U.S. International Trade Commission

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

Commission Hearing, June 21, 2016

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Good morning. I am Omar Irani, I'm the Global Director of Product Management for Honeywell International Inc. working in the Fluorine Products Division. I've worked primarily in the Fluorine Products Division since 2006. I currently have management responsibility for all of the hydrofluorocarbon components and blends that are covered by this antidumping investigation.

Honeywell supports the antidumping duty petition filed in this case and requests that you make an affirmative determination. We cannot continue to maintain our U.S. operations in the face of continued dumping by imports from China and continuing lost sales.

Let me give a little bit of background concerning Honeywell's HFC components and blends. We sell our products under the Genetron brand name. Honeywell manufactures HFC-125 and HFC-143a components in Geismar and Baton Rouge, Louisiana, respectively. These are two of the four components that are required to make HFC blends. Currently, we are the only manufacturer of these components in the United States.

Both HFC-125 and HFC-143a components are used to make HFC blends. There is no market for HFC-143a except the production of HFC blends. The only other market for HFC-125 is for fire suppression, which is trivial. The only significant market for HFC-125 is the blends market. The investment in the plant and equipment to produce these HFC components exceed a quarter of a billion dollars. We certainly could not justify that investment only to serve the market for HFC-125 for fire suppression.

Because of the substantial investment in our plants, and because we must run the plant continuously in order to produce efficiently, it is critical for us to maintain high levels of capacity utilization. We have high fixed costs and cannot afford to operate at low levels of capacity utilization. As you have heard from Arkema, there is a point at which you cannot effectively operate without sufficient volume running through the plant.

In 2013 and 2014, we tried to match the Chinese prices in order to maintain our production and sales volumes, thereby maintaining adequate capacity utilization in our plants. But the result was a steep drop in our prices and our sales revenues. Our operating margins and net income literally disappeared. The prices set by imports, particularly by trading companies that advertise low prices throughout the U.S. market, seemed to have no lower limit. We simply could not generate an adequate return on our investments.

Going into 2015, we changed our strategy. In response to cut rate pricing from Chinese imports, we tried to maintain prices at economically feasible levels rather than chasing the Chinese prices to the bottom. But this strategy also failed to generate positive returns. As a result, we made the difficult decision to reduce our HFC-125 capacity as a cost containment measure.

Now, I have read National's brief, where they seem to be asserting that our remaining HFC-125 production is not adequate to supply the U.S. market for HFC blends. I want to respond directly to this claim. We have never refused to sell National or ICOR — or any other U.S. customer — at a fair market price. In fact, we have a long relationship selling HFC components and blends to National and others, and we want to maintain those relationships.

I want to reiterate this point. We have not turned away any buyers for lack of product or capacity during the entire POI, and at least several years prior to that. In fact, as soon as antidumping duties were imposed, we committed to increase the volume of product supplied to National, and we agreed to supply product at very fair prices. And as demand increases in coming years, we will be able to increase our output by de-bottlenecking the plant and expanding operations.

Ultimately, for Honeywell to justify the capital expenditures to maintain our current business, our sales must generate an adequate return on investment. Honeywell will not invest our shareholders' money in businesses that fail to generate adequate returns. If market prices for HFC blends do not recover from current price levels established by dumped Chinese imports, there is no business case to support continued investment.

As I said, our first strategy was to meet Chinese prices in order to maintain our capacity utilization and optimize our fixed unit costs. When that did not work, we tried to restore prices to economically feasible levels, with the result being lost sales volumes. That strategy did not work either, and we had no choice but to reduce our production capacity as a cost containment measure.

Throughout the POI, Chinese imports continued to flood the market at prices below our cost of production. To return to health, we require relief from dumped imports.

I understand that our opponents have argued that the current market conditions are somehow "normal." In particular, the Chinese importers and producers claim that current price levels are the result of expiring patents. That is not the case. The patent on HFC-410A, our most important HFC blend, expired more than a year before the POI. And in 2010, the EPA banned the production of new HVAC equipment designed to operate using R-22, which is an ozonedepleting substance. As a result, the market for HFC-410A as a replacement for R-22 began to expand at about the same time that the product went off patent.

All else being equal, pricing for a product may decrease when it comes off patent. But in this particular case, market demand for HFC-410A was also increasing at roughly the same time. Under these circumstances, it would not be reasonable to expect that price levels would fall so drastically, much less below the full cost of production. Below-cost prices are not "normal." Nor could anyone predict that the Chinese industry would build new HFC capacity, enough to supply essentially the entire world market. Our business plan did not predict that Chinese producers would buy market share at below-cost prices and destroy the value of our investment, even as the market for HFC-410A blend began to grow more rapidly.

Because of the rising volume of dumped Chinese imports, we lost significant sales and market share. We reduced capacity, reduced our workforce, and suffered declining sales revenues – even though consumption in the U.S. market is growing. Our operating margins are no longer adequate to justify continued investment.

In other words, we need your vote to remedy the impact of unfair trade in this market.

Thank you very much for your attention.