Affirmative Testimony of Joe Barenberg

Good afternoon. My name is Joe Barenberg. I am the Chief Operating Officer of OCTAL Inc, which is OCTAL-Oman's U.S. marketing organization. OCTAL – Oman being the only PET resin producer in Oman.

Let me begin my testimony with an introduction to OCTAL.

OCTAL History

OCTAL was established to meet the growing demand for PET sheet and PET resin. OCTAL's factory in Oman was first built in 2006, with production capacity expanded in 2012.

OCTAL manufactures and sells only two products: PET resin and PET sheet - PET resin being the merchandise under consideration in this investigation. PET sheet is a separate product that is not within the scope of this investigation. OCTAL does not produce any PET film, which is a much thinner product than sheet.

These two products – PET resin and PET sheet -- are manufactured in a single facility located in Salalah, a town in the southern part of the Sultanate of Oman near the border with Yemen. All production of the merchandise under

consideration takes place at this one facility. OCTAL-Oman itself does not produce any other products.

Reason for Increase in U.S. shipments from 2012-2014

You heard earlier this morning Petitioners and their counsel repeatedly emphasizing the fact U.S. imports from the targeted countries have increased over the past three years, suggesting that there is something inherently damaging about this increase when, in fact, there is nothing damaging at all. Today I am going to explain the reasons behind the increase in PET resin imports produced by us in Oman.

Very simply, OCTAL was able to increase its sales to the U.S. market because OCTAL was able to offer a next generation PET resin product based on new technology that provided enhanced attributes not widely available at that time by other suppliers, including the petitioners.

The first key attribute is that OCTAL's PET resin sold from 2012 to 2014 is that it was produced using the absolute state of the art technology that provided specific end-user benefits. This is important because this innovative technology provided significant advantages over the older/established PET resin technology.

Over the past 10 years in particular, PET manufacturing technologies have advanced in various areas. The two most important for OCTAL include: (1) the introduction of a new technology, called "Melt-to-Resin" or "MTR" for short, which was designed to replace the conventional Solid State Polycondensation technology, or "SSP" for short, and (2) . incorporation of spherical chip production.

MTR is an important development in PET resin making because it allows for faster processing of the raw materials with less energy and with less capital investment per ton of installed capacity.

The result is a lower cost, but with a high quality finished product. The process eliminates several steps, avoiding potential degradation due to heat and residence time.

This can be seen graphically in the first two pages of the handout, and I would call your attention to the colored boxes on each page – each box representing a manufacturing step. As you can see, the MTR technology is vastly simpler and, hence, lower cost.

MTR compresses a process that was a four reactor process into two reactors and allows for developing the target intrinsic viscosity (IV) in the melt phase without the need for a solid state polycondensation unit.

Compared with the conventional SSP technology, MTR technology offers several advantages including:

(1) saving of equipment cost due to a simpler state configuration,

(2) significant operating cost reductions through the use of latent heat, and other technical advantages: All combined, MTR technology allows significant reduction in conversion costs; and

(3) reduction in plant carbon footprint, enhancing PET's status as one of the most sustainable and recyclable packaging materials.

Equally important is our incorporation of technology to produce different type of PET resin pellet.

OCTAL's state of the art production facility production utilizes an "underwater pelletization" process. Essentially, in such a process, the liquid melt is flowing through cutters, <u>under water</u>, and once cut, it forms a perfect sphere due to surface tension, as it is suspended under water. Then the water is gradually removed and the pellets are slowly cooled.

It turns out that spherical PET resin chips deliver tangible benefits to customers over the more common cylindrical shaped chips. First, the perfect spherical provides for better air flow around the PET resin chip reducing drying

time. Second, the OCTAL PET resin chips allow the customer to enjoy faster re-melting time during processing, which reduces the customers energy costs. Third, a spherical chip generates less dust which happens when the sharp points break off. Fewer sharp points means less dust.

Finally, the spherical shape enhances bulk flow of the resin during conveyance from vessel to vessel or from vessel to the process.

These advantages from OCTAL's resin manufacturing process are an important condition of competition because the overwhelming majority of U.S. PET resin production during 2012 through 2014 was based on conventional SSP technology, rather than the newer MTR technology.

In short, it has been OCTAL's use of innovative technologies that has allowed us to increase its sales to the U.S. market over the 2012-2014 period. And this should not be a surprise to the Petitioners. Indeed, one of the Petitioners, M&G, made this point explicit in its November 2013 Global Offering. M&G stated:

> "Unlike the typical commodity chemical industry where products manufactured by all suppliers have the same formulation and are fungible, . . product innovation is . . very important in this {PET resin} industry."

This describes OCTAL's participation in the U.S. market to a "T."

OCTAL's Limited U.S. Presence

While our PET resin allowed us to gain some success in the U.S. market from 2012 – 2014, I can tell you from real-world experience that our future success has definite constraints.

I have two very important points to make.

First, we are no longer the new kid on the block; we no longer are all alone in having the latest technology. Other suppliers have started to adopt some newer technologies, some ostensibly improved since our investment.

