

U.S. International Trade Commission

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**Hydrofluorocarbon Blends and Components Thereof from China  
Inv. No. 731-TA-1279 (Final)**

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**Commission Hearing, June 21, 2016**

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**Testimony of Richard Peter Rowe**

Good morning Chairman Broadbent and members of the Commission.

My name is Rich Rowe, and I am the President and CEO of Arkema, Inc. I have been with Arkema for 27 years, in that period of time I've had responsibility for several of our business units, and for a period of time, Arkema Inc's Supply Chain operations. From July, 2011 until June, 2015, I had global responsibility for our Fluorochemicals business unit, which includes all of our Hydrofluorocarbon, or "HFC" activities.

Arkema is one of three U.S. manufacturers of HFC components, and a member of the American HFC Coalition. Arkema joined with Chemours, Honeywell, and other members of the Coalition to combat the unfairly traded imports that are destroying our industry. The Commerce Department has determined that imports of HFC blends from China are being dumped in the United States at margins in excess of 200 percent. As a result, Arkema has suffered declining sales, falling production, unused capacity, and

substantial financial losses. Without relief from Chinese dumping, prices will continue to fall, our market share will decline further, and U.S. jobs and investment will be destroyed.

As Arkema Inc's CEO, I oversee our North American operations and business activities. The blends and components business has been under severe pressure over the past three years as China has continued to add excess capacity and to buy market share in export markets. If you compare it relative to the rest of the business portfolio that I manage, either within Fluorochemicals or more broadly, the blends and components business is seriously underperforming and is now at an unsustainable level.

The biggest drivers in the underperformance of the blends and components business are the severe declines in selling prices coupled with the increased volumes HFCs coming from China. The cost structure for this business is something we control, and actually, I think that Arkema does an effective job controlling its costs. Over the past years, we have taken steps to optimize performance, reduce costs and increase productivity.

However, production of HFC components is a capital investment intensive and relatively high-fixed-cost activity. Arkema has invested over two hundred million in the production of HFC components and HFC blends.

Looking at the types of HFC production processes we run, our optimal operating strategy is to bring the units up to a robust production rate and keep them there. As our utilization drops, we run into different types of challenges: how do we control your inventory?; how do we meet the demand in what is a seasonal business?; and as importantly, how do we ensure that we are not mismanaging the production asset itself and putting the production units into a more stressful context which in fact can impact our cost?

In the current market, with Chinese imports capturing more than a third of the U.S. market consumption, Arkema is struggling to operate above 60 percent of capacity. While 60 percent utilization is better than 50, it remains far from being fully utilized. In fact, we are often forced to operate at or near our turn-down rate. The “turn-down” rate is the lowest rate that the plant can be operated and still make on-spec product. Also, at this rate it is quite inefficient to operate from an energy, raw material utilization, and labor standpoint.

At the same time, it is neither practical nor economical to campaign the plant. If we run the plant a full capacity for a period and then shut down, we face different challenges: The unit cannot be down during the winter months without risk of damage from freezing. Also, our highly trained

workforce does not lend itself to a rapid furlough and call-back process and thus become severely underutilized negatively impacting our costs. An additional implication of that strategy is, you have to buy raw materials at a certain point in time, which exposes you to fluctuations in raw material prices. Obviously, holding inventory consumes cash. It weakens your overall competitiveness. It also exposes you to greater risk, as you are holding inventories of dangerous chemicals. So instead, we seek to run the plant at the highest possible utilization rate.

Filling our capacity and operating at efficient rates has been a severe problem for our business over the past few years. The loss of sales to low-priced imports from China has prevented Arkema from increasing our sales and our production. As important, dumped imports have depressed market prices and driven down our revenues.

When I started with the HFC blends and components business in 2011, the EPA had recently banned the production of new air conditioning equipment designed to use CFCs and HCFCs. At the time, we forecast double-digit growth in U.S. demand.

Since 2011, demand has grown at a strong pace. However, China has built enormous capacity to produce HFC blends and components. There has been a proliferation of investment that's happened in China without any

strategic sense of the global market demand. Which has resulted in China having significant excess capacity, with a far over-supplied global HFC market. Chinese producers are motivated to stay in business by selling products at virtually any price into any market that will take it.

Low-priced Chinese imports have surged into the U.S. market and captured a larger and larger share of demand. Arkema and other U.S. producers have been unable to share in the market growth. Price levels have steadily fallen. Loss of sales volume and low prices have driven down our sales revenues and profitability. Although we continuously manage costs, the bottom line is that our return on investment in this business does not meet the expectations of our shareholders or the benchmarks set by other business units within Arkema.

For these reasons, Arkema and the American HFC Coalition ask the Commission to make an affirmative determination. Our industry has been materially injured by dumped imports from China. We need your help to maintain an innovative, highly competitive industry and maintain both jobs and production in the USA.

Thank you for your attention.