

Before the U.S. International Trade Commission

**Melamine from China and Trinidad & Tobago, Inv. Nos. 701-526-527 & 731-TA-1262-1263
(Final)**

**Hearing Testimony of
Adrian Spencer, Vice President of Sales, Southern Chemical Corporation**

Good afternoon Madam Chairman, members of the Commission and Commission Staff. I'm Adrian Spencer, the Vice President of Sales for Southern Chemical Corporation, or SCC.

SCC's principal role is to serve as the U.S. and Canadian marketing arm of Methanol Holdings (Trinidad) Limited, or MHTL, which produces melamine and other petrochemical products in Trinidad and Tobago. SCC has been selling chemicals in the U.S. market since 1998, and is affiliated through common ownership with MHTL. I have been with SCC since 2010, and have been involved in the melamine market since 2011. I also provided testimony to the Commission Staff during the preliminary phase of this investigation.

I am quite familiar with the producers and purchasers of melamine. It is with the perspective of this experience that I would like to discuss a number of issues relevant to the Commission's consideration of Cornerstone's allegations that imports from Trinidad caused it material injury. First, the overall structure of the U.S. melamine market, and some of the ways in which the market is segmented. Second, the reasons for our declining sales volumes in the U.S. market during your period of investigation, which I understand starts in 2012. Third, some of the developments that drove the price trends in the U.S. market during the latter part of the Commission's POI. And finally, the future of SCC's participation in the U.S. market.

First, the U.S. market for melamine consists of about a dozen major purchasers, and perhaps a dozen more minor purchasers – and a handful of suppliers and producers. Moreover,

with certain exceptions that I will discuss in a moment, melamine is a relatively fungible product, and purchasers generally obtain supply from a number of different sources. This might give the impression that every supplier can compete for every sale from every customer, but the reality is somewhat more complicated. In a number of segments of the market, SCC does not and cannot compete with Cornerstone.

For example, Allnex has informed us that it is largely, if not exclusively, supplied by Cornerstone. Allnex and Cornerstone were both spun off from Cytec Industries. Because of this common corporate lineage, we believe that Allnex buys melamine exclusively from its corporate “cousin,” and does so under a long-term contract. SCC has never sold any melamine to Allnex, nor have we ever quoted them a price.

Another such customer is Wilsonart. We sold Wilsonart some melamine shortly after MHTL began melamine production but before the start of the Commission’s period of investigation. However, we experienced fairly serious quality problems with our deliveries, and as a result, we have not sold them any melamine during the Commission’s POI. Early in this period, we sent them a comprehensive proposal which was rejected without explanation.

At the same time, we understand that certain customers do not want to purchase from Cornerstone for reasons unrelated to price. In a few minutes you’ll hear from Scott Hansen from Ineos Melamines, who will explain the reasons that his company was generally reluctant to buy from Cornerstone. So while it is true as a general statement that all melamine can compete head-to-head in the market, the reality is that the U.S. market has pockets where individual suppliers cannot compete for business.

There is also some segmentation on the basis of the style of packaging we use to deliver melamine. As Mr. Chandool explained, MHTL’s melamine crystal has a tendency to clump,

making the product challenging to handle when shipped to customers in bulk railcar. For these reasons, MHTL and SCC market this product in bags of 1,000 to 3,000 pounds, which we call “supersacks.” Cornerstone’s melamine crystal, on the other hand, does not suffer from the same clumping problem, and as a result Cornerstone has the option to ship in railcars as well as supersacks. As a result, we cannot compete with Cornerstone when it comes to deliveries by railcar.

But of course, there are customers to which SCC and Cornerstone both make sales, or at least attempt to do so. But in every one of those cases, I believe that other suppliers were also selling or trying to sell melamine. China had a growing presence in the U.S. market during the POI, and the producers in Germany and the Netherlands – two countries that Cornerstone did not include in its Petition – were also very active in the market. I am confident that if we had not been in the market, imports from these other countries would have competed for our share, and would have taken most if not all of what we sold.

The second point I would like to cover regards our import trends. As Petitioner has pointed out, SCC began selling MHTL’s melamine in the U.S. market around 5 years ago. We hit our peak import volume in 2012, and since that point, imports from Trinidad have steadily declined. Our shipments to U.S. customers have declined at an even steeper rate.

Our customer-specific shipments also declined, and the confidential details are contained in our pre-hearing brief and in our questionnaire response. They show that from 2012 to today, not only has our customer base shrunk, in virtually every instance the volume of our deliveries to each customer also declined. We have added only a small number of customers since 2012, and the total quantity sold to those customers (as a percentage of our overall shipments during this period) was trivial. In other words, our U.S. footprint is steadily shrinking.

