditions of fair trade.

I am back before the Commission today because the relief from dumping did not last. Since the antidumping orders in 2005, imports from Japan have entered the market in large volumes, at prices that are well below our cost of production. Imports from China never really left the market, but now benefit from significant subsidies. As a result, price levels in the U.S. market are as low as ever and, U.S. producers are simply unable to fill their capacity.

In fact, imports from China and Japan now account for an even larger share of the U.S. market than when I appeared before the Commission in 2005. As shown by Slide 6, since 2004, the last full year in the original 2005 investigation, imports from China and Japan have increased from about 20 percent to over one-third of the market. Compared to the original 2005 investigation, imports have increased, price levels are just as low as 2005, our operating rates are lower, our shipments and market share have fallen, and we are again losing money.

The substantial import penetration is a severe problem for all of the U.S. producers. As Jeff stated, the U.S. producers can together supply essentially the entire U.S. market. But, when subsidized and dumped imports increase to one-third of the market, the U.S. producers cannot operate anywhere near full capacity.

Clearon is today running at operating rates that are lower than we were back in the 2003-2004 timeframe. As Jeff Williams described, our operating rates are a critical issue for us because of high fixed costs. Like Oxy, our fixed costs account for almost one-half of the cost of manufacture of chlorinated isos. Raw materials and utilities go into variable cost, but everything else (labor, maintenance, operating supplies) are fixed costs. I would estimate that our fixed costs are 40 to 50 percent of our total cost to manufacture, but are very rate-dependent. Given such high fixed costs, as well as a large amount of unused capacity, it is critical for us to increase our production volume in order to spread out those fixed costs.

At the preliminary staff conference, I testified that we were forced to shut down our plant for over four months in 2012. We took this step because we had no orders for isos. Normally, we shut down during September for maintenance. In 2012, we shut

down for four months, not four weeks, and laid-off one-third of our employees during this shutdown. We have never had a comparable shutdown.

Because of the disruption to our employees in Charleston, West Virginia, we decided to operate at much lower levels in 2013. By running the process more slowly to produce a lower volume of isos, we were able to avoid a prolonged shut-down and avoid laying off more workers. In the end, though, our capacity utilization was just as bad. Slowing down production means that you have a smaller volume to carry your fixed costs.

Faced with high fixed costs and the pressure to load our capacity, we cannot afford to hold out for higher prices. At Clearon, we have suffered losses over the entire period of investigation.

Jeff explained that Oxy's business strategy is to sell trichlor and dichlor in bulk supersacks. Clearon also used to participate in this segment of the market. However, imports from China and Japan concentrated on the high-volume customers buying in bulk. At Clearon, we simply could not survive selling to these customers at the price levels established by the imports.

Consequently, over time, we cut back our sales of bulk isos and shifted to tablet sales. For example, we were making tablets back in 2002-2004, as we do today. But, most of our business at that time was bulk business. Since the 2005 case, price levels in the bulk business continued to deteriorate because of import competition. As a result, we shifted more and more to producing products for direct shipment to retailers. A majority of our business today consists of selling directly to "big box" retailers.

Retailers will not take bulk quantities in supersacks or in drums. For these customers, we repackage the product in smaller quantities, including 50-pound, 25-pound or smaller plastic pails, plastic bags or other containers. We have provided samples of the packaging for the Commission. These are retail containers that would be purchased by residential pool owners.

Dichlor is sold in the swimming pool market as a granular product, used for "shock" treatment. In other words, you add dichlor at the beginning of the season when you open the pool, or after a pool party. The purpose is to add a large amount of chlorine very quickly in order to kill bacteria.

Trichlor is typically sold as a bucket or pail filled with trichlor tablets. The tablets dissolve slowly so that chlorine is gradually released. The purpose of the tablets is to maintain the chlorine level in the pool, after its has been "shocked."

In Charleston, West Virginia, we have two facilities. First, there is our manufacturing plant, where we make granular dichlor and trichlor, packaged in supersacks. Second, about half-mile away is our retail packaging operation. We truck the bulk granular isos from our manufacturing plant to our packaging and tableting operation.

The whole business operation starts on the manufacturing side. That's where the chemical manufacturing process takes place. In our case, though, we make dichlor and trichlor in the same facility. The process for manufacturing cyanuric acid from urea is identical, whether we are making dichlor or trichlor. Also, the raw materials are identical and both products use the same production steps.

Our tableting operation is similar to that of other repackagers in the market, although perhaps larger in scale. When it comes to tableting the only thing you need is a press. A tablet press is a fairly common type of industrial press, and the equipment is easily obtained and operated by anyone. The amount of skill needed to run the press is low relative to the skill needed by operators in our Isos manufacturing factory. By virtue of their additional training and skill, the production workers in our Isos manufacturing facility earn, on average, more than $48 an hour (including benefits). By comparison, the operators on our tableting presses average about $15 per hour (also including benefits).

The investment to purchase a press and the necessary tooling ranges from about $80,000 to $140,000. The chemicals are corrosive, so we periodically take some of our presses out of service to do a mechanical workovers. We take out existing dies and have them checked and machined and have them brought back to the tolerance we expect. These operations, however, do not compare to the maintenance that takes place in our manufacturing facility with respect to kilns and reactors.

Typically the total cost of production for a finished tablet – including the granular trichlor, cost of tableting and packaging into the finished goods container – we're looking at about $1.50/lb. By comparison the cost to press a three-inch tablet is about 15 cents/lb.

Not only do the tablet press operators earn lower wages, but the workforce itself fluctuates on a seasonal basis. The manufacturing facility has about 105 individuals in 2014 – we had 140 workers in 2012. These workers have higher skills, and include chemical operators, skilled mechanics, professional engineers and managers. Tableting and packaging has an employee base that fluctuates very heavily depending on the season. As we get into pool season our workforce number will escalate to 150 operators.

As the season passes the number of tableting individuals will decrease to about 30. Most of our tablet volume is pressed over a very short period of time.

Every repacker has to have a registered EPA establishment number. Similarly, all repackers will incur engineering/management supervision and similar overhead costs, but these costs are more of a press maintenance issue than a production issue.

There are no other significant costs associated with tableting. The technology used is straightforward and common. There is no R&D that goes into the process. There are some things we do to maintain a higher quality tablet, but those are very simple issues. In short, the tableting operation simply does not compare with our chemical manufacturing operation.

In my declaration submitted in this investigation, I include several slides comparing our isos manufacturing plant with our tableting operations. You can see from the photos that the nature and scale of the operations is fundamentally different.

Most frustrating to me, though, is the result of a decision that tableters are part of our industry. The truth in this case is that without relief, one of the manufacturers will almost certainly exit the business.

The companies that just press tablets, though, will not be affected. Even if one or all of the U.S. producers shuts down, the tableters will still be able to make tablets using low-priced isos from China and Japan. In other words, the United States will lose high-paying manufacturing jobs but keep seasonal jobs working a tablet press or repacking machine. The real value in manufacturing chemicals will be lost to foreign plants. I cannot believe that this is the purpose of the law.

In summary, when I compare the situation now with 2005, I honestly believe that the competition has become more intense and more injurious. Shipments by U.S. producers are lower now than in 2004. Dumped and subsidized imports hold a larger share of the U.S. market. U.S. capacity utilization is lower now than it was in 2004. And, a smaller U.S. industry is losing money. For these reasons, we ask the Commission to make an affirmative determination and to relieve our industry from the effects of unfair trade. Thank you.