UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	**) Investigation Nos.:**
EMULSION STYRENE-BUTADIENE RUBBER FROM	**) 731-TA-1334-1337**
BRAZIL, KOREA, MEXICO, AND POLAND	**)**

REVISED AND CORRECTED

Pages: 1 - 189
Place: Washington, D.C.
Date: Thursday, August 11, 2016

Ace-Federal Reporters, Inc.
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UNITED STATES OF AMERICA

BEFORE THE

INTERNATIONAL TRADE COMMISSION

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IN THE MATTER OF: : Investigation Numbers

EMULSION STYRENE-BUTADIENE RUBBER: 731-TA-1334-1337

FROM BRAZIL, KOREA, MEXICO, AND : (Preliminary)

POLAND :

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Thursday, August 11, 2016

Main Hearing Room (Room 101)

U.S. International Trade Commission

500 E Street SW

Washington, DC

The meeting commenced, pursuant to notice at 9:30 a.m., before the Investigative Staff of the United States International Trade Commission, Michael Anderson, Director of Investigations, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

Sharon Bellamy, Program Support Specialist

Michael Anderson, Director of Investigations

Elizabeth Haines, Supervisory Investigator

Nathanael N. Comly, Investigator

Raymond Cantrell, International Trade Analyst

Emily Burke, Economist

Jennifer Brinckhaus, Accountant/Auditor

Mary Jane Alves, Attorney/Advisor

Opening Remarks:

Petitioners (Matthew T. McGrath, Barnes, Richardson & Colburn, LLP)

Respondents (Deanna Tanner Okun, Adduci, Mastriani & Schaumberg, L.L.P.)

In Support of the Imposition of Antidumping Duty Orders:
Barnes, Richardson & Colburn, LLP
Washington, DC
on behalf of
Lion Elastomers LLC ("Lion")
East West Copolymer ("EW")
Jesse Zeringue, President and Chief Financial Officer, Lion
Steve Isaacs, Optimization Manager, Lion
Gregory Nelson, President and Chief Executive Officer, EW
Robert Rikhoff, Vice President of Operations, EW
Amy H. Warlick, Economist, Barnes Global Trade LLC
Matthew T. McGrath - Of Counsel

-- continued --

In Opposition of the Imposition of Antidumping Duty Orders:
Adduci, Mastriani & Schaumberg, L.L.P.
Washington, DC
on behalf of
Industrias Negomex, S.A. de C.V. (Negromex")
Insa LLC ("INSA")
    Alvaro Gomez-Godoy, Legal Coordinator, Negromex
    Tomas Acevedo, Commercial Director, INSA
    Jose Plaza, Commercial Manager (America), INSA
    Daniela Quintero, Commercial Intelligence Manager, INSA
    Herfried Woss, Outside Trade Counsel for Negromex, Woss & Partners, S.C.
    William C. Sjoberg and Deanna Tanner Okun - Of Counsel

Rebuttal/Closing Remarks:
Petitioners (Matthew T. McGrath, Barnes, Richardson & Colburn, LLP)
Respondents (William C. Sjoberg, Adduci, Mastriani & Schaumberg, L.L.P.)

I N D E X

P R O C E E D I N G S

MR. ANDERSON: Good morning, and welcome to the U.S. International Trade Commission's conference in connection with the preliminary phase antidumping duty, Investigation Number 731-TA-1334 through 1337, concerning emulsion styrene-butadiene rubber from Brazil, Korea, Mexico, and Poland.

My name is Michael Anderson, and I'm the director of the Office of Investigations, and I will preside at this conference.

Among those present from the Commission Staff here are, on my far right, Elizabeth Haines, our supervisory investigator, Nathan Comly, our investigator, and to my left are attorney Mary Jane Alves and our economist, Emily Burke, and our financial analyst, Jennifer Brinckhaus, and finally, our industry analyst, Raymond Cantrell.

I understand that all parties are aware of their time allocations, and I would remind speakers not to refer to any business proprietary information in your remarks and that you speak directly into the microphones. We also ask, for the benefit of the court reporter, as this is being transcribed, that you clearly state your name before you begin any responses to questions or testimony.

All witnesses must be sworn in before presenting testimony, and any questions regarding time allocations should

be addressed to the Secretary.

Are there any questions?

Okay. Seeing none, Madam Secretary, are there any preliminary matters?

MS. BELLAMY: There are no preliminary matters.

MR. ANDERSON: Thank you. Very well, Madam Secretary.

Let us proceed with opening remarks.

MS. BELLAMY: Opening remarks on behalf of Petitioners, Matthew T. McGrath, Barnes, Richardson & Colburn, LLP.

OPENING REMARKS OF MATTHEW T. MCGRATH

MR. MC GRATH: Good morning. I'm Matt McGrath of Barnes, Richardson & Colburn, representing the Petitioners, Lion Elastomers and East West Copolymer. I'm happy to be here, and I hope to offer some respite to the Staff from steel, but not so much from tires today, I'm afraid. You'll hear more about it.

We have petitioned for antidumping duties, imports of emulsion styrene-butadiene rubber from Brazil, Mexico, Korea and Poland. This is not the first time the Commission has looked at the industry and the market, nor is it the first time that several other countries have looked at SBR imports into their markets, and we will be talking about the significance of that later on. There are only two companies

producing ESBR for the merchant market. A third, Goodyear, is not here. But during the period of investigation, there was for a while only one manufacturer. So the industry has been affected by imports.

The petition, it should be noted, that is also supported, and we filed the supporting statements from 100 percent of the labor unions working in the ESBR industry in the United States, represented by the International Organization of Operating Engineers, Local 216 in Baton Rouge and Local 426 in Houston. The Goodyear plant, also by United Steelworkers and Rubberworkers, both Local 13228 in Port Neches at the plant, the Lion Elastomers plant. So labor has a stake in this and is definitely very concerned about the effects of imports.

Our position is pretty straightforward. Imports have taken a considerable toll on U.S. producers and workers, especially in the last three years. Synthetic rubber is an integral part of the industrial base, but like many commodities the Commission examines, oil capacity is outstripping demand.

Pricing are reaching the lowest points in recent history, and subject import volumes and market share continue to rise. They are higher than they were in the previous investigation. Production workers and wages are down considerably. Labor is affected substantially.

And most importantly, the financial health of the U.S. industry is very poor, by any measure. We can't talk about a specific performance of individual companies, but it's fair to say that the record here is pretty much all red ink. There is not profit here.

All four subject countries have been participants in this market growth and downward pressure in prices and profitability, and the threat of continuing price suppression because of low global capacity utilization and because of a series of trade remedies, frankly, from around the world on downstream products, both in the U.S. and elsewhere, the threat continues.

We will testify on the evidence of this impact also on some important distinctions between this record and the one from 17 years ago. So we submit that there's more than enough information to make an affirmative preliminary finding, and we ask that you recommend that to the Commission.

Thank you.

MS. BELLAMY: Opening remarks on behalf of Respondents, Deanna Tanner Okun, Adduci, Mastriani & Schaumberg, LLP.

OPENING REMARKS OF DEANNA TANNER OKUN

MS. OKUN: Good morning, Mr. Anderson and other members of the Commission Staff. I'm Deanna Tanner Okun of the law firm Adduci, Mastriani & Schaumberg, and I am here

representing the only Mexican producer, Industrias Negomex and their importer Insa LLC.

It is our position that after reviewing the data collected in the preliminary investigation, the Commission should find there is no reasonable indication that the U.S. industry has suffered material injury or is threatened with material injury by reason of subject imports, for many of the same reasons that the Commission reached a negative determination in the 1999 case on the same product, against three of the same countries, filed by the same two U.S. companies that are the successor companies to the previous Petitioners.

As we approach mid-August, I know that many of us are sending our kids back to school. One of the classes that I enjoy discussing with my girls is history. Many times, in discussing patterns where patterns repeat themselves across generations, I'm reminded of the observation by philosopher and writer George Santayana, who said "those who cannot remember the past are condemned to repeat it."

When I read the petition in this case and then went back to the record of the 1999 investigation, this adage came back to me and is an important starting point in putting the allegations in this petition into perspective. Our industry witnesses will testify that the facts, patterns, and trends applicable to the U.S. ESBR industry and market are not

materially different in the 2013-to-2015 period than were the facts, patterns, and trends of that same industry and market in the 1996-to-1998 period.

Of course, it is reasonable to wonder, after 17 years, how we can argue that nothing much has changed when the world around us looks different. Of course, our smart phones weren't driving us around in 1999, but it is the case we were still driving around on replacement tires manufactured by ESBR.

Now, there are some developments in the marketplace that our witnesses will discuss, but each of these developments support the negative finding in this investigation.

Our industry witnesses will be providing additional details, but let me briefly touch on the conditions of competition identified by the Commission in the previous POI and how they are consistent with the conditions of competition in the market today.

In 1996, there were two producers supplying the U.S. merchant market with Goodyear actively consuming its product. Although the two producers' names have changed, there are still two producers supplying the U.S. market from the same facilities. Demand for ESBR continues to follow demand for tires and specifically replacement tires in the U.S. market.

The majority of the ESBR sales continue to be by contract. These contracts contain formula price mechanisms, which provide for adjustments to the contractual price of ESBR based on changes in the market price of styrene and butadiene, the principal raw materials for ESBR.

