



This high degree of interchangeability is best demonstrated by the ease and rapidity of Trinidad's penetration of the U.S. market soon after MHTL commenced production in 2010. U.S. imports from Trinidad increased from zero pounds in 2009 to over 35 million pounds in 2011, the first full year MHTL was in operation. Likewise, as a result of these investigations and the preliminary duties, Cornerstone is rapidly replacing MHTL's melamine at major accounts and recovering sales volume we had lost to Trinidad.

**Second, price is the key purchasing factor.** Quality, of course, is important, but Trinidad and China have demonstrated to U.S. customers that they are comparable to Cornerstone in those respects. While reliability and customer service are also important, Mr. Spencer testified at the Staff Conference that Southern Chemical set up its business to address those issues by supplying U.S. customers from its four warehouses throughout the United States.

**Third, Cornerstone and subject imports compete to supply a small number of customers in the U.S. market.** Cornerstone and subject foreign producers compete for sales to relatively few customers who negotiate simultaneously with multiple suppliers. In particular, as the only two producers of melamine in the Western Hemisphere, Cornerstone and MHTL are in direct competition for virtually all significant U.S. purchasers of melamine. These customers have often asked Cornerstone to match the low prices of imports from Trinidad. Had we not done so, we would have lost even more sales and market share to Trinidad.

**Fourth, Cornerstone is the upward price leader in the U.S. market.** In fact, we are the only supplier to the U.S. market that publicly announces price

increases. As explained in our questionnaire response and prehearing brief, our attempts to raise prices to a profitable level were frustrated by lower prices being offered by Trinidad and China until they were forced to withdraw from the market by these investigations.

**Fifth, demand is highly price inelastic.** Demand for melamine is primarily derived from demand for products used in housing and automobiles. There are no direct substitutes for melamine in the production of these products. Because melamine represents a very small portion of the cost of a new house or car, the lower prices of subject imports do not increase demand for melamine. Instead, subject imports take sales from Cornerstone and force Cornerstone to significantly reduce prices.

Paul Mikesell has described MHTL's melamine operations in Trinidad. I would now like to describe Southern Chemical's operations in the United States and how its aggressive campaign to enter the U.S. market to fill as much of MHTL's new capacity as possible caused prices to fall in the U.S. market.

As shown on **Hearing Slide 5**, and as described on its website, Southern Chemical has established an extensive logistics/warehousing network to transport melamine from MHTL's production facilities in Trinidad to four strategically placed warehouses in the United States. Those warehouses are located in Charleston, Houston, Newark, and Portland. No other foreign supplier has established such an extensive U.S. distribution network. In fact, MHTL is the only foreign supplier to have a sales representative who is resident in the United States.

Unlike any other foreign supplier, MHTL's business model is predicated on its ability to penetrate the U.S. market. Because there is no market for melamine in

Trinidad, MHTL allocates 50 percent of its production to its affiliate Southern Chemical for sales in North America. Thus, when MHTL commenced production in 2011, it knew that it needed to export over 60 million pounds of melamine per year to the United States to fully utilize its production capacity.

Imports from Trinidad began entering the U.S. market in June 2010, one month after MHTL commenced operations at its first melamine plant. Southern Chemical's rapid penetration of the U.S. market with imports from Trinidad had a severe negative impact on Cornerstone's sales volume, production, prices, and profits. By 2011, Cornerstone was facing significant pressure from low-priced imports from Trinidad.

One of our key customers – Customer A, identified in paragraph 3 of the affidavit provided at Exhibit 22 of our prehearing brief – started receiving offers for low-priced melamine from Trinidad in 2011. Customer A first wanted to divert 50 percent of its volume from Cornerstone to imports from Trinidad. By lowering our price, however, we were able to sustain our volume at this customer for a short period. A few quarters later, the prices of imports from Trinidad were too low for Customer A to ignore. It then switched 100 percent of its supply to Trinidad when we declined to meet such low prices. As explained in contemporaneous email correspondence attached as Exhibit 21 of our prehearing brief, in the first quarter of 2012, we learned that we had lost 100 percent of Customer A's business for all of 2012 due to Southern Chemical's lower prices. We were offered an opportunity to regain some of the business with Customer A that we had lost in 2012 if we could be competitive with Southern Chemical's prices for 2013. But when we tried to win back some of this business by lowering our prices, Customer A told us

that our prices were still too high. Thus, we lost this key customer due to unfairly priced imports from Trinidad. We lost most of that volume in 2011. We lost the remainder in 2012. But, the fact is, we lost that customer to Trinidad – and lost that sales volume – during most of 2012 and all of 2013 and 2014. We only resumed sales to that customer in 2015, after these investigations were initiated.

Likewise, we lost another significant customer, Customer B – identified in paragraph 5 of my affidavit, which started switching purchases to Trinidad in 2011. We lost sales volume for most of 2012 and all of 2013 and 2014. Again, we only resumed sales to Customer B in 2015, after these investigations were initiated.

