

**U.S. International Trade Commission**

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

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**Commission Hearing – June 21, 2016**

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**Testimony of Maureen Beatty**

Good afternoon. My name is Maureen Beatty. I am the executive vice president at National Refrigerants, and have been with National for nearly 30 years. I appreciate the opportunity to speak before this Commission and welcome any questions that you or the Staff might have. I am joined today by my colleague, Rob Yost, who is National's technical director.

I would first like to tell you a little bit about National. Our company was founded in 1983. And since its founding, National has been an independent, family-owned producer, packager, and distributor of refrigerant products. And it still is today.

Over the course of 30 years, National has invested tens of millions of dollars in technology and personnel to develop one of the most state-of-the-art refrigerant blending and packaging facilities in the U.S., if not the world. We are headquartered in Philadelphia, and our plant is located to the south in Rosenhayn, New Jersey, about 30 minutes away from the Delaware Bay.

Currently, our Rosenhayn complex employs over 150 people, three-quarters of whom are on the factory floor producing the five blends covered by this case and many other blends that are exempt. The plant includes a refrigerant tank farm, a computerized packaging area, a reclamation system, and an extensive fleet of cylinders and ISO tank containers. It also includes an AHRI certified laboratory, staffed by a team of experienced chemists and technicians who

ensure the high quality standards of all refrigerants components that we purchase, and the blends that we produce and package. National has also invested significantly in developing a distribution network throughout North America.

National is a full service company with programs that cover every aspect of refrigerant management to contractors and end users. It was also the first and currently the only AHRI certified reclamation facility in the U.S.

I have to say that with all that National has invested, and with a workforce that rivals or exceeds each of the petitioners in size and technical know-how, it is surprising to hear them say that National should not be considered a part of this U.S. industry. It is especially peculiar when you consider that the three petitioners are publicly traded companies with hugely diversified operations all around the world and billions of dollars in revenue. National, in contrast, is a family-owned company whose sole business is manufacturing and distributing refrigerants. This antidumping case jeopardizes the future of our company.

Please allow me to explain because this is a critical point. National is different from the three petitioners in that it only manufactures blends but not any of the individual components. Based on my longstanding business dealings with them, I know that, in addition to their blend production, Arkema domestically produces R-32 and R-134a, and Honeywell domestically produces R-125 and R-143a. We have never done any business with DuPont, or Chemours as it is now known, for these products, but my understanding is that they only produce R-134a in addition to blends.

Now, this is where our issue comes to light. R-32 is required for three of the five subject blends, but only Arkema produces it. R-125 is required for all five subject blends, but only Honeywell produces it. R-143a is required for two of the five blends, and again, Honeywell is

the only domestic source. Non-subject R-134a is required in three of the five blends, and Honeywell does not produce it but Arkema and Chemours do.

These three companies have cleverly overcome this problem by structuring themselves so that they swap components with each other. That way, they each consume their own components and get what they are missing from one of the other two. With this arrangement, Arkema, Honeywell, and Chemours can always satisfy their own blending requirements.

Because National has no component production, we've received no invitation to join this alliance. National has to get components the old-fashioned way and buy them in the open market. But, there are no distributors or traders who sell U.S.-made components. So, if Arkema, Honeywell, or Chemours don't want to sell to National, or they can't sell us what we need, then we really only have two options. We can either import components so that we have what we need to keep our plant running, or we'll be forced to go back to the days when the blends were patented and we were only a distributor and not a U.S. manufacturer of these products.

National wants to avoid the undesirable step of laying off any members of our American workforce, so we have chosen to import the components that we can't get domestically. We do not import any HFC blends from China because we already have the equipment and technical expertise to produce them in our own facility in New Jersey. Over the years, National has built strong relationships with Chinese suppliers, who have provided the same quality components in the quantities that National needs without any requirement to also purchase their blends. National has multiple supply options in China as opposed to just one option per component in the U.S.