The price of ESBR is, therefore, influenced by the movement of the cost of raw materials, raw material imports for ESBR. Several rubber products can still be substituted for ESBR to varying extents, including natural rubber and SSBR. Price movements for ESBR continue to track the general trends and the prices of natural rubber and to a lesser extent the prices of other synthetic rubbers that are substitutes for ESBR.

Because tire manufacturers and other purchasers need to ensure a steady, reliable source of supply, they typically maintain more than one supplier of ESBR. These were the conditions of competition in 1996, and these are still relevant conditions of competition during this period of investigation.

In looking at the volume trends during this POI, there is one important change from the 1999 investigation. In December of 2013, one of the Petitioners, Lion Copolymer Holdings, stopped production at the ESBR factory in Baton Rouge, Louisiana. So there was only one U.S. producer operating it's facility until it was reopened by the other

petitioning company, East West Copolymer.

As our witnesses will testify, the announcement of this shutdown in 2013 caused nervous customers who already demand diverse suppliers to ensure consistent supply to look for new supply sources. Because ESBR is predominantly sold on a contract basis, the effects of this announcement resulted in the increase in subject imports in the market throughout 2014.

As the U.S. supply situation stabilized, subject imports decreased. With respect to the price declines alleged in the petition, our witnesses will provide details on the important role that price of raw materials plays in the annual contracts and the declining raw material costs over the POI are what impacted prices of domestic producers, as well as subject producers.

In addition, our witnesses will help the Commission understand the relationship of prices to substitute products.

As the Commission found in 1999, the effect of subject imports is not significant in light of these declines in raw material costs and other substitutes.

All of these factors suggest that any declines in the financial performance of the industry are not due to the impact of subject imports but to other factors in the market.

I look forward to discussing these issues and others with you during our panel.

Thank you very much.

MS. BELLAMY: Will the first panel, please, come forward.

MR. ANDERSON: Welcome, Mr. McGrath and to our visitors here. Thank you for coming today, and when you are prepared, please proceed.

OPENING REMARKS OF MATTHEW T. McGRATH

MR. MC GRATH: Thank you very much. Once again, I'm Matt McGrath of Barnes Richardson & Colburn. Joining me is Amy Warlick, an economist who works with us. She will be providing some economic testimony.

You have the list of our witnesses. There's one change in order there. Mr. Zeringue and Mr. Nelson will go first, followed by Mr. Isaacs and Mr. Bobby Rikhoff. And then Amy will finish with the economic testimony, and we will all be available for questions at that point.

A couple of preliminary points. First of all, the issue of negligibility with respect to Polish imports, we think, we hope, has been resolved now with the data that has been released for the full June period, so that you have a full one year of data from July to June prior to the filing of the petition. That data does show that Poland imports were over 3 percent. I think it's on one of your slides. It's 3.2 percent. So hopefully, that's not an issue, but we are happy to talk about it.

Second, we acknowledge there was some issues with

respect to import data having to do with Korea. We're still tweaking that a bit. You now have, I think, questionnaire responses that might resolve that issue. But we found that official import statistics didn't seem to quite jibe with what the industry found was happening with Korean imports. So we are happy to talk about that as well. We put quite a bit of information in as a part of the petition.

And then third, with respect to just initial comment on like product in this case, our position is that the like product remains the same here as it was in the previous investigation. It's the 1500 and 1700 series ESBR. And we will present testimony on the characteristics and uses of ESBR versus various other products in the marketplace so that we will be available to answer technical questions on that and review as much as necessary.

So without further ado, I would ask Mr. Zeringue to start, and then each witness will identify themselves as the previous one finishes.

STATEMENT OF JESSE ZERINGUE

MR. ZERINGUE: Good morning. I'm Jesse Zeringue, and I am CEO and president of Lion Elastomers LLC, one of the three remaining U.S. producers of emulsion styrene-butadiene rubber, of which only two manufacturers for the entire merchant market in the United States. I've been in my current position since 2013 and prior to that have served roles as

executive vice president and vice president of supply chain management. I also held various roles within DSM elastomers copolymers and spent almost 30 years in the chemical industry, most of that, in fact, all but one of those in the elastic and copolymer businesses.

Lion manufactures ESBR at its plant in Port Neches, Texas, which was purchased by Lion from Ashland Chemical, which in turn purchased it from ISP. ISP acquired the business from American Synpol, one of the Petitioners in the last investigation of ESBR, in 1999, who felt it necessary to close one of its two ESBR sites post-petition.

Lion also manufacturers other elastomers such as EPM terpolymer used in automotive, construction, lubricant and coatings industries. Lion also produces a hot polymerized emulsion SBR for applications in adhesions and sealants. These products do not compete with copolymerized ESBR, which is the subject of this investigation.

Lion entered the U.S. ESBR industry in 2005 with the purchase of its Baton Rouge facility from DSM, another of the original Petitioners which exited the business after the previous investigation. Lion decided to close that facility in 2014 as the current management team had re-established it as East West Copolymer. Lion decided to remain in the ESBR business by purchasing the Ashland facility in Texas.

As you will hear today, the ESBR business is very

price-sensitive and is a commodity business. Within the same grades of certain ESBR, products key to tire manufacturers, products between ESBR suppliers are fungible. While the product of any ESBR producer in the world must be qualified by our manufacturing customers, the formula for tire tread compounds vary little with the varying ESBR suppliers resulting in low switching costs.

The only exception are a few specialty proprietary grades made to specifications for certain customers. The majority is purchased by the U.S. tire manufacturers who formulate tire tread compounds to import desired characteristics of the tires being produced, resulting in limited substitutability of ESBR by other types of elastomers.

ESBR, like many product sectors which are tied to the petrochemical industry, is priced accordingly depending upon the major petrochemical imput in terms of cost. Therefore, some portion of the dramatic ESBR price declines seen in the last three years is due to declining costs of petrochemical-based raw materials. Most contracts for the delivery of ESBR recognize this by tying a portion of the price to published price levels for styrene and butadiene, depending on the ratio of those components in the cost of the ESBR.

However, damage to the industry has been done in the fixed conversion cost of the price calculation. A buyer

with sufficient volume requirements can and does negotiate deeper cuts in the fixed conversion cost portion of the price calculation, which is intended to cover the ESBR manufacturers' other material costs, fixed overhead costs, and certain profit margin. The presence of continually declining import prices in the market gives these buyers the leverage to do this and to continue testing how low the market floor can go.

The recent steep decline in ESBR prices go well beyond declining costs of styrene and butadiene. We have definitely suffered material injury at the hands of increased subject imports and ask that the Commission approve this case for a full investigation.

I thank you for your attention, and will be happy to answer questions.

STATEMENT OF GREGORY NELSON

MR. NELSON: Good morning, Mr. Anderson and members of the Committee. My name is Greg Nelson. I am the president and CEO and chairman of East West Copolymer. I've been in my current position since April of 2014. Myself and my management team purchased the current business from Lion Elastomers.

The plant was shuttered for two months after Lion decided to exit the SBR business since they could not operate it profitably. Prior to my current position, I was president

and CEO of Lion Copolymer for five years before deciding to retire in July of 2013.

As a background, I started my career in 1977 with Exxon Chemical in Baton Rouge. I spent 20 years, before moving to Dow Chemical, Sun Chemical, and Nalco. I left Nalco as president of Nalco Europe before joining Lion Copolymer in 2008.

Overall, I've been involved in the chemical industry for 39 years, many of which have been associated with the rubber industry. I will also serve as the international president of ISRP for 2015 and 2016.

The ESBR industry was established during World War II in order to assure reasonable alternative rubber supply to replace suddenly restricted access to Asian national rubber sources. It remains an integral part of the U.S. industry for raw materials, and a complement to both natural rubber and various type of synthetic materials.

We are here today to ask the Commission to prevent any further erosion of the U.S. industry producing ESBR, which has been severely compromised by unfair pricing from at least four countries.

Since 2014, East West Copolymer has undertaken serious efforts to invigorate the industry by renegotiating with the operating engineers union to hire back laid-off employees and create value for the market.

This is not the first time the Commission has looked at this industry and market. The last time, 1998 and 1999, the industry was much the same size but with different owners. As the Commission rejected the request for antidumping relief, those owners left the industry as competition became more intense and import prices continued to negatively impact the ability to make a profit.

What is different today is that there have been no positive returns during the last three years due to significantly lower margins caused by lower ESBR prices resulting from these imports.

As the Chinese, Indian, and Brazilian economies have flowed, imports that have traditionally gone to China, India, and Brazil are now entering the U.S. market.

In addition, the recent U.S. trade remedies against Chinese tires are diverting foreign ESBR to the U.S. market, posing greater threats to our industry than ever before.

Imports from ESBR from all four countries have increased by 55 percent since 2013, and the market share has almost doubled, with only slight pause in the strength, not a reversal, at the beginning of 2016.

The U.S. production volumes by domestic industry, including data that we've estimated pretty accurately with respect to Goodyear, has declined since 2013.

We sought to halt that trend at the beginning of

this year by trying to do that at a price unfairly supressed by imports. This is like fighting with one hand tied behind our backs.

The U.S. demand for tires has experienced an increase since 2013, but a tire manufacturer's demand for ESBR declined during that period. This, you would expect, to be different, but U.S. tire production declined instead of increasing in the face of tire imports. That, we believe, led to the multiple antidumping and countervailing duties investigations and order against import tires, which should ideally spur growth in our market since we manufactured the raw material, but that has not happened.

We are caught in the middle and forced to compete with the low-cost sales of foreign ESBR. The domestic industry capacity utilization has also declined throughout this period to unsustainable levels. We sought to alter that trend by greater output earlier this year, but again, at unfairly suppressed prices in the market. There is no assurance that we can sell enough of that increased production at reasonable returns to avoid capacity reduction in the future.

