TESTIMONY OF JIM EISCH

SUNCOAST CHEMICALS

before U.S. International Trade Commission
September 9, 2014 Hearing

Chlorinated Isocyanurates from China and Japan
Inv. Nos. 701-TA-501 and 731-TA-1226 (Final)

1. My name is Jim Eisch. I am the Chief Operating Officer of a group of companies that includes Suncoast Chemicals, a producer of tableted chlorinated isos. We manufacture our tablets in Clearwater, Florida, and sell them nationally to unaffiliated dealers, distributors, and through our own franchises. We sell our tablets under the brands Suncoast Chemicals and Value Chlor, and we produce more than 20 regional and national brands. We are a significant player in the U.S. tableting industry, with the capacity to produce more than 10 million pounds annually. I have worked for Suncoast Chemicals and its related companies for more than 20 years and have served as Chief Operating Officer for the last 12 years.

2. From my perspective, it makes no sense for Japan to be in this case. The biggest domestic producers of bulk chlorinated isos claim that they are being injured by Japanese imports. But what I see is quite the opposite. From my vantage point, as a purchaser of millions of pounds of granular product annually, I know I am paying a premium for the Japanese product. I also have no choice but to rely heavily on imports, as the domestic producers actually make it harder for me, if not *impossible*, to purchase their product.

Suncoast's Operations

3. Let me start out by describing our tableting manufacturing plant in Clearwater, Florida. Tableting requires highly specialized equipment designed to work with isos, which is a class-one oxidizer. Tableting presses are large pieces of machinery that are both costly to purchase and quite expensive to maintain. Constructing a tableting plant can easily exceed one million dollars. Additionally, tableters spend hundreds of thousands of dollars annually to maintain equipment and to support engineers. We require plant managers with sophisticated knowledge of chemical reactions. At Suncoast, we have created a work environment in which we carefully control the caustic gases released by tableting. Our system is so effective and clean that our operators are not required to wear protective respirators.

U.S. Supply of Bulk Granular Isos

4. In recent years, Suncoast has had an increasingly hard time finding granular product from U.S. suppliers. I believe other tableters have had the same experience. Let me explain why. For many years, Clearon was a major supplier of bulk product to tableters, including Suncoast. But around 2005, Clearon changed its business model, choosing to manufacture tablets that compete with us for sales to our dealer and distributor customers, rather than to supply us (and other tableters) with granular raw material for our production lines. By becoming our competitor, Clearon eliminated itself as a granular supplier to Suncoast. They were willing to supply us only at prices that made it impossible for us to compete with them.

While we understand Clearon's decision to try and capture the significant added value of the manufactured tablets, the bottom line is that they no longer were willing to supply us with granular isos. That only left one possible U.S. supplier of bulk isos, Oxy.

5. Oxy has concentrated its sales of bulk isos on two core customers: Leslie's Pool Mart, a major competitor of ours, and Pool Corp. Oxy has not seriously attempted to sell any bulk isos directly to us for the past five years. Jeff Williams claims that he contacted me in 2010 offering to sell granular product. The limited contact in 2010, with no follow-up, was *not* a serious sales effort. And this contact focused on the possibility of having us toll-produce for Leslie's, Oxy's main customer and our competitor. We have had no choice but to look to foreign producers to meet our demand for bulk isos.

Quality Differenced Between Chinese and Japanese Isos

6. I attended the conference here last September and heard Mr. Williams of Oxy testify that his tableter customers - quote - "are not overly concerned about the quality of the product, or service, or even the source." I am a tableter, and I am *very* concerned about the quality of the granular product I purchase. It affects the efficiency of my tableting operations, my costs, and the quality of the tablets I produce. Service is also important. DelCal and Shikoku take pride in the quality of their product and their customer service. There's a reason I am willing to pay a little more for their product.

7. Mr. Williams also testified that the quality of the Chinese product has improved over the last five years. Not so. It was poor quality five years ago and remains poor quality today. When we tried some limited quantities in 2012, the product quality remained very poor.