Historically, National has been a purchaser of blends from Arkema and Honeywell, especially for R-410A, where we are probably the largest non-OEM U.S. purchaser prior to the

patent expirations of the in-scope blends. Buying blends has been necessary to satisfy our customers' requirements when we can't get access to enough components, or when we have to devote our own component inventory to producing other blends. I have little doubt that the petitioners would love to see National exit the domestic industry as a producer and have no choice but to buy larger volumes of their blends. And, this is what will happen here if the Commission votes in favor of the petitioners.

This is why National must oppose the imposition of antidumping duties on imports of HFC components. We cannot understand how the antidumping law can be used to benefit companies that could not or would not sell us what we needed. We do not see how component imports can be blamed for any injury because, without those imports, our U.S. manufacturing operations and jobs would truly suffer.

Now, I do want the Commission to fully understand our position regarding the availability of domestic components. From 2009 through 2013, National was unable to obtain a written agreement with any domestic component producer. 2014 was the first time that National was able to obtain an agreement to purchase a small quantity of domestic components, but the supplier was unable to guarantee that the supply would be entirely of U.S. origin. Our purchases of domestic components increased between 2013 and 2015, especially in the last six months of 2015 when U.S. component producers for whatever reason made more available to us. Still, what they have been willing or able to supply us comes nowhere close to satisfying National's blending requirements.

And, it has been clear from my discussions that freeing up additional supply for National has caused them some hardship, especially for R-125, so their claim that they have all this extra component capacity available for National is news to us. In fact, we have heard that Honeywell

itself has imported millions of pounds of R-125 from China in recent months due to certain domestic supply problems.

The same is true for blends. Back in 2014, Honeywell told us that they had 4 to 5 million pounds available of R-410A and R-404A. Shortly thereafter, we were advised that they wouldn't have the components available for their own internal production of these two blends for years due to existing commitments and lack of capacity. Suffice it to say that we were surprised when Honeywell recently advised us that they had additional components available to sell to us.

In an ideal world, National would source most, if not all, of its components domestically given the shorter delivery times, and we almost always accept domestic components when offered. The few instances in which we have declined an offer were because the offers didn't make sense given our current inventory position. And, to take a good example, National is a large buyer of R-134a from Mexichem and Arkema, and historically has imported very little of this product. When there are U.S. suppliers actually competing for our business, as opposed to the one component supplier model in this case, we have been able to buy from domestic suppliers.

In fact, we have a very good and longstanding business relationship with Arkema that goes back decades. But, Arkema can only sell us R-32, and it's not permitted to sell us any R-125 that it obtained through its swap agreements. For that reason, Arkema requested that National buy R-125 from its Chinese facility, which we did during this period of investigation. Arkema has also offered to import R-125 for us, but why would we buy imported R-125 with an importers' markup when we can just directly import it ourselves?

As for Honeywell, we have bought R-125 and R-143a from them, but the amount of R-125 that we have been able to buy domestically satisfied less than one-quarter of our production requirements during the investigation period. For R-143a, that amount has been even less.

If antidumping duties are imposed on HFC components, we will have no guarantee that Arkema and Honeywell will sell us components in the quantities that we need. History has taught us that they either cannot or will not because they are in the business of selling blends, not components, and National will always be an afterthought until they satisfy their own internal needs and swaps with the other two members of their alliance before making commercial sales to companies like us. To be frank, neither of these three companies advertise R-32, R-125, or R-143a on their websites or otherwise actively market components, so the notion that these companies are losing component sales or market share just isn't realistic.

Even assuming that they could make more components available to National, they would have all the negotiating power in the absence of competition.

And, if we can only get R-32 but not R-125, what good is that when R-125 is a component of all five blends covered by this case? National's ability to obtain R-125 dictates how much of the other components it requires.

I also want to discuss some other important aspects of this industry that explain the competitive landscape during this investigation period. National first began producing two of the subject blends in 2008 after we obtained a license from the patent holders of 407A and 407C. When the patents on these and the other three blends expired between 2009 and 2011, National faced no barriers to producing these five blends except, of course, for its ability to obtain the necessary components. But, patent expirations, and not imports, explain in large part why blend

and component prices in the U.S. market were already falling when the investigation period began.

