Polyvinyl Alcohol from Taiwan
Inv. No. 731-TA-1088 (Final)
Testimony of
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My name is Scott Neuheardt, and I am the General Manager of Sekisui Specialty Chemicals America. SSCA is the largest PVA producer in America, with production facilities in Calvert City, Kentucky and Pasadena, Texas. I joined the company 2002, when it was owned by Celanese and served as the Commercial Director of the PVA business until 2007. I spent the next two years in another division of the Celanese before becoming the General Manager when Sekisui acquired the company in 2009.

1. SSCA's Business and the PVA Industry

In my time in the business, both at Celanese and now at SSCA, I have witnessed firsthand the impact that dumped imports from the Taiwanese producer, Chang Chun or CCP, have had on our own business and on the PVA market more broadly. Dumped imports from Asia have been an issue in the industry since before I joined the company. Taiwan was a concern to us in 2003 when Celanese and DuPont jointly filed the petitions in the investigation that ultimately resulted in the orders against China, Japan, and Korea. Despite overwhelming evidence of significant dumping, Taiwan was not included in the case because DuPont was, and is still now, a considerable importer of Taiwanese PVA and would not support any petition that included Taiwan.

Once those orders were in place, the aggressiveness of Chang Chun in pursuing business in the U.S. accelerated. CCP's obvious goal was to price its product so as to seize as much as possible of the business previously supplied by producers in those countries. Unfortunately, it succeeded and ended up depriving the domestic industry of much of the benefit that we expected to see from the 2003 order.

It was not long before the CCP started taking market share from us. In fact, DuPont was central to those efforts: Shortly after the orders were imposed, DuPont began aggressively courting many of Celanese's large PVA customers with dumped imports from Chang Chun.

Before describing how these dumped imports from Taiwan have been harming our business, specifically, I'd like to take a few minutes to provide the Commission with a brief overview of our product and our business.

PVA is a synthetic polymer used in a range of industries including adhesives for wood and children's glues as well as adhesives in the housing and building and construction markets, textiles for sizing, paper for sizing, and also coatings which make the paper whiter and brighter, and in the production of polyvinyl buturyl, or PVB, which is primarily used for the interlayer of laminated glass for automotive windshields and commercial construction. PVA specifications are based on many characteristics but mainly hydrolysis levels and viscosity. There are several different grades of PVA, which vary in characteristics based on specific application requirements. These are very mature segments and mostly commodity applications; comparable domestic and foreign products are largely interchangeable. CCP stated at the preliminary conference that is sells into all segments of the U.S. market; they offer a directly comparable product to virtually all the grades we produce.

PVA is produced from vinyl acetate monomer or "VAM." And PVA grades are produced on the same equipment but with slightly different manufacturing processes.

Changing the product requires alterations to the manufacturing process. Therefore, in order to maximize efficiency and minimize downtime, SSCA produces different PVA products on the same equipment according to a production campaign schedule. The schedule is built around orders and generally makes incremental shifts to different viscosity and hydrolysis specifications.

The polyvinyl alcohol business is capital intensive. There are several different processes in the manufacturing of PVA—these processes are complicated and require a highly skilled labor force to operate. As a result, the industry has high fixed costs and must maintain high levels of capacity utilization in order to remain viable. The PVA business is also very energy-intensive, subject to significant cost pressures from the volatility of oil, natural gas, and key inputs into raw materials such as ethylene and methanol. Our plants are expensive to build and to maintain—we have an extremely limited ability to reduce production volumes (or down-turn capacity) when the plant is running—we have to run the plant hard in order to ensure that we cover our fixed costs. A dramatic drop in production volumes, as we saw during certain portions of the POI, does not result in a corresponding drop in our costs: Even if the plant is running at a low capacity utilization level, we have to keep it basically fully staffed, and our use of energy inputs varies very little. Because of this cost structure, running at a reduced production rate is simply not economically viable.

The U.S. domestic market is a priority for us. Domestic PVA production volume exceeds U.S. consumption. This fact coupled with the high-fixed cost structure of the industry means that a significant amount of our sales today are in the export market, even though prices are generally lower outside of the United States. Prices are lower abroad because global markets are oversupplied–and are becoming increasingly so. We have, however, pursued opportunities to sell our excess production in foreign markets because we cannot scale back the production process without destroying our productivity. And as my colleague, Cory Sikora, will explain in greater detail, our export volume that is sold on the spot market also provides a buffer from which we can draw to supply our U.S. customers in the event that production falls short.