The other reason for our limited ability to increase our presence in the U.S. market is structural; -- namely, the vast expanse of the United States combined with particular customer needs. Specifically, in the U.S. market there are two critical logistics facts: (a) many U.S. PET large resin customers are not located near a port and (b) many large customers are equipped to receive resin only by rail. These "rail customers" have established their entire production operation around receiving PET resin by rail car often using rail cars as standing inventory, and simply cannot receive the product in any other form. However, the logistics in the U.S. market are such that it is not feasible to arrange delivery of PET resin by rail car from our ports of entry. And so, OCTAL is effectively excluded from all customers that require delivery by rail car. Given that these customers are the

"Tier 1 customers," this means that OCTAL is excluded from supplying many of the largest Tier 1 PET resin customers in the United States.

Changes in Raw Material Costs – Key to Pricing PET Resin and Profitability

The next topic I want to address is an important dynamic of selling PET resin; namely, the fact most U.S. selling prices are tied to a formula pricing mechanism based on changes in the prices of the two primary raw materials - PTA and MEG. It is my view that there are two critical aspects of this reality for your understanding of this market.

The first is that raw material pricing is the primary driver of PET resin pricing. If the raw material prices decrease, PET resin prices will decrease. This is a fact; supply contracts are set up to reflect this. This is important because it is therefore very difficult, if not impossible to claim that import pricing caused U.S. market prices to go down. Rather, all suppliers in the U.S. market must follow the demands of the customers which require PET resin pricing to change with the changes in raw material pricing.

The other very important point about this pricing dynamic is how it affects profitability. Because PET resin prices are literally tied to changes in raw material prices, the PET resin prices change IMMEDIATELY. Indeed, we had several U.S. customers for which we did not invoice until after the end of the month for

shipments made during the month. The reason for this is the customer demands that our PET resin prices in March, for example, reflect the latest changes in raw material prices, namely, what happened in March.

Why is this important? This is important because we are required to adjust our prices immediately even though our costs have not yet been adjusted. Simply put, in a market of declining raw material prices, the PET resin shipped to the customer in March was made with raw materials purchased in February or January when the raw material prices were higher.

Or stated differently, by definition, when raw material prices are falling, the formula pricing required by many U.S. customers requires that PET resin suppliers to absorb the price difference until their actual costs can reflect the benefit of the falling raw material prices.

This fact exists for very single PET resin producer. I respectfully request that you take this into account when examining profitability of PET resin producers.

OCTAL Is Not a Threat

The final comment I want to make is about OCTAL as a company. My understanding is that Petitioners have argued that any foreign supplier with excess capacity will definitely seek to increase its U.S. shipments in the future absent AD-CVD duties. I can tell you categorically that this is not true for OCTAL.

I respectfully submit that our own data prove this point. As you can see from OCTAL's foreign producer questionnaire response, during 2015 we had quite a bit of excess capacity to produce PET resin. However, contrary to the insinuation of Petitioners' arguments we did not simply pump out PET resin and ship it, regardless of the price. In fact, compared to 2014, in 2015 the volume of our shipments to all other markets in which we have no trade barriers actually decreased significantly. That is, even though we had plenty of excess capacity we did not increase PET resin production and shipments.

Indeed, it is for this very reason that we have recently decided to migrate significant resin production to sheet production reducing our effective resin capacity.

At our Salalah, Oman, facility we operate a total of four production "complexes":

Pearl 1 and 2 which produce only PET resin

Sapphire 1 and 2 which produce either PET sheet or PET resin

It is important that you know that we actually closed PET resin production in 2015. Specifically, in 2015 for several months we shut down our production lines at our Pearl facility. This information about closing down production during 2015 was provided in our foreign producer questionnaire response.

Temporarily closing down production lines rather than producing and shipping regardless of market conditions is who we are. It is part and parcel to our business model. We are not about capturing market share for the sake of market share; rather, our objective is to the best job we can at earning a return that is sustainable and acceptable to do our investors. And so, if it is not profitable to ship PET resin, we will not do it.

Given current and anticipated PET resin market conditions, including the expected startup of a huge PET resin production facility later this year in Corpus Christi, Texas, and the fact that the PET sheet business is a more attractive long-term opportunity, we have decided to increase our proprietary sheet making capacity using our Pearl production lines.

Again, such plans reflect our business model. Contrary to Petitioner's insinuation, we have not in the past and we will not in the future reduce ourselves to producing and shipping PET resin simply to fill capacity. That is not who we are. That is not what we do.

OCTAL is a company committed to PET as the leading polymer for what we refer to as clear rigid packaging. We are also a company that takes seriously its responsibility to its investors. We are continuously assessing our business to ensure that our approach to investment, operations and the market reflects this.

I want to make one final note about available capacity in Oman. I saw that the Petitioners' Pre-Hearing Brief asserted that we - OCTAL - might have another PET resin competitor in Oman in the near term. Specifically, Petitioners' cited a press article that there would a new PET resin production facility in Oman built by Oman Oil in conjunction with LG International. Petitioners attempted to portray an impression that this new PET resin facility would be built soon and therefore there would be even more capacity in Oman available to export to the United States.

I am here to tell you that this impression is wrong. Needless to say, OCTAL Oman has been following this project since it was initiated in 2006 and officially announced in 2012 given OCTAL's potential as the major off-taker of the project's PTA capacity. I can tell you with certainty that this new PET resin production capacity will not be built any time in the foreseeable future. It is common knowledge that the purported PET project has been shelved and there have been no recent reports about any project milestones having started or been completed (financial closure, EPC bid package, Startup dates). And I can tell you categorically that the financing has disappeared for this project, and so the production facility will not be built in the foreseeable future."

Thanks you for your attention.