

**Hearing Testimony of Amy Warlick
Before the U.S. International Trade Commission
Preliminary Antidumping Investigation of Certain Emulsion Styrene-Butadiene
Rubber from Brazil, Korea, Mexico and Poland**

August 11, 2016

Good morning, members of the Commission staff. My name is Amy Warlick. I've been an Industry Analyst with the Commission and an economist with Barnes, Richardson & Colburn for over 25 years and have researched many industries during this time. As you have likely already seen with your own eyes, this U.S. industry is in crisis and our clients are struggling to achieve profits and remain sustainable. This U.S. industry has also experienced high and growing volumes of subject imports, entering at prices so low they cannot be explained away by raw material cost reductions.

Petitioners estimate that subject imports increased by 55 percent between 2013 and 2015. These figures are based on imports from subject countries under 4002.19.0015 plus an estimate of additional subject imports from Korea entered elsewhere. Subheading 4002.19.0015 was created for the express purpose of tracking ESBR in bale form, which is the majority of ESBR. However, tens of millions of pounds of ESBR from Korea, likely in bale form, are being classified outside of this subheading for reasons that are under investigation by the U.S. Bureau of the Census. Thus, Petitioners have had to estimate the Korean volumes based on manifest data.

Since June 2016 data were recently released on the USITC's DataWeb, Petitioners updated the import volumes found in our Petition, and we present them here as EXHIBIT 1. These data show that during the last 12 months, subject imports represented 76 percent of U.S. ESBR imports, while non-subject imports represented just

24 percent. They also show that subject imports from Poland represent 3.2 percent of total ESBR imports and are, therefore, not negligible.

EXHIBIT 2 shows that the unit values of these subject imports have fallen by approximately 50 cents per pound to roughly half their value during the POI. Petitioners estimate that raw material cost savings represent about 25 cents per pound of this overall price decline, with the remaining 25 cents per pound representing dumping below fair market value and often below respondents' costs of production. We have made this estimate using the industry standard usage rates for both ESBR grades 1502 and 1783, as well as styrene and butadiene prices in various world regions. As you can see in EXHIBIT 3, the raw material costs savings range from \$19 to \$31 dollars per 100 pounds of ESBR, depending on the series and region. The simple average of this cost reduction is \$25 per 100 pounds or 25 cents per pound.

You will likely hear from respondents that prices have declined solely based on raw material costs, since ESBR pricing formulas generally contain an element that is dependent on those variable costs. So, let's discuss that for a moment. Historically, ESBR contract pricing formulas have had both variable and fixed factors. The variable cost factor was and still is based on the prices of the main raw materials, styrene and butadiene and, in 1700 series extender oil, which could fluctuate throughout the life of the contract. To this were added other cost factors representing secondary raw materials, conversion and processing costs, overhead and profits. These factors are set for the contract period, regardless of underlying cost fluctuations. Over the past few years, our clients' report having had to sacrifice increasing portions of these factors just to survive, as their customers point to import pricing to demand deep concessions. So, little by little,

then a lot by a lot, compensation for these manufacturing costs and profits has been eroded and all of our clients' efforts to streamline and improve their ESBR plants cannot offset the damage done by imports.

The widespread dumping activity that Petitioners have alleged has occurred because the global market is oversupplied with ESBR as demonstrated by the low global capacity utilization seen in EXHIBIT 4. In addition, ESBR is being diverted away from countries with ESBR antidumping proceedings or measures in place, while it's being attracted to countries with tire antidumping measures in place, as the latter boost domestic tire production, hence, ESBR demand. Furthermore, ESBR is being diverted away from low demand markets and into the United States where demand, while suffering in certain sectors, is relatively bright compared with other markets.

In the run-up to these Summer Olympics we have all heard the reports of Brazil's economic turmoil. Brazil's GDP fell by 3.5 percent in 2016, and its industrial production was down 5.9 percent in June 2016. EXHIBIT 5 shows statistics from the Brazilian National Association of Automotive Vehicle Manufacturers which indicate that Brazilian auto sales fell 43 percent between March 2013 and March 2016, while auto production in Brazil fell by 39 percent during the same period. Fewer autos produced and sold in Brazil mean fewer tires produced and much lowered ESBR demand in Brazil. Faced with rapidly declining home market sales, poor market conditions in traditional export markets like Argentina, and antidumping duties against Brazilian ESBR in Mexico, Lanxess (now Arlanxeo) has turned to the United States, to sell-off its oversupplies of ESBR. Official import data show that subject imports from Brazil grew by 532 percent between 2013 and 2015, then by another 29 percent between the first half of 2015 and the

same period this year. During the past 3 and a half year POI, Brazil's share of the U.S. ESRB market grew from 1 to 8 percent.

The United States has also been in receipt of large volumes of ESRB diverted away from the Chinese market since the imposition of U.S. antidumping duties against tires from China. Reduced Chinese exports of tires to the United States have softened Chinese demand for ESRB. Furthermore, according to the China Rubber Industry Association, the Chinese government is implementing plans to reduce Chinese tire production by around 40 percent in an effort to address the overcapacity that has prompted global antidumping actions against Chinese tires. The Chinese government is imposing strict emissions, energy, and environmental regulations on the Chinese tire industry which they expect to reduce the number of smaller tire manufacturers and cut tire production by 40 percent.¹ These policies present a serious threat to the U.S. ESRB industry as they will cause an additional glut of Korean, Polish and other ESRB to be diverted away from the Chinese market and into the United States.