Domestic commercial shipment quantities and values has plunged since 2013, and of course, with lingering low prices in the market, inventories are increasing. We are glad to have returned many of our workers to the plant since the

new management has enacted various productivity improvements. But the industry has lost almost a third of its workforce and wages since 2013. Import price trends don't pretend to reverse there either.

Our industry doesn't seek to impose optimistic premiums to the U.S. tire producers. In fact, our pricing structure, as noted before, is partially forming the base, and we have always passed on raw material price increases to our customers. But we don't want to be victims of optimistic and unfair pricing.

In summary, we believe there are strong indications of both material injury and threat of injury to the industry which would justify a full investigation by this Committee and the Department of Commerce. They also justify imposition of appropriate antidumping duties to ensure fair pricing which will ensure a sustainable industry, while not restricting ESBR supply to domestic consumers.

Thank you very much. I look forward to taking your questions in the Q and A session.

STATEMENT OF STEVE ISAACS

MR. ISAACS: Good morning. I'm Stephen Isaacs, and I'm the optimization manager at Lion Elastomers. I just transitioned to my current position on August 1st, and previously, I was director of manufacturing for Goradia Capital, our management company, from March of 2015 to July of

2016, when I had a similar function related to Lion Elastomers' ESBR plant at Port Neches, Texas. I also served as interim plant manager at that facility.

I was a senior process adviser with Lion Copolymer, now East West Copolymer, from mid-2011 through 2012 with primary focus on ESBR. I began my career in 1979 with B.F. Goodrich in the nitrile rubber business, and since then have held commercial and manufacturing roles in both the rubber and the chemicals industry.

My roles since 1995 have primarily been in manufacturing, holding positions as plant and site manager, director, vice president, process adviser, and now optimization manager.

In my role as optimization manager, I'm accountable for process engineering and aspects of manufacturing for the company's product lines, in particular our synthetic rubber products, including ESBR located at Port Neches, Texas.

I would like to provide some background on ESBR, how the product is made, how that may have changed over the years, how it's used by our customers, and important considerations on whether and how it is used in combination with other materials in manufacturing important product lines, especially automotive tires.

ESBR is a dry synthetic rubber material commonly produced and delivered to customers in bale or crumb form.

It's been made since the middle of the 20th century by a process known as emulsion copolymerization, a free radical mechanism that joins individual styrene and butadiene molecules together in copolymer chains. It is made in a continuous process in which five main ingredients are added through a series of several reactors: Water, the two monomers, soap, a modifier, and an initiator are added at controlled points in the production. It's typically operated at temperatures ranging from 41 to 55 degrees Fahrenheit, thus termed cold polymerization.

When 60 percent of the monomers have been converted, the process is stopped by an inhibit or due to the large increase in branching and the commencing of cross-linking beyond that point.

At this stage, the reaction product is called latex, which is further processed by separation of water through coagulation, by mixing with an antioxidant, and sometimes other materials if a higher grade ESBR is being produced.

Residual water is removed, and the resulting rubber product is usually pressed into bales. This is the point at which most U.S. manufacturers' production process is complete prior to delivery to the user, unless the customer under takes captive production for their own end use, such as Goodyear's production, some of which is then transferred to its tire

production facilities.

The production process has changed only marginally over the years. Originally, SBR was made through a hot polymerization process, but over time a lower temperature process was perfected which could yield a more consistent product.

Most manufacturers here and abroad moved from batch to continuous lines, improving productivity, but the basic chemistry has remained the same. Most changes in ESBR processing over time has been on the finishing end of the line rather than on the production side.

More than 70 percent of the ESBR sold is for use in production of tires, but it is also used in other rubber products, such as conveyor belts, shoes, and flooring.

The purchasers of ESBR formulate their desired end product with mixtures of numerous compounds to impart the desired performance characteristics. It may be combined with carbon black, oils, antioxidants, processing aids, vulcanizing agents, silica, and zinc oxide to make master batches for the rubber-based product.

Solution styrene butadiene, SBR, which you'll hear as SSBR production, uses different equipment and technology. SSBR has a different molecular structure and chemical composition and is more expensive to produce. It is used in some OEM tire production, primarily because it imparts a lower

rolling resistance and, thus, improves fuel consumption, an important factor for some new automobile fleets, but not for replacement tire demand.

The prominent grades of ESBR are the 1500 and 1700 series, both in the U.S. and around the world. The 1200 series includes SSBR, and the 1600 and 1800 series are CBMB, or carbon black master batch.

The various different types of synthetic rubber can be distinguished by the same IISRP grading protocol. The facilities required for production of ESBR, SSBR, and CBMB are all different.

Another product which is sometimes made by ESBR industry is acrylonitrile butadiene rubber, or known as NBR. Acrylonitrile is more polar than styrene, resulting in a more oil-resistant form of rubber used in applications where exposed to petroleum fluids and oils. NBR is a form of synthetic rubber which requires different infrastructure and processing equipment than ESBR. The products are not interchangeable for end-use applications.

Natural rubber is also used by tire manufacturers to varying degrees in combination with ESBR, but is only partially interchangeable. ESBR has characteristics of tread wear which are not imparted by natural rubber, while natural rubber imparts grip characteristics, which are not as great in ESBR.

ESBR does not require peptides and requires less zinc oxide and fatty acid to break down the natural rubber. It has better extrusion properties and less tendency to scorch than natural rubber. Therefore, although customers may use varying quantities of ESBR, SSBR, and natural rubber in their tire production, the amount depends on the specific formula for the desired characteristics.

I'm glad to answer any questions that you may have about the various products and manufacturing processes and end uses. Thank you.

STATEMENT OF ROBERT RIKHOFF

MR. RIKHOFF: Good morning, ladies and gentlemen. I am Bobby Rikhoff, vice president of operations for East West Copolymer. I have been in my current position since 2014, since the sale of Lion's Baton Rouge facility to East West Copolymer.

Prior to my current position, I served in the role of plant manager at Lion's Baton Rouge facility for six years.

Before that, I was in operations management at Chemtura and served in various roles at its predecessor company, Uniroyal Chemical.

Overall, I have been involved in the ESBR business for nearly nine years and the rubber industry for 20. In my role as vice president of operations, I am responsible for the day-to-day operations of the Baton Rouge facility, as well as

financial planning, sales and marketing, labor relations, and supporting overall strategic planning for the president and CEO. Therefore, I have seen up close the challenges of running an ESBR facility under the competitive conditions in the United States and in bringing such an enterprise and its jobs back to life from virtual closure.

We continue to face import challenges which have only gotten worse since DSM and American Synpol exited the business after the Commission made a negative finding in 1999.

In the period since 2013, at least during the part of it when East West and its predecessors were still producing ESBR, imports have gained increasingly market shares at steadily decreasing prices and margins, and we have been seeing diminishing returns even during the brief period we have been able to wrest back lost sales and much lower prices.

Prices for our higher-volume 1500 and 1700 series have declined by over 50 percent, while prices of subject imports have declined even further. We have provided the Commission with as many instances of lost sales and revenue as we can reconstruct.

In many cases, we have simply been forced to cut prices to the bone to stay in business, and that cannot be compared to simply reduced cost for raw materials. The selling prices of subject imports have declined at a rate steeper than the decline of raw materials, especially

butadiene, the most expensive input in ESBR.

Depending on the location of the exporter and the greater product, the import costs have declined by approximately 30 percent, while ESBR prices have dropped by as much as 50 percent. The Commission should look carefully at this disparity in light of the more important fact that we have not shown an operating profit through this period.

The ESBR business has long operated in significant part on the basis of contracts with tire manufacturers which incorporate formula adjustments to account for changes in significant raw material inputs, most notably butadiene and styrene. With published raw material price indexes during the year-long contract, the price for ESBR could be adjusted up or down with the changes in styrene and butadiene costs. But those contracts also incur a factor which was fixed for the year to cover our other inputs, including other material costs, fixed overhead, and profit margin. The greatest difference I have seen between the last time you looked at this industry and now is downward pressure on the fixed factor of the pricing formula induced by the presence of cheap imports.

In order to compete, we have been forced to reduce that fixed factor, and while the customer gets the benefit of both the raw material drop and the fixed factor drop, we are forced to sell at unprofitable levels. Customers simply

follow the market down, which is fed by an excess supply of foreign ESBR and diverted to U.S. by other countries' trade restraints, as well as their weak demand.

In my position, I have also been responsible for interacting with the operating engineers union, who have represented our workers both under the previous ownership and ours. These employees have remained loyal to the company, even during the period of plant closure, prior to the Lion sale.

The number of workers, wages, and hours have declined since 2013, while we have worked hard to improve labor efficiencies to become more competitive. Our labor force is much smaller than in the past, and despite improvements in efficiency, we have been unable to offset the price damage caused by dumped imports. This situation cannot continue indefinitely. The only way we can continue to be a reliable and sustainable source of supply for the U.S. customers is to prevent unfairly low price by imports. That requires antidumping measures.

I will be happy to respond to any questions.

MR. MC GRATH: And Mr. Chairman, our next witness is Amy Warlick. You will hear a voice behind you. She's setting up over by the slides, and they will be slides that she would like to show on the screen behind us.