The rapid penetration of imports from Trinidad caused U.S. market prices to plummet. In the first quarter of 2011, the AUV of imports from Trinidad was 73 cents per pound, much lower than the AUV of imports from China, which was 82 cents per pound. The AUV of imports from Trinidad declined to 65 cents per pound in the fourth quarter of 2011, as the AUV of imports from China declined to 74 cents per pound. In short, imports from Trinidad undersold our prices and China's prices by large margins to grab a significant share of the U.S. market.

As is explained in contemporaneous emails from one of our customers, which are attached to our brief as Exhibit 19, in 2011, Southern Chemical was grossly undercutting the prevailing U.S. market prices. The emails indicate that Southern Chemical's price was lower than our price and lower than melamine from China and Europe.

I know that 2011 is not part of your POI in this final phase, but it is part of the record of this investigation. The Commission should recognize that prices were depressed at the start of 2012 as a result of Trinidad's rapid penetration of

the U.S. market. Cornerstone never recovered from the low-priced supply shock in the U.S. market until these investigations were initiated.

From 2011 to 2012, the AUV of imports from Trinidad continued to fall. In 2012, the AUV of imports from Trinidad was only 61 cents, which was 18 cents per pound lower than that for imports from China. This disparity answers the question you asked in your preliminary determination as to why imports from China declined in 2012. The fact is that Trinidad used extremely low prices to grab sales from both Cornerstone and China. In response, Cornerstone had to lower its prices to avoid further loss of market share.

Respondents falsely claim in their Prehearing Brief that a significant percentage of Cornerstone's shipments are immune from competition with Trinidad. Specifically, they argue that Cornerstone's sales by railcar are immune from competition with imports from Trinidad, because Southern Chemical does not ship by rail. That is entirely wrong. To begin with, since 2011, there have only been three U.S. customers that have received melamine by rail. As I will explain in a confidential affidavit to be supplied with our posthearing brief, one of those three customers switched to supersacks to take advantage of the lower prices from Trinidad. It no longer receives melamine by rail. The other two customers will purchase melamine in either bulk or in bags. Moreover, as I also will explain in an affidavit, none of our sales in bulk are insulated from the adverse price effects of imports from Trinidad.

In addition, any supplier of melamine can supply its customers by rail, in supersacks, or in smaller bags. There is no reason Southern Chemical cannot do so, especially since it admits that its product is now on par with that of

Cornerstone. The only reason that Southern Chemical would not ship by rail is that there are only three U.S. customers that have received by rail and two of them were willing to accept Southern Chemical's shipments in sacks. The fact is that a very large share of U.S. melamine consumption is supplied in supersacks.

I would further note that Southern Chemical's sales of melamine in supersacks directly impact the prices of Cornerstone's sales of melamine sold in bulk and in smaller bags. To begin with, suppliers of melamine, including Cornerstone, do not differentiate prices by mode of delivery and packaging. Thus, market prices for melamine sold in bulk track the prices of melamine sold in supersacks. If they did not, you would see even more switching between bulk and sack sales, like two customers have done.

As you know, we have submitted a large number of allegations of instances where we lost sales and lost revenues to imports from Trinidad and China. In some instances we were able to provide very specific information that the sales and revenues were lost just to Trinidad. In most instances, however, we believe that we lost sales volume to both Trinidad and China.

Subject imports also suppressed our prices. As you can see from our questionnaire response, our prices were not adequate in relation to our cost of goods sold during the entire POI. Although we attempted to raise our prices to improve our deteriorating financial condition, particularly in the face of rising input costs in 2014, we were unsuccessful in achieving these announced increases. In fact, in three of the four quarters of 2014, we were forced to reduce prices despite rising costs.

Given the lower priced subject imports, our price increase announcements were not successful. Prices actually declined after our September 2013 price increase announcement because of the low competing prices of subject imports. We also announced a price increase in September 2014 due to escalating ammonia costs, but we were forced to reduce the price increase because our customers had lower price offers from subject imports. We still lost significant sales volume.

As explained in my affidavit, which is Exhibit 22 to our Prehearing Brief, Cornerstone's sales volume and prices have both significantly improved since your preliminary affirmative determination and the imposition of preliminary duties. In particular, we have regained substantial sales volume that we lost to Trinidad, and we regained that volume at higher prices than we had offered when we lost those sales.

The benefits of the duties have not been negated by imports from other countries. A German producer and a Dutch producer have been long time suppliers to the U.S. market, but they are much more focused on Europe, a market that consumes four to five times as much melamine as the United States. Unlike the duty-free imports from Trinidad, imports from Europe are subject to a tariff of 3.5 percent. And, unlike MHTL, neither of the European producers built a plant predicated on taking a large share of the U.S. market, and neither received subsidized natural gas from their government.

Thank you.