Korean ESRB has also been diverted away from Brazil on account of Brazilian antidumping duties against ESRB from Korea since 2011, and is likely already being diverted away from India where antidumping proceedings against ESRB from Korea and other countries began in January 2016. Furthermore, RubberNews has reported that Negromex was exploring the possibility of filing its own antidumping Petition against ESRB. There is no doubt that these global antidumping measures will divert additional volumes of subject merchandise into the United States should remedial duties not be imposed.

¹ "China seeks cut in tire production," Patrick Raleigh, European Rubber Journal, June 17, 2016.

The rampant global antidumping activity in ESBR and its downstream industries has diverted and pushed global ESBR oversupplies into the United States at prices well below fair market value and production costs. Subject imports have arrived at ever lower prices causing years of lost sales and lost revenues in the besieged U.S. industry.

In 2014, after a difficult battle with underpriced imports, Lion decided to shutter their distressed ESBR plant in Baton Rouge. After a 2 month shut-down, the plant was purchased by its previous management team, who join us here. This management team resurrected the Baton Rouge plant as East West Copolymer with fresh ambition in the interest of maintaining quality jobs in their community. With union support and sacrifice, they instituted productivity improvements in 2014 to convince customers of their viability. Later that year, Ashland spun-off a non-core business that included an ESBR plant in Port Neches, TX. Lion purchased that business, and in so doing rejoined the ESBR industry. However, subject imports have been unrelenting and prices are now so low that both Lion's and East West's ESBR businesses are struggling to achieve profitability and reinvestment economics, and while awaiting the return of a level playing field with respect to imports.

As you know, a similar case came before the Commission in 1998. At that time, a split Commission concluded that the decline in ESBR prices was largely caused by raw material price declines, and most of the Commissioners did not find causation. No doubt Respondents will argue that this investigation is no different. However, we urge the Commission to look at the wide spread between the raw material cost reductions per unit of ESBR and the amount by which subject import prices have declined. This time it is clear that the dramatic price declines far exceed raw material cost reductions. The price

declines represent much more than a pass-through of cost savings, they represent severe price depression caused by dumped imports.

Respondents will likely also argue that our clients have been injured by competition from other products like solution SBR (called SSBR) and natural rubber. SSBR is a more costly product to manufacture and, hence, fetches a higher price. It is used primarily in the treads of OEM tires because it has low rolling resistance which can help new vehicles meet gas mileage benchmarks. For this reason, tires made with SSBR tread components are sometimes referred to as “green tires.” Several years ago, industry analysts predicted that “green tires” might also be successful in the aftermarket. However, even when gas prices were very high, U.S. consumers simply did not buy “green tires” in the aftermarket. There is now substantial overcapacity among SSBR producers; and companies, like Lanxess in Brazil, that had planned to convert ESBR capacity to SSBR capacity have abandoned those plans altogether.

As you have already heard from our industry experts, natural rubber is only substitutable for ESBR when producing certain tire tread compounds where mixes of ESBR and natural rubber are used. The mixes are usually 50 percent ESBR and 50 percent natural rubber, although they can range to 60/40 in either direction. However, the manufacturer cannot use a mix outside of these parameters because natural rubber and ESBR are chemically quite different, with each imparting its own character. For this reason, they are substitutable only within narrowly defined parameters.

The prices of natural rubber and ESBR tend to correlate because they follow the same industrial demand, but they only correlate loosely due to the limited substitutability. As you can see in EXHIBIT 6, which charts natural rubber and the 1500 series of ESBR,

both lines are trending downwards, but month-to-month and even year-to-year, they generally lack correlation, because they are not perfect substitutes and a rise or fall in the price of one does not necessarily result in a rise or fall in the price of the other. This is because prices for natural rubber --- a processed agricultural commodity --- are influenced by regional growing conditions, as well as demand in the tire, mining, pharmaceutical and other industrial sectors. ESRB prices, on the other hand are influenced by global production, raw material prices, demand in the tire and other industrial sectors, as well as sales below fair market value. Unlike during the POI of the previous ESRB antidumping case when natural rubber was significantly cheaper than synthetic, causing the Commission to conclude that it played a significant role in the falling prices of ESRB, natural rubber was generally more expensive than ESRB during the past 3 and a half years.

While net U.S. demand is weak, there are some growing sectors. For instance, the U.S. passenger vehicle and light truck tire markets are expanding in the wake of U.S. antidumping duties imposed a year ago. Certainly, ESRB demand is brighter in the United States than it is abroad. Given the current demand outlook in the United States, both Lion and East West should theoretically be able to turn a profit. Yet, they are at a distinct disadvantage in meeting U.S. demand because of unfair competition from subject suppliers whose market share has nearly doubled in the past 3 and a half years.

So far in 2016, our clients have been working diligently to win back business. Fortified with infusions of capital, they have increased production, achieved greater economy of scale, and reassured customers of their capability and commitment to the industry. However, they have had to drop prices even further as a means to secure new

business and win back business previously lost to imports. A level playing field is required to make these investments in time and effort pay off.

In 2013, our clients provided quality jobs to hundreds of production workers. In 2016, however, they provide jobs to about 30 percent fewer workers. These are good, skilled, union jobs with benefits for talented men and women in south-east Texas and central Louisiana where the unemployment rates are significantly higher than the national average due to depressed conditions in the oil sector. The International Union of Operating Engineers and the United Steelworkers know what's at stake in this case. They have seen what has already happened in this industry and they know what's ahead if this investigation does not result fair trade conditions. That is why both unions, representing all U.S. production workers in this industry, support this petition.

We appreciate your attention to this serious matter and welcome any questions you may have.