There are two principal reasons for SCC's declining shipment volume and reduced customer base. The first was just explained to you by Mr. Chandool -- namely, the natural gas shortage that is plaguing MHTL. As a result of this chronic shortage, we have been unable to get sufficient supplies of melamine from Trinidad, and indeed, at one point, we were even obligated to buy melamine from other suppliers so that we could honor our delivery commitments.

The second reason that our volume declined relates to the downward price pressure exerted in the market, especially by Chinese imports. During the POI, and in particular from mid-2013 through 2014, we were being severely underpriced in the marketplace. In several instances, SCC was asked by our customers to meet aggressive low bids that they were receiving from other suppliers. It was my belief at the time that this low priced competition was coming from China, and the public import statistics back up what I was experiencing in that market.

I'll share with you a specific example. One of our very good customers of more than two years came to me in late 2013 after a business trip that he had taken to China. He'd been made an offer for melamine supply for his full volume for substantially less than my quote at that time, and told me that he was going to take a break from buying from SCC, as he could buy from the Chinese source for 9 cents per pound cheaper.

I was told that to share the business, I must meet that price. SCC chose not to match that price, and as a result, has had very little business with this customer. I understand that Chinese prices to this customer have dropped even further.

Cornerstone has accused us of not just contributing to, but actually causing this downward price trend. This argument is not correct. We certainly were not the downward price leaders, and frankly, it wouldn't have made any sense for us to take that role. In 2012, MHTL's melamine suffered from a number of quality problems, including the presence of impurities and

the clumping of material. In the earliest part of the POI, our prices reflected these quality problems. By the time this petition was filed in November 2014, I believe that we had largely solved these problems such that with rare exception, our material was viewed as being of equal quality with the other melamine in the market. Having made the effort to improve our product quality, and given the natural gas-related supply constraints we were facing, it really would have made no sense for us not to obtain the highest price possible for our product.

I would like now like to talk about a particularly key time during the Commission's POI, namely, the period starting in the first quarter of 2013 to the 4th quarter of 2014. It was during this period that Cornerstone has complained of the greatest injury, in particular the decline in prices from the third quarter of 2013 to the third quarter of 2014.

Since our pre-hearing brief goes into great detail regarding this period, and since much of this discussion is confidential, I will only provide you with a brief summary. In the first three quarters of 2013, purchasers perceived a tightness in the U.S. market for melamine. This perception was fueled by MHTL's continuing production difficulties, which led to a sharp reduction in our deliveries on a quarter-to-quarter basis, as well as Cornerstone's announcement of force majeure in April 2013. As a consequence, buyers scrambled to cover their needs, and prices increased from quarter-to-quarter over the first nine months of the year.

But by the time prices were being negotiated for fourth quarter 2013 deliveries, Cornerstone had ended its force majeure announcement, and more importantly, substantial quantities of non-subject merchandise began to enter the market. Cornerstone attempted to push through a price increase in this quarter, but the increasing presence of non-subject imports prevented them from achieving their goal. It's also important for the Commission to note that our shipment volume in this key quarter was our lowest quarterly shipment volume of the entire

POI.

Thereafter, from the fourth quarter of 2013 to the third quarter of 2014, prices dropped steadily. We returned to the market, though at far lower volumes than in 2012 and 2013, but non-subject imports – particularly imports from China – started to increase their presence substantially. Thus, even as we were reducing our volumes in the U.S. market, U.S. prices continued to fall. As I mentioned earlier, we weren't leading these prices downward, and in fact, it would have been nonsensical for us to do so since we didn't have sufficient volume to sell anyway. Instead, based on our discussions with customers, it was non-subject imports, and imports from China in particular, that were the downward price leaders during this period.

I'd like to close my testimony with a brief discussion of what has happened in the market since this case was filed. As a result of this petition and the preliminary duties that have been placed on melamine from Trinidad, we have definitely been forced to reduce our import volumes. But if there had been no petition, our full-year 2015 volumes still would have been at or below our 2014 volumes. As Mr. Chandool explained, MHTL continues to suffer from chronic gas curtailments, and they are not going away until 2017 at the earliest. These gas curtailments, coupled with the requirement that MHTL provide half of its limited production for distribution in markets other than the United States and Canada, dramatically limits the quantity of melamine available to sell even under the best of circumstances.

Thus, because of these factors, our import volume to the United States will remain low for at least the next two years, and because our volume will be low, we will have no incentive to decrease our prices either to increase volume or to match unreasonably low prices from other import sources. In other words, imports from Trinidad pose no threat of injury to Cornerstone.