Patents give a head start to the patent holders so they have time to recoup their investments and build market share in a protected market with limited competition. When patents expire, competition rises for the now commoditized product, and price pressure occurs. That's just simple supply and demand economics. It happened several years ago with HCFC blends, it is happening now with HFC blends, and it will happen again with the next generation of HFO blends when they go off patent.

As a side note, I want to mention that the petitioners have been very active in lobbying the EPA to approve their new patented products, especially for HFOs, for certain applications and to support the de-listing of off-patent HFC blends. For example, R-404A and R-507A are no longer permitted to be used in retail food refrigeration applications because they have a higher global warming potential than HFOs. So, they are losing demand for these HFC blends in favor of their newer, higher-valued, and patent-protected refrigerants.

The Commission should also be aware of the R-125 shortage that occurred in 2011 and 2012 because of reduced feedstocks and increased global demand. This caused R-125 prices to spike to all-time highs, and because it is used in all five HFC blends, the blend prices went up as well. This means that these blend prices were already at an atypically high level in 2013, so of course the only way they could go was down. That had nothing to do with Chinese imports.

While on the topic of price, I want to address one point from the petitioner's brief. A couple of times, they quote me from the Staff Conference in which they say I conceded that low prices drive our decision to source components from China. That is not what I said. The question from the Staff was what factors do National's customers consider when they decide

whether to buy U.S. or Chinese product. I responded regarding National's experience in selling its U.S.-produced blends in the aftermarket and noted that the most important purchasing factors are meeting industry specifications and price. Actually, I should have also mentioned availability, which is key for our blend buyers. And, for our sourcing of components, I cannot emphasize enough how important availability is. The price doesn't matter if you can't get what you need when you need it.

I next want to clarify some important confusion regarding R-22. HFCs were developed to replace ozone depleting CFCs and HCFCs because they do not deplete the ozone layer. The petitioners state at page 34 of their prehearing brief that, in 2010, the EPA prohibited the production of R-22 in the U.S. That is simply wrong. R-22 can be produced through 2020, although its production is subject to EPA-imposed quotas referred to as allocations. In 2013, the EPA increased the allocations, especially for Arkema, and as a result R-22 supply in the U.S. increased significantly and prices fell. Because R-22 can be used in the same applications as four of the five HFC blends, we saw HFC blends prices fall as well. This factor also had nothing to do with import competition.

I also find it unbelievable that the petitioners have argued here and to Commerce that the blending process is easy and inexpensive. Anyone can do it, they argue, and it doesn't cost very much. No one here is saying that blending requires as much investment as component manufacturing, but to say that blending itself is simple, doesn't require much capital investment, and adds little value is untrue. National has invested tens of millions of dollars in facilities, equipment, technical know-how, and its workforce to become the leading HFC blend producer in this industry. It's one thing to argue theoretically about how much money would be required to establish the most bare bones facility, but it's quite another thing to establish an operation that

has the required technical skills, safety procedures, regulatory compliance, and distribution network on a commercially meaningful scale.

Blending is complex and costly, and everything must be handled properly from the receipt and storage of components all the way through transportation to the customers or bad things can happen. And, the market assigns much greater value to the blends than to the components used to produce them.

In conclusion, if duties on components restrict or prohibit import of the components, and U.S. component producers only sell or swap components with each other, then they will force the market back to the days when these HFC blends carried patent protection. In that scenario, we will not be able to produce these in-scope blends and run our business.

Duties on HFC components will also limit our ability to produce a wide range of other HFC blends that are not included in the petition and for which the petitioners have not claimed injury. This case has the potential to destroy our manufacturing operations beyond the five in-scope blends. For example, National produces the R-422 series of HFC blends using R-125. By our estimation, the R-422 series already occupies a larger space in the market than R-407C, which is included in the petition.

National does not believe that there's unfair competition resulting from imported HFC components. If anything, the unfairness might lie in the lack of competition between the U.S. component producers and their refusal or inability to sell key components to a meaningful degree. How can there be unfair competition from imported components when they do not compete to sell components in the U.S. market? The HFC components simply should not be subjected to any antidumping duties. National's business in both the subject and exempt refrigerant blends would be unfairly altered and restricted if duties are placed on components.

Again, I appreciate this opportunity to be here. Thank you.