8. There are two main quality differences in Chinese and Japanese granular chlorinated isos that I would like to describe. The first is the consistency and the size of the granules. This is an important consideration from a production perspective because the more uniform size of the granule, the more efficiently we can press it into a tablet. It may help to compare it to salt. Imagine some table salt in your hand. You will see that the grains are of small and uniform size. This is invariably what you see when you examine Shikoku's product.

9. Now imagine a handful of rock salt. You will see some grains of many different sizes, some like chunks, others close to powder, and absolutely no uniformity. This is what I have come to expect from the Chinese product; the granules are inconsistent in size and have powder particulate. This created significant issues with our tableting process because, with these products, our production runs required the use of respirators and created unwanted safety concerns with our employees. We also had to continuously monitor our tableting equipment to ensure that we were producing tablets of a consistent size, hardness, and look. This reduced our production efficiency and increased our production costs.

10. The inconsistent granulation size of Chinese product also causes the tablets to be very soft and prone to breaking and chipping. Breaks and chips increase the surface area of the

tablets, which impacts their dissolve rate. When tablets dissolve faster, they over-chlorinate the pool. Customers expect to purchase tablets that provide a consistent dissolve rate in the pool, and broken and chipped tablets make this extremely difficult to achieve. This is a significant quality issue. Production using Shikoku's isos does not pose these challenges.

11. The second quality I would like to describe is moisture content. Moisture is the enemy of isos, and Chinese granular isos has high moisture content. The higher the moisture content of the material coming into the plant, the higher level of off-gassing. The gas released by isos is caustic and can destroy packaging materials and metal, including facility roofs and other metal-based equipment. The off-gassing also, of course, poses potential health risks and triggers a need for workers to wear protective gear. The quality of the finished tablet is also affected as it will also have off-gassing. Nobody in this industry can control moisture content in the isos better than Shikoku, making it a preferred choice of operation for us and our operators.

12. We have additionally experienced significant problems with lead times when receiving isos from Chinese suppliers. In contrast, I have never had a delivery problem with Shikoku's granular product that we purchase through DelCal.

13. Let me briefly address something in our questionnaire response. Suncoast is a purchaser and reported that Chinese and Japanese product are "always" interchangeable. The question posed by the Commission asks whether granular isos from Japan and China *can* be used interchangeably, and I responded "always" because I can, and have, used granular from both

sources in my tableting machines. I also reported that granular isos from both sources met minimum quality requirements. However, I *also* reported that non-price factors are *always* significant between granular product from Japan and China, and that Chinese product is inferior with respect to surpassing minimum quality standards. I want to emphasize that just because the Chinese product meets *minimum* quality standards does not make it desirable to use. The problems I encountered in my tableting operations using Chinese granular product were so severe that, despite the discount they offered, I stopped buying it.

Pricing Factors in U.S. Industry

14. Now let me explain how tablet pricing works in the market from my perspective as a tableter. Clearon and BioLab – the largest tableters in the U.S. today – have a dominant position in the U.S. tablet market. As a result, they control retail prices at the mass-merchant retail level through their respective customers, Sam's Club, Costco, BJ's, Home Depot and Wal-Mart. We have no choice but to follow their tablet pricing. And let me make it clear that they are selling their tablets at the *lowest* level I have seen in decades. They are not doing this because of import competition. They are competing vigorously with each other and pulling the entire tablet market down.

15. Shikoku has been a predominant supplier of bulk isos to the U.S. tableting market for a very long time. This is not a new development and certainly not one which has hurt the U.S. producers, who effectively chose not to supply my company. Also, in the many years that

we have been purchasing bulk granular isos from Shikoku, they have *never* initiated price decreases to us.

16. Finally, I want to be sure you understand what this case means for Suncoast and other independent tableters. Japan has become our only reliable supply partner, and we pay a premium for this. Duties on the Japanese granular product could mean serious trouble for all independent tableters. Essentially, this would leave us with only two possible suppliers: Clearon and Oxy. Both of these companies compete with us either directly or through their major customers. Imagine the type of impossible commercial squeeze we would be in if we had to source from them. Thank you.