2. Injury

As I noted, our product is essentially interchangeable with Taiwanese PVA across all applications in almost every segment. This interchangeability means that, when we compete with Taiwan for a customer's business, the competition comes down to price. Customers may talk about how product availability and supply availability are important to them, but when it comes time to make a purchasing decision, we've found that the lower priced product almost always wins the business. This shouldn't be surprising: On most of these metrics that customers claim are important, we and CCP are quite similar, which means that price is what really matters in the end. There are multiple instances in which we have lost sales to Taiwan because we were unable to meet the dumped price.

In addition, we have also been forced to reduce our own prices in order to meet the prices of the dumped imports. The competition from dumped imports is especially painful when it prevents us from raising prices in response to rising raw materials costs. One important point to note is that after the acquisition of the PVA business by Sekisui in July 2009, all of our raw materials are now purchased through market-based arms-length transactions. In order to compete with the dumped imports we have been forced to reduce prices to levels that do not allow full recovery of fixed and variable costs. The alternative to cutting prices is to lose sales volume, which leads to higher unit fixed costs—similarly destructive to our financial viability.

When we first filed a petition in this case back in 2004, CCP's dumped imports were already having a negative effect the market. Now, six years later, I can say that much of what we feared back in September 2004 has come to pass and, in fact, worsened. Taiwan's import volumes have grown dramatically since we filed our petition, and the downward pressure on our prices and on our profitability has meant that we have not been able to carry out the types of investments that are necessary to keep our plants in proper working order.

Chang Chun and DuPont have stated in their prehearing brief that the injury caused to the domestic industry is not due to imports from Taiwan but due to supply disruptions resulting from VAM Force Majeure incidents in 2007 as well as a result of the global recession. That simply is not true. My colleague will discuss the force majeure in greater detail but I wanted to emphasize that we went to great lengths, and I believe successfully, to minimize the impact of force majeure on our U.S. customer base. We believe that it was not the market changing event that caused the U.S. purchasers to seek to qualify alternative PVA products, as Chang Chun and DuPont characterize it in their brief. The fact is that most, if not all of our major customers already had alternative suppliers in place. In the 2004 preliminary hearing, Cathy McCord testified on behalf of DuPont that customers already sought secondary suppliers.

The second point I want to make is with respect to demand for PVA, which has declined during the POI with a modest recovery in 2010. As I stated above, PVA applications are mature and demand typically follows GDP. The PVA business began to feel in earnest the effects of the recession beginning in Q3 2008 with the most significant effects felt during 2009. However, we believe that some of what appears to be a reduction in demand was, in fact, customers' and the entire value chain's drawing down inventory during the recent recession as managing cash flow became our customers' primary concern. Likewise, we believe the current modest recovery is similarly due, at least in part, to customers' restocking inventories that had been depleted prior to 2010.

The impact on the domestic industry of the dumped PVA from Taiwan has been severe. Our financial performance has suffered as a result of our inability to increase prices to meet increasing input costs. We are not making capital investments, aside from the repairs needed to remain in operation. We have little flexibility to cut costs elsewhere, given the high-fixed costs of our business. And, as dumped subject imports continue to take business away from us through low prices, our unit costs will continue to increase, thereby exacerbating our already weak position.

3. Threat

We at SSCA have no reason to expect that the injury to our business and the rest of the domestic PVA industry will subside going forward unless we are successful in obtaining an antidumping order against Taiwan. It is increasingly difficult for us to keep our prices in line with increasing raw materials costs, and the U.S. market becomes only more attractive as foreign producers—including those in China—continue to build additional capacity. Moreover, given the capacity that CCP has built in China, we believe that they are gradually freeing up capacity in their Taiwanese plant by choosing to supply other foreign markets with product from their Chinese facility. In fact, just last month we learned of an offer CCP made to a customer in southeast Asia where the quoted price out of China was significantly lower than the quoted price for identical CCP product out of Taiwan. This suggests to us that CCP stands ready to shift its Taiwanese production from other export markets to the U.S. in the event that the Commission finds no injury.

As we've detailed in our brief, the consequences of continued dumping are likely to be very negative for SSCA. We have repeatedly delayed necessary capital investments because of the uncertainty caused by the ongoing injury due to the subject imports.

If we can't make these investments, or if our volumes or domestic prices drop to such a level that we can't cover our costs, the viability of one or both of our domestic plants will be called into question. Our PVA business has long provided well paying, challenging manufacturing jobs to our employees, and it would be devastating to us as a company and to our communities if we were no longer able to provide those jobs.