MS. WARLICK: 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, entered 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 the subheading 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. I

hope you can all read those numbers. They're a bit small from a distance, but all these slides are there for you in hard copy. 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 just 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 -- I'm not sure why that just skipped over. There we go. As you can see in Exhibit 3, the raw material costs savings range from $19 to $31 per 100 pounds of ESBR, depending on the series and the 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 this 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 raw materials, styrene and butadiene, and in the 1700 series extender oil. These costs would 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 to other markets.

In the run-up to these Summer Olympics, we have heard all 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 Arlanexeo, has turned to the United States to sell off its over supplies of ESBR. Official import data show that subject imports from Brazil grew by 532 percent between 2013 and 2015, and then by another 29 percent between the first half of 2015 and the same period this year. During

the past 3-1/2-year POI, Brazil's share of the U.S. market grew from 1 to 8 percent.

The United States has also been in receipt of large volumes of ESBR 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 ESBR. 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 in China and cut tire production by 40 percent. These policies present a serious threat to the U.S. ESBR industry, as they will cause an additional glut of Korean, Polish, and other ESBR to be diverted away from the Chinese market and into the United States.

Korean ESBR has also been diverted away from Brazil on account of Brazilian antidumping duties against ESBR from Korea since 2011, and is likely already being diverted away from India where antidumping proceedings against ESBR 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 ESBR. 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.

The rampant global antidumping activity in ESBR and its downstream industries has diverted and pushed global ESBR supplies into the United States at prices well below fair market value and below production costs. Subject imports have arrived at even 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 stressed ESBR plant in Baton Rouge. After a two-month shutdown, the plant was purchased by its previous management team, who joined us here. The management team resurrected the Baton Rouge plant as East West Copolymer, with fresh ambition and 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 noncore business that included an ESBR plant in Port Neches, Texas. 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 -- and they are also awaiting a 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. customers simply did not buy green tires in the aftermarket. So there is now substantial overcapacity among SSBR producers as well, 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 sometimes even year to year, they generally lack correlation because they're

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.

ESBR 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 ESBR antidumping case when natural rubber was significantly cheaper than synthetic, causing the Commission to conclude that it played a significant role in the falling of ESBR prices, natural rubber was generally more expensive than ESBR during the past 3-1/2 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, ESBR 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 3-1/2 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 economies of scale, and reassured customers of both 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 southeast 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 in 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. Thank you.

MR. MC GRATH: Thank you, Mr. Chairman, and that closes our direct testimony. We will all be available for questions. I don't know if it's easier to have Ms. Warlick over there with the slides. I think you have all the slides. So she will come back here and be with us to answer questions.

Thank you very much.

MR. ANDERSON: Thank you. I want to thank the panel and Mr. McGrath and the witnesses for your testimony and for being here today. It's not quite as humid here, but this will make you feel a little bit at home today.

We would like to start with questioning by Staff, and we will start first with our investigator, Mr. Comly.

MR. COMLY: Thank you. And thank you to all the witnesses for coming today.

I have a few questions I'll start out with. I'm trying to get a better understanding of the closure and restarting of the Baton Rouge facility. I know you've described it a little bit in your testimony, but I want to probe a little bit more to see if I can understand it better.

Can you describe the market conditions that led to the closure of this facility? In one news report at the time, Mr. Zeringue, attributed a shutdown to, and I quote, "declining market conditions for domestically produced placement tires and conveyer belting, global overcapacity of SBR supply and volatility in key raw materials have resulted

in unfavorable SBR market conditions in recent years."

Now, two years out, looking back, do you still see these as driving factors of closing that facility?

MR. ISAACS: When you look at the tire industry, you have to look at OEM tires, which are manufactured for new vehicles and replacement tires. In the replacement tire market, demand has been fairly flat to slightly up. So the market conditions really haven't changed all that much in terms of replacement tire demand. The competitive intensity that we referenced in that article is still prevalent today as reasons why we're sitting here.

So when we made the decision to shutter that business, you have to consider how annual contracts are negotiated. So they're negotiated in the fourth quarter of one year for the following year. Those are usually done, like I said, in the fourth quarter. And during the end of '13, we tried to go out in the marketplace and negotiate improvements in some of these fixed conversion fees, which we've testified here is designed to cover other costs in your profit margin.

And we were hugely unsuccessful. So we are facing another year of negative performance by the business. So the decision was made to exit that site.

MR. NELSON: May I add something? This is Greg Nelson. So I was the CEO and president until July of 2013. So I knew what was going on with the plant. We decided to buy

the plant, and we started negotiating in December of 2013 after we found out that the plant was going to be shuttered.

We felt at the time that if we restructured our costs we could change the profitability of the site. We knew the site very well. So we negotiated with the union and got them to agree to reduce the cost structure. We cut the workforce approximately by half. The union agreed to change a lot of the work rules, seniority. We changed streamlining of jobs to make sure that it wasn't as discrete. We felt those things would lower our cost structure to allow us to compete. We were successful in doing that. We've got two contracts, for example the union.

And what we found since then is that the pricing structure had changed significantly from 2013, that even with those changes, we could not compete. And it was not the result of just raw material prices dropping.

So that's the difference between 2013 when the plants were shuttered and now in terms of change of the structure of the industry.

MR. COMLY: Thank you. That helps my understanding of what happened then versus why now, what's different.

When the plant was shuttered, and it was only shuttered for two months, I believe, how did that impact the ESBR market in the U.S. and, in particular, where did your previous customers go to get ESBR that they needed,

particularly given the fact that they had annual contracts that they needed to do? And you said that you attempted to get annual contracts in the fourth quarter. So then you shut down the first two months. What happened to those customers in those two months, and what happened to those customers after that?

MR. ZERINGUE: So if you look at the utilization rates of the SBR industry in the U.S., we're running at nominally somewhere between 50 and 55 percent utilization rates. So it's not like it's not enough capacity to handle ebbs and flows in supply and demand.

The other thing to consider was that when the plant was shut down, we didn't stop shipments. So there was inventory that was built to allow customers time to find alternative sourcing. So it wasn't like we just cut customers off and they had no place to go. So there's enough domestic capacity, there's enough inventory to weather that bridge between the time that we announced the shutdown and the time that East West started production again.

MR. NELSON: The only thing I would add is after we announced the shutdown, we started negotiating to purchase a new site and we had a conversation with customers. So what happened is that Lion produced additional volumes for key customers in January to bridge them.

Ashland at the time, who owned a plant, increased

their production to supply some of the customers. So that covered a good bit of the gap. And then, of course, there was some imports that came in. So they bought more imports. But we had already started negotiating with customers, telling them that we would be back up and running in a couple of months. And so even though we didn't have contracts in 2014, we had a significant amount of what you call spot volume that it bought from us, because there wasn't enough time to really negotiate with those customers.

And if you look at our sales, we are pretty much at this level have gotten back most of the customers that we had lost. So we were able to help them bridge that gap by starting back up.

The two months that the plant was down was mainly we did some turnaround work. We did some improvements to the plant. Because we started operating the plant in February, even though we didn't close the deal until April, because we wanted to make sure that we could have pounds available to supply the market.

MR. MC GRATH: Mr. Comly, can I add one point as well? We talked about this issue, and I heard it suggested that one of the reasons for an import spike in 2014 was this announced closure in 2013. I just don't want anybody to lose sight of the fact that one of the reasons for the announced closure was the presence of import -- low import pricing,

which from Lion's perspective, made that plant untenable. So we have kind of a cause and effect, rolling cause and effect situation here. Imports do play a big part.

MR. COMLY: Somewhat going to that, with the closure of the plant, my understanding reading industry publications, is that the prior distribution company, Harwick, which had been with Lion Copolymers, had a disagreement with Lion Copolymers when Lion Copolymers shut down.

And then when East West took over the plant in Baton Rouge, Harwick did not come back or join in the agreement. So you had to find a new distribution.

How did that affect the marketplace, and what did Harwick do, to your knowledge?

MR. NELSON: So we decided to buy the plant. We approached Harwick and indicated we were interested in being a distributor. The nature of the relationship with Harwick, when I was there with Lion, and Jesse can talk more, was that they handled small customers. They handled small volumes, small custom mixes. They did not handle any of the tire group.

But anyway, I had a personal discussion with Harwick about that. They said that they were contracting with synthos after they found out that the plant was being shut. And so we then went to T.L. Squire, who is a distributor we knew very well. They were primarily in the off-spec market,

but they were interested in working with us to go into the on-spec small customer market. And so we signed a contract with them. So they are currently, and have been since 2014, handling that small custom mix market for us.

MR. COMLY: Approximately how much of the market is small business as compared to tires roughly?

MR. NELSON: The tire market represents 70 to 75 percent of our -- of our sales and probably a lot of people's sales. And so it depends on the pricing. It's about 25 percent. What we found lately is that because the imports have been so low, that number is like 5 percent. It's very difficult for the distributors to thoroughly compete, especially in the custom mix market. The difference is, in a tire market, you have to do qualifications and those things, and the custom mix, they can buy from anybody, price is king there. So they go after the lowest stuff they can get. So it's a bit more -- it's a bit more tougher there in that market.

MR. ANDERSON: I'm sorry. I need to interrupt for a second. The reporter would -- I want to reiterate, before you speak, if you will identify yourself for the court reporter. They can't always see the name tags when you first speak.

MR. NELSON: That was Gregory Nelson the last time. Sorry.

MR. ZERINGUE: Sorry. Jesse Zeringue, to add a little more color to that. In the nontire segment, what's left of the market is heavily oriented towards the production of conveyor belting, and conveyor belting has its own woes, given that coal mining has fallen off a cliff.

Typically, those belting companies will use custom compounders to make compound for their belts and use that compounding in their facilities. So the requirements for belting, you know, are very different than that of a passenger car tire. So a little bit less stringent, so they're able to utilize a wider variety of materials.

MR. NELSON: Just one more point. This is Greg Nelson. We've seen in that custom market that from China, we're seeing imports of actually the custom rubber -- the compound being mixed and sold into the U.S. So it's not coming in as ESBR, but it's coming in the form of already mixed. So that's been putting a lot of pressure also. Even though we don't have China as one of the companies that we want antidumping, we've seen a change in how the product is entering into the U.S.

MR. COMLY: In the smaller market, the conveyor belt market -- I guess that ends my questions? There we go.

In the conveyor belt market, the smaller market, the nontire market, are those mostly spot market sales? Are those contracts?

MR. NELSON: They are predominantly spot market. I'm sorry. This is Gregory Nelson. They are predominantly spot sales goes into the market, I believe.

MR. COMLY: If I can switch a little bit here. On the purchase of the Ashland facility or purchase of the facility from Ashland, why did they get out of that? Why did they sell it -- why did Ashland sell it, and why did you buy it, given the fact that you had just closed a similar -- I would assume a similar facility?

MR. ZERINGUE: I wish I could tell you that's the first time I've been asked that question, but it isn't. I'm sorry, Jesse Zeringue. Ashland acquired ISP and the other components of that company and really did not have an interest in the synthetic rubber portion of that portfolio. So I believe that business was quickly earmarked for sale after they acquired it from ISP. It just was not a strategic interest to Ashland.

The reason why Lion had an interest in acquiring it is Lion has, and has always had, a strategy for acquisitions. In fact, we -- once we sold the SBR business in Baton Rouge, we needed to have diversity in our portfolio. We were just relegated to one EPDM business at that point. So we were looking for acquisitions.

In looking at the Port Neches site, there was a couple of things that really piqued our interest, one of which

is, as I mentioned in my statement, produces a hot polymerized ESBR product line, completely unrelated to the tire market. It's used in consumer-based products that you find in your Home Depots, things like Liquid Nails and GAF, and so it's a much more specialized product line. As you would expect, the prices and margins are much better, much more favorable in that product line.

So it was an interest to us. We also had a coating and adhesive part of our business. So it dovetailed very nicely in our portfolio. And the site itself was well maintained and offered some advantages in terms of raw material logistics in terms of a deep sea dock where we could bring imported material in and substantial storage capacity for things like butadiene.

And fundamentally, we had a certain level of faith in the ESBR domestic market. So those things made the business attractive to us. Again, we needed to diversify our business and our portfolio through acquisition.

MR. COMLY: Thank you.

How much of the industry's employment decline was due to the restructuring? As you noted, the -- there was a -- believe in Ms. Warlick's testimony it was what? 30 percent decrease in employment. How much of that is attributed to the restructuring, the necessary restructuring?

MR. MC GRATH: If I could, this is Matt McGrath.

Because it's two companies, the amount of employment decline is -- the reason is really different for the two of them. So it may be something that we have to handle it in confidential posthearing submission, unless you gentlemen -- I think we probably can do that, because the reasons were somewhat different between the two.

MR. COMLY: Okay. Thank you. No, that's fine. And that was just part of the question, Mr. McGrath. What's your opinion on the import coverage provided by the questions that we've received so far, and are we missing any large importers?

MR. MC GRATH: Well, we've started going through them. We have some questions about the coverage of Korea because of the possibility of some product being -- not being captured. There may be some trading company trade that's not there. So we have to take a closer look at it. We think -- we haven't really completely reviewed that. We just got it yesterday. So we're starting to go through it and trying to figure out how much of the import coverage is there. But it seems to be fairly substantial so far.

Do you have any comments?

MS. WARLICK: Yes. Those were some of the last questionnaires that were provided to us, the Korean ones. So I have yet to crunch a lot of numbers, input a lot of data.

From what I've seen just eyeballing it, it seems

like the trend is the same, and it looks like the numbers I have come up with are definitely ballpark. Based on the manifest data, there's a lot of very vague descriptions in those manifest data. It's hard to tell if, well, are the descriptions getting more and more vague as we go by? So what you include and what you don't include, we provided in detail every single shipment we included with the Department of Commerce. I'm not sure if you got all that paperwork. And I provided my methodology and what we included and excluded.

In any case, what we did, what we're looking at, what I've put up there on those slides, I feel like so far, based on what I've seen, they're reasonable estimates. But I do want to make sure, given the trading companies, I want to look at the imports versus what they claim they're exporting and see if those are synchronous so that we know we're looking at everything.

Long answer. Sorry.

MR. MC GRATH: This is Matt McGrath again. One question that we had talked about when we calculated figures was trying to figure out exactly what the import penetration in the market share is of subject imports. And because of the limited number of data sources, we had been treating as confidential. But we think that it's not confidential, and we know it's something the Commission is going to want to have public anyway.

And we find it's important. When we looked at the data that came in, it seems to follow what our estimate had been, which is around 20 percent. That's a substantially higher import penetration ratio than what you saw 15, 20 years ago.

And that's -- I think that's significant. The volume that's been coming in. Frankly, I looked at some volume changes for the first half of 2016, I looked at a few of the major shippers, and I was surprised to see that they looked even higher than what we had expected and anticipated.

So we are going to have to match them up and see if the coverage is there. But what we have seen so far seems to follow with our estimate of the market share of about 20 percent of subject imports.

MS. WARLICK: I should also add that in our data we did not include imports that might be subject from the other subject countries that come in under that basket category, because there's no way of knowing how much might be subject in there. Based on hefty volumes into the bale subheading, we figure that's probably most of it. So we only provided what we felt we had good evidence was subject. There may be a lot more that's in that basket. I don't know who else may be classifying a 19. So we might find that out in the questionnaires.

MR. COMLY: Once you look at the questionnaires, if

you could let me know if you think we are missing any importers who should be reporting information, particularly for -- I know you mentioned Korea and possibly trading companies. But if there's other subject countries for which we're missing importers and data for, please let me know as soon as possible.

MS. WARLICK: Sure, I will.

MR. COMLY: On a similar line, looking at nonsubject countries, why is China not in the petition? Because, you know, usually before this Commission, China usually is one of the subject countries, and in this case, it's not. Why is that? And then along the same lines, looking at the public import data, a lot of the Chinese imports are coming in that other other category, the 19 number. Are those -- do you believe that those are subject imports, or are those mostly nonsubject imports?

MS. WARLICK: Well, there's a number of answers to your question. Amy Warlick, by the way.

One thing is that -- well, first of all, we have just not seen -- our clients have not seen China as a big problem in this market. And I know that's surprising. We still will keep our eyes on it, because it is China, and they have tremendous capacity in that product.

China was protected for some time by antidumping duties on ESBR. I think that they just terminated in a sunset

their duties a couple of years ago. So I think that makes their price artificially a bit higher. So that's one answer.

The other thing is, we have seen in the manifest data ESBR in strips coming from China. Those may be classified in 19. I don't know. We don't know what type it is. Excuse me. I think they say SBR, SBR strips. So we don't know if it's ESBR, and certainly, we don't know if it's 15- or 1700 series. It looks like it's going to a conveyor belt company, and we wondered well, are those just unfinished conveyor belts, how big are these strips, in other words.

So there is product coming from China. We don't know exactly if it's subject. It has not been something they've experienced as a big price problem in the market.

MR. NELSON: Yeah, this is Greg Nelson. I think the approach that China has is they prefer to ship finished goods. And so their focus over the years has been getting into the tire market. And so their preference is to ship tires. In the trips that I made over there, they started with the low-end tires, and they want to get into the higher-end tires.

So the overall strategy of the Chinese government and the manufacturers is to ship finished goods. So they prefer to do that and not ship ESBR. So that's one level.

And the tire market in China has been growing so fast that they've been a net importer of ESBR primarily from

Korea. The Korean plant is a billion pounds of ESBR, larger than anyone else. And that was designed to ship product into China.

Also, synthos in Russia, the transportation is cheap from Russia into China. So the focus was in the Chinese market. So they've added enough supply that they don't need to actually do it themselves now, they have a tariff when they saw there was too much imports entering into China. But the strategy is to manufacture tires.

Now, on tires that were levied on China is changing that approach because now they can't ship it into the U.S. So what you're finding is the tire manufacturers are moving into Vietnam, and possibly Cambodia. They're going south and leaving out of China. So maybe in the future you'll see some ESBR coming in because all of a sudden they're not going to have the tire demand, and those guys have to do something with their raw materials.

But until now, we have not seen China as a major player in the U.S. market for ESBR. They've done it in finished goods.

MR. COMLY: So if the Chinese producers shift their production of tires to other countries not under those dumping countervailing duty orders, wouldn't the suppliers of that ESBR also shift to those countries?

MR. NELSON: Greg Nelson again. So what's

happening is they're actually moving the factories that make tires into Vietnam. So the ESBR from Korea and those places, instead of going to China is now going to be diverted into those places. They're not shipping the tires into the other places. They're moving the actual manufacturing sites into those other places.

MR. ZERINGUE: This is Jesse Zeringue. Also China now has indigenous sources of ESBR, where historically they were importing in from other countries.

So even though they're shifting the footprint around for tire manufacturing, they now have their own production for ESBR domestically.

MS. WARLICK: I'm not sure how much I can help. This is Amy Warlick. I just wanted to add that, like I said, we are really keeping our eyes on this, because these new policies in China which intend to reduce production of Chinese tires, some of that will go abroad, I'm sure, to these other countries, but hopefully for the tire industry it will reduce overall capacity.

Then yes, what are they going to do with all that ESBR in China? We certainly don't want to come back here in a few years asking about China, but that's why it wasn't included at this time, but there is potential there, I think, eventually.

MR. COMLY: Thank you so much. And that's all the

questions I have for now.

MR. ANDERSON: Thank you, Mr. Comly.

And I will turn the microphone over to Mary Jane.

MS. ALVES: Good morning. My name is Mary Jane Alves, and I'm from the General Counsel's office. Thank you so much regarding you've already answered many of my questions, and your testimony has been extremely helpful already.

I do want to quickly reference some of the areas where my colleague has already treaded, but I'm going to be very quick, just ask for a couple of clarification points.

Mr. McGrath and Ms. Warwick, I understand you are still looking at the questionnaire data, but if you could definitively tell us whether or not you would prefer that we use imported questionnaire data or official import stats for both subject and nonsubject imports for our analysis, that would be helpful, or what the drawbacks are from either or both sources.

MR. MC GRATH: We'll be happy to do that. As soon as we can identify that we've got full coverage there, or at least close enough to full coverage, we will contact you.

MS. ALVES: Thank you. And obviously, if you could do that by the post comment briefs, but sooner would be helpful.

I understand your argument based on the recent

data, your belief that imports from Poland are not negligible. But again, your computations of the denominator are also based on certain assumptions that you're making about imports from Korea.

So looking at the possibility that imports from Poland are, in fact, negligible, if that were to be the case, would you also address in your post conference brief whether or not you believe that these imports are likely to imminently exceed the negligible threshold as well?

MR. MC GRATH: This is Matt McGrath. With respect to what the effect would be on that calculation, if you did not use the assumptions we are making about Korea, if you use the import statistics on Korea, the percentage for -- instead of taking a half of another category and adding it there, the percentage for Poland wouldn't go up by our calculation.

So it wouldn't be less -- it wouldn't be as close to the 3 percent negligibility threshold. It would be well above it. So it's -- we have addressed and we will be happy to address further the statutory criteria as to whether or not -- as to the imminence of, under different assumptions, the imminence of Poland going over the negligible line and how that affects treatment of Polish imports for -- potentially for threat analysis.

As you know, the statute basically reads that if a particular country is below the negligibility threshold, you

can address first of all whether exceeding it is imminent, and if you find it is imminent, you can consider them with respect to threat.

And we did cover that question. I'm not sure if it was a part of our responses we filed here. The Commerce Department asked the same question. We do feel there are some trends, even if we are looking at numbers that have Poland below the negligibility threshold, we have recent trends that suggest they are imminently likely to exceed that threshold, and we will include that in our brief.

MS. ALVES: Thank you. The reason I ask, you did refer in information we have on our record in the amended petitions that were filed in August, you did indicate that in separate responses to some supplemental questionnaires from Commerce, that you believed that either they were likely to imminently exceed the 3 percent or they were already over 3 percent based on other factors. That information, that explanation, however, was not on our record. So to the extent that there are additional reasons based on trends in volume or what have you, if you could make those arguments on our record, that would be helpful.

MR. MC GRATH: Yes, we'll be happy to do so. I thought that it was included, but we were answering multiple questions at the same time. Whenever we did any kind of amendment petition or amendment to change exhibits, we refiled

it here as well. So it should be on the record.

But that particular issue we did take a close look at, and I am happy to include that in our submission.

MS. ALVES: Thank you. My question was also based on the fact that I believe you were also making conservative estimates of what you believe was coming in from Korea in that other category. So to the extent that those imports are greater than you were estimating, if that's going to be changing, or denominator, then that would also throw off the calculation for negligibility as well.

MS. WARLICK: This is Amy Warlick. What we have seen so far, it looks like maybe the quantities are lower than our estimates, which in that case certainly Poland would remain not negligible. We have yet to look at everything.

But I wanted to ask you one other question. In looking for our recommendation on whether or not we use the public sources of data that we have put together or we use questionnaire data, does that answer have to apply to all Respondents' import data? For instance, could we use, you know, for Poland and Brazil, use the official data and for other countries use the questionnaire data based on how reliable or how much coverage we have in the questionnaires?

MS. ALVES: You could certainly recommend that we use some combination of those, and what the Commission would ultimately determine to use is based on what its consideration

of the arguments are. You and Respondents as well, if you believe that coverage for certain imports for certain countries or for nonsubject countries are better or worse, tell us why you believe that is the case, what we're missing. If, for example, a particular importer that is known in the industry to be predominantly an importer of nonsubject merchandise or merchandise from nonsubject countries or from a particular subject country is not in our data set, tell us that so we have some sense of that.

MS. WARLICK: Okay. Thank you.

MS. ALVES: It's not a perfect process, but we try and get as close as we can to the real numbers that everyone is looking at in the industry.

At this point I'm not going to be asking domestic-like product questions. I did not hear from Ms. Okun this morning that they intend to be pursuing domestic-like product issues. However, if that changes with Respondents' panel, I would urge you to address domestic-like products issues further in any post conference brief.

With respect to the domestic industry itself, you've been very helpful in answering some questions this morning. I only ask that you clarify in your post conference brief the timing of certain events. And to the extent that it's confidential, I understand. You can put that in brackets. But for example, when did Lion announce its

intention to close the Baton Rouge facility?

MR. ZERINGUE: That was in December of 2013.

MS. ALVES: Okay. That's when you began making the announcements publicly or that's when you began telling your customers?

MR. ZERINGUE: That was for both. The timeline was very short. Jesse Zeringue. Sorry.

MS. ALVES: Thank you. I also may have misunderstood. What was the timing of the acquisition of the new Lion facility from Ashland? When exactly -- who approached who? What was the chicken and what was the egg? Did Ashland indicate they were interested in selling the facility, or did Lion approach Ashland, and when did that occur?

MR. ZERINGUE: That's probably one we'll have to answer later. The reason being is that the parent company that owns Lion does most of that negotiation process. So they would probably be better equipped to give you, you know, those answers than I would. So if we could hold that until --

MS. ALVES: That's fine. As long as we can just clarify the timing of that, that would be helpful as well.

MR. MC GRATH: We'll try to get what information we can from them to be able to give you the full timeline so that you can see it all in perspective.

MS. ALVES: Okay. Thank you. And then as of the

time of this prior investigations, the Commission's report indicated that there were actually two ESBR facilities that American Synpol had. One was the Port Neches, Texas, facility and the other was the Odessa, Texas, facility?

MR. ZERINGUE: That's correct.

MS. ALVES: At what time did the Odessa, Texas, facility close? Is that closed?

MR. ZERINGUE: Yes, American Synpol closed that facility down, I believe it was in, 2001. Was it 2001? Yeah.

MS. ALVES: So shortly after the last investigation.

MR. ZERINGUE: Correct.

MS. ALVES: Thank you. You've had some discussion this morning, you've indicated in the petitions some of the nontire uses for ESBR.

Are you seeing competition from each of the subject countries for both tire and nontire uses, or are there certain areas where you're tending to see imports concentrated in one area or another?

MR. NELSON: This is Greg Nelson. We have seen competition in both, in the tire side and also on the nontire custom mix side, yes.

MS. ALVES: Okay. And that's from each of the four subject countries?

MR. NELSON: Exactly.

MR. ZERINGUE: This is Jesse Zeringue with Lion. I support that answer as well.

MS. ALVES: Okay. Thank you. Respondents have touched on several conditions of competition that they are arguing were the case back in the previous investigations and they argue are still the case today.

You've discussed the prevalence of contracts in this industry. You've described the timing of the contracts. Typically, contracts are negotiated at the end of the year for the upcoming year. Do these contracts apply both in the tires and the nontires ESBR sales?

MR. NELSON: Greg Nelson. In our case, our contracts are predominantly almost 100 percent on the tire side. I think we may have one contract that's on the nontire side. The custom mixers that go into conveyor belting and mechanical goods tend to want to do more spot because that market is very, very, you know, competitive, a lot of imports. The prices are very, very low and so they like to be a lot more flexible. Also, the orders are month-to-month. So they like to have the flexibility to do more spot than contract.

MR. ZERINGUE: This is Jesse Zeringue. There's also a legacy or structure around these pricing formulas that go back in time, way back in time actually.

So you have to keep in mind, the ESBR facilities in the United States were built as a war effort to

supplement/replace natural rubber in World War II. Those were government-owned facilities for many years. They became privatized. They were sold to conglomerates of tire companies. So the facilities were owned by the likes of the Armstrong, Pirelli and Sears.

And when those things -- when tire companies basically got out of that business of being polymer producers, the material was sold at transfer pricing. So when they all did a transfer price on that from the polymer side to the tire side, and it was all done on a formula basis.

So when the tire company split off, those formula-based pricing models continued, and that's why they're so closely linked to the tire industry and not so much in the other industries. So there's a lot of legacy. They've been in place for 50 years, and that's sort of the industry model. But it goes back to the ownership of those facilities at one point in time.

MS. ALVES: So that's a part of the reason why there's a contract structure on the one hand --

MR. ZERINGUE: Yes.

MS. ALVES: Thank you. That's helpful. You've also discussed this morning the difference between your variable and fixed cost side of your contracting. I'm guessing you can't answer this question now, but if you could in your post-conference brief, talk to me a little bit

about -- you mentioned one of the things that are supposed to be covered by the fixed cost side of the contract price are your overhead costs.

Given that there were facilities that were shut down and then reopened and that there were acquisitions that occurred during the period, what impact did that have on your overhead costs, and what is the relationship there that any trends in overhead costs may be impacting your ability to meet certain prices over time.

MR. NELSON: This is Greg Nelson. I think we'll give that information over to you privately because some of that has got some proprietary stuff. But in general, overhead costs have been going down. We can give you the exact number, how much it's gone down. It's probably different between the companies because we've become more efficient. We've streamlined jobs -- just to give you an example. So in our plant, like most rubber plants, we have a reactor section that makes the latex. And then we have a finishing section that actually makes the bailed rubber. In the past, what was done is in each of those lines, you have -- you used to have distinct jobs. So you may have someone takes care of latex, someone takes care of the baler, takes care of the furnaces. And you couldn't move individuals across the jobs on the line or across lines. That's what our contract was.

So when we renegotiated our contract, we got a lot

of flexibility to move to reduce the number of people per line and then move people across lines. The effect of that is it significantly lowers your overhead costs.

And the point we were making earlier, even with those improvement steps and concessions by the union, the changes since 2013 in prices is so low that it has not compensated for all those moves.

MS. ALVES: Okay. Thank you.

MR. ZERINGUE: This is Jesse Zeringue. We underwent similar activities with the acquisition of the Ashland facility. In fact, part of Mr. Isaacs' role, a substantial part of his role was helping us optimize the production footprint for the facility based on our prior knowledge of the manufacturing process.

And further, to Mr. Nelson's point, the cost curve flattens at some point. There reaches a point where you just can't extract anymore fixed costs out of the process or optimize it any further. So when prices, you know, drive the fixed cost factor down to the point where it's difficult to cover those fixed costs and turn a profit, and that's the reason why we're all sitting here.

MS. ALVES: Ms. Warwick, while we are still talking about pricing, I'm not going to make you put the slides back up. I appreciate you put up Exhibit 6, which was showing us the price trends between natural rubber and ESBR. I'm not

going to go back to that. I'm just acknowledging that was very helpful. I appreciate it.

You also had in the petition, on page 24 of the August version of the petition, you had a graph that was comparing ESBR and SSBR pricing over time. It was for a shorter time frame, but I'm wondering, in the post-conference brief, if you could take a look at that graph for me.

MS. WARLICK: Okay.

MS. ALVES: What I found interesting was that the SSBR and the ESBR prices were -- although there was certainly a gap between the two, the trends were very similar. So I'm curious whether, over a longer period of time, that would also be the case. If you can talk to me a little bit about why we would see these price trends that way.

MS. WARLICK: I will take another look at it. It's been a while since I've seen that one. But in general, our clients have told us that you will see on natural rubber and the synthetic rubbers, over long-term trends, they're going to trend together, because they're responding to the same demand broadly. SSBR is used to make for the OEM market especially, almost exclusively, the green tires. So they're going to be responding to production of tires, even though you can't substitute the two, you know. One is much more expensive, and it has different properties and different manufacturing costs. In any case, so they correlate loosely, but one does not cause

the other. The correlation is caused by demand factors. In the case of natural rubber, it's also the supply factors because it's a natural agricultural product.

Does that make some sense?

MS. ALVES: I guess my question is, to the extent that ESBR prices are additionally being influenced by subject imports, that subject imports are causing those prices to decline more rapidly than you would expect for styrene or butadiene prices, the petitions involve ESBR and not SSBR. So I'm just curious, that at least for the period shown on that page, the trends seem to mirror one another, but the petitions are talking about the effect on prices of subject imports on ESBR and not on SSBR.

MS. WARLICK: Oh, okay. I'm looking at it right now. That is covering primarily just two months of data.

MS. ALVES: It's a very short period. I'm curious, you certainly provided a much broader timeline, a three-year period of investigation timeline for the Natural Rubber Exhibit 6. I'm curious what the broader --

MS. WARLICK: We have these data going back to 2010. So I can provide monthly and show you what they look like.

MS. ALVES: Okay.

MS. WARLICK: You see this in many other commodities, that they're responding to the same industrial

sectors. So they're going to be very similar, although with natural rubber, in the one that I put up there. When you say it's a mirror, I think you mean that they're parallel. This one in some cases does look like a mirror image. When one goes up, the other goes down. You see these holes here. So I will see how it looks on a long-term spread.

MS. ALVES: Okay. I'm just trying to see how the effect of the subject import pricing is going to be shown on some of these. I recognize that there are multiple variables that are effecting prices of ESBR including the styrene and the butadiene. But I'm also -- I'm just curious to see how that's going to be impacting these graphs. And having the longer graph for natural rubber prices was helpful.

MS. WARLICK: Oh, I see what you mean, like some sort of a control group. Unfortunately, SSBR also is impacted on its own by imports of SSBR. So I don't know if you can ever reach that control group. But I will see what the data say.

MS. ALVES: Okay, that's helpful. Thank you.

MR. ZERINGUE: I would suggest, just to chime in on that comment, that keep in mind, solution SBR is still made, it's the same raw materials, different process, more expensive process, different applications. But the feedstocks to produce the synthetic polymers are the same.

MS. ALVES: I assumed that that would be the case

and I wasn't sure what the share of the styrene and butadiene.

MR. ZERINGUE: Well, the styrene component in solution SBR is a little bit higher than emulsion SBR, but other than that, it's the same raw materials.

MS. ALVES: Okay. Ms. Warlick, I've got another question for you. The Commission's reported in the prior investigations indicated that grades 1502 and 1712, which are both used for tires, accounted for most of the ESBR consumption in the U.S. market.

In your -- in some of your examples today and in the petitions, you were referencing grades 1502 and 1783. Has there been somewhat of a change that way? Are 1502 and 1783 now accounting for a larger share, or should I ask some of the --

MS. WARLICK: This is Amy Warlick. I will have our clients respond to what is being consumed in the U.S. most prevalently, whether or not there has been any changes.

The reason why we selected 1502 and 1783, is because that's what we saw the most of in the subject country import data and the manifest data and what our clients tell us these are areas where we would see broad representation of these projects in the questionnaires. So that's why I used costs, usage rate, so far, recipes, if you will, for those two products.

MS. ALVES: Mr. Rikhoff?

MR. RIKHOFF: Yes, ma'am. This is Bobby Rikhoff. Good morning. The difference between 1712 previously and 1783 now is for the regulation across the world. Especially in Europe, European regulations, part of the reach registration have not allowed the oil that's used in the 1712, which is a highly aromatic oil, in automobile tires.

So the world's following that European regulations. So in the U.S., all tires are now made with reach regulated materials in order to be able to sell their tires anywhere in the world. And 1712 does not meet that reach regulation, European regulations. So 1783 does have a low polyaromatic hydrocarbon oil which now make it meets that regulations. It's changing with the time.

So 1783 meets that criteria; 1712 no longer does. 1712 was what we sold the vast majority of in 1999, and now 1783 or grades similar is what we sell the vast majority of in 2016. The same base polymer, different extender oil.

MS. ALVES: Okay, all right. That's very helpful. Thank you.

There's also been discussions this morning about both antidumping investigations and the existing antidumping countervailing duty orders on ESBR and on tires. One question that I had pertaining to the U.S. investigations on tires, in addition to some of the antidumping and countervailing duty investigations on tires, as I'm sure you're aware, there was

also the 421 on imports from China.

Did that have any effect on the ESBR market? Because you haven't mentioned it. So I'm curious why there hasn't been a discussion of that, particularly because the timing of that case was fairly close to the time frame that the Commission was looking at for the dumping and countervailing duty cases on passenger vehicle and light truck tires.

MR. MC GRATH: This is Matt McGrath. I will start. I think my clients have some thoughts on that. The effect of the orders on imported tires, the various orders, whether the 421 or the other individual cases on passenger tires, off road tires, bus tires have an effect on our market is basically -- what we've seen is that there -- it's the combination of those orders with excess capacity outside of the U.S., especially in the four countries we're talking about here. It tends to not just push that excess capacity here but makes it more important for those who are selling here to increase their volume, to lower their price as much as they need to in order to have that volume.

So what we see is not so much entirely a large supply coming in, although that does seem to be happening, and certainly, the questionnaire answers suggest that. But we're seeing that continuous downward pressure on the prices, because everybody needs to try to maintain some volume to keep

their operations going. We showed you what the decline in the utilization is, and that puts more pressure on price in order to get some volume up. But as far as the other investigations are concerned, we're going to submit a list of the orders and the investigations we're aware of out there. India has one underway against Korea, against ESBR. So there's both the ESBR investigations. There was one in Brazil, ESBR --

MS. WARLICK: This is Amy Warlick. Yeah, Brazil has a case against ESBR from Korea that was in place in 2011. I'm not sure if it was extended then, continued, or that's when the order was imposed. And then they had also a case against the EU that went affirmative, but they suspended it, I think for diplomatic reasons for a year.

Mexico has a case against Brazil. More than a case. They have imposed duties. That was extended in 2012. And India is an ongoing case.

There have been many. I was really surprised to see how many cases there have been on rubber and tires all over the world.

MR. MC GRATH: So the effect of those investigations and orders, part of it is the impact directly on ESBR, possibly diverting ESBR to the U.S. but you starred the question on the investigations on tired themselves. Theoretically, that should increase tire production here and increase U.S. demand for U.S. ESBR, and what we have found is

that demand is being a combination of the foreign restrictions on ESBR and the excess capacity simply pushes more of the world available supply of ESBR here to whatever increased U.S. output there is as a result of the orders against tires. So we're definitely in a squeeze. What is intended to benefit tire production is being pushed back upstream to the manufacturer of the raw material.

MS. WARLICK: I would like to say one other thing. Amy Warlick. In looking at this and trying to understand the demand situation, of course, we've had a lot of different cases on tires, and they're in various stages of going through the process. We do have the passenger tires and light truck duties that were imposed a year ago this month.

So you've got a mixed bag where you have duties that are substantial enough to provide protection for the industry. That's going to raise demand. But only in those types of tires, only rubber for those types of tires. And then the other ones are still in fairly poor condition. So you don't see production. They're very good rates of production of tires for the other domestic industries that are producing tires, so other types of tires.

So it depends on who you talk to in the industry, who their customers are, they're going to have a completely different impression of what demand is like in this country. But generally, the protection does enable tire manufacturers

to expand their production of tires, and that's going to be good for rubber demand, if we could only get in there with our rubber.

Thank you.

MS. ALVES: Thanks. I have one final question, but I would like you to answer it in the post-conference brief. Without getting into any specifics, the petition suggests some improvements in certain categories on either the domestic industry or subject import variables for the interim periods. So could you take a look at this in the post conference brief, what is going on in the interim period, why are some behaviors changing. If there's any good answer for that, that would be helpful to understand.

MR. MC GRATH: We would be happy to do so. It depends on which variables. Some of them have changed further half-year data instead of the quarter-year data that we originally started off with. We haven't noticed some of the important factors that seem to be looking upward earlier in the year ended up being flat, such as profitability. The companies are still not making a profit. The import volumes seem to have gone up more than we had anticipated. So the market share, which looked as if it was evening out a little bit, remains fairly high.

So we will re-evaluate all of those, obviously, and find the ones that you're making reference to that might be

somewhat positive and talk about those.

MS. ALVES: Thank you. They may not exist once we have that extra month of data in there as well. There did look like there were some divergences for some of the variables that I didn't see an explanation for.

Thank you. You've been very helpful in responding to my questions. I appreciate it.

MR. ANDERSON: Thank you, Ms. Alves. And now I will turn the questioning time over to Ms. Burke.

MS. BURKE: Thank you. So just to follow up on a question that was asked previously, I'm wondering if any contracts were unfulfilled during the time of the shutdown and the changing in the businesses, not just if any contract changed but if it was unfulfilled.

MR. ZERINGUE: No, the reason why the timing was what it was on the shutdown was because we did not want to enter into agreements that we could not fulfill. So we chose to make that announcement prior to the end of the calendar year. So we didn't execute any contracts.

MS. BURKE: Have any purchasers or customers since 2013 voiced concerns over your ability to supply SBR in sufficient quantities in a timely manner?

MR. ZERINGUE: I'll speak on Lion's behalf, and I will let East West speak on their behalf.

So that was really not the issue in terms of

whether we had supply availability. The concerns voiced by the customers were commitment to the industry, because we had just shuttered a plant. So we spent a better part of that year proving to our customer base that we are a reliable supply, that we are here for the long haul, continue to make investments in infrastructure in the plant and CAPEX and maintenance, all the things to be a viable supplier. So yes, there was concern, but it wasn't about the ability to have available capacity. It was more the owner commitment to the industry. And the answer to that is we didn't buy a facility and invest in that business to not be a long-term player.

MR. NELSON: Greg Nelson. In our case, in 2014 before we bought the business, we -- early in 2014, we talked to all the customers we've had in the past, since the prior site, had a long-term relationship with customers for over 50 years or so and we were encouraged by the fact that each of the customers really wanted to see the site running again. They liked the quality of the site, the products from the site. And so they worked with us in 2014. And we had no contracts but we just had spot volumes. So we supplied spot volumes. And then in 2015, we had contracts, a significant number of contracts, starting from zero. And then this year, we've also increased the amount of contracts we've had. Some of that is proprietary. We can give you that information. Our customers have been working with us. They like working

with us. They like to have two North American suppliers. So we've been able to get up to speed and increase our volumes so we could be a supplier to them.

MS. BURKE: How do your shipping times to your purchasers compare to the importers in the market?

MR. NELSON: We ship most of our product by truck. So it takes a couple of days. We normally have inventory. So we're able to ship to them inventory. I believe most of the importers have inventory in the U.S. So that allows them to ship to customers also.

MS. BURKE: So you don't think that your time is significantly less than that of importers?

MR. NELSON: In general, because we have inventory, there's probably not a lot of difference. There may be some grades that they don't have that they have to make and ship, which would take like 21 to 30 days. But I believe if you look at the amount of volume that's in the U.S., they've been keeping some volume in the U.S. to fulfill that need.

MR. ZERINGUE: This is Jesse Zeringue with Lion. Of course, the lead times from product being produced in Korea or Poland are much longer in getting to the U.S. than we ship to domestic customers. Yes, those suppliers do have warehousing and product on the ground here. That's great as long as sales are absolutely constant over time, which they're not. There are ebbs and flows in sales patterns, and you have

to adjust inventory levels accordingly. Most people run their inventories on days of sales. So as your day sales fluctuate, so will your need for inventory. So those are aware that long lead times play a factor in delivering product to the customer.

MS. BURKE: You just mentioned ebbs and flows in the sales. So do you find that the market does follow some type of business cycle or is affected by the seasons or time of year?

MR. ZERINGUE: We see typical patterns, we see typical year-end-type inventory management patterns as most industries do. They run inventories down at the end of the year, balance sheet-type of activities. In terms of tire production, it's not as cyclical as other segments, so not to a large degree. It's more or less changes in sales pattern in who has captured what part of the spot business for the month.

MS. BURKE: I want to switch to changes in demand in the market. I'm interested to know, you mentioned that the U.S. demand for tires has experienced an increase since 2013, but then ESBR has declined. The demand for ESBR has declined. I'm interested in getting your perspective for why this might be happening and also if the demand for tires, what type of tires are you talking about. Are you talking about these green tires that don't use ESBR? Are you talking about the entire tire market? I just would like some clarification on

that.

MR. RIKHOFF: Good morning. This is Bobby Rikhoff. The entire tire market demand is going up. You follow new car sales, car builds, you can follow that. We use wards. You can utilize anything in the industry. We use record number of months. So that would be a larger green tire purchase right there.

Now, also the replacement tire market has increased, in some months has decreased, but it's increased. And the demand of tire production has decreased in the U.S., but imports have increased. But it's tires across the entire U.S., replacement and OEM.

MR. NELSON: This is Greg Nelson. The only thing I would add is, if you look at passenger tires and light trucks, that's been very, very strong in the U.S. you look at agricultural tires, that's been down because the ag market has not been doing very well. Recreation and off-track-type demand has been down. And also, heavy tractors, that tire demand has been down. So it's kind of a little bit of a balance. If you look at light trucks and vehicles, that demand has been very strong. But other segments of tires have been down.

MS. BURKE: So have you been seeing, then, a decrease in demand for ESBR?

MR. NELSON: This is Greg Nelson. In some of our

customers that focus in that area, yeah, we have seen it drop.

So overall, it's been probably slightly down because of that. If those markets were equal or up, you would see a strong demand overall for all tires.

MS. WARLICK: This is Amy Warlick. Maybe I can add a little bit to this. On page 39 of our petition, we offer some data there from modern tire dealer, who publishes it, free data. These are U.S. tire shipments. You can see that during the POI, almost every category, passenger tires, light truck tires, medium/heavy truck tires, in both the OEM and the after-market, that those shipments were up by various degrees, ranging from like 1 percent to 26 percent. Okay.

But that doesn't mean that the demand for ESBR in this country is going to be up because those shipments are up, because a lot of those shipments are made -- they're imported tires.

So what I did with that data is I then subtracted out U.S. imports of tires, and then you get a negative 5.88 percent decline in U.S. shipments of U.S. tires. And that is the net effect on ESBR manufacturers. It's not going to be a negative 6 percent. It's not going to be a decline across the entire industry. There are going to be some bright spots, even for U.S. production.

MS. BURKE: Have you seen demand decreasing for end uses outside of tires for your ESBR? Zero yes, particularly

in conveyor belting. As I mentioned earlier, conveyor belting is driven heavily by what's going on in the coal mining industry. So yeah, we've seen a drop, significant drop in demand for ESBR for belting purposes.

If your demand is going down, I'm interested in how you see this affecting your pricing outside of the decline in prices of raw materials. In the exhibit, you mentioned that the prices of raw materials have gone down, and you just say your demand is going down. So I'm wondering how decrease in demand has affected -- how you see that affecting your prices? Outside of like raw material prices dropping, has the decrease in demand affected your prices?

MR. NELSON: This is Greg Nelson again. I think overall what we've seen is that even though the demand is going down overall, we've seen much more decreases in the pricing of imports that are coming in. So even with the demand going down, we can still run -- currently, our plant's running roughly 60 to 70 percent of the capacity. So we have a lot of room to move around. What we're seeing is that because of the low import prices, this product that we could compete against that we choose not to because we would be losing money. So even with lower demand, if the imports were not coming in at those prices, we could still run our plants well, because demand is not so low that it's impacting our plants that we can't run. I don't know if that makes sense.

So it's our belief that if we had a level playing field, even with the lower demand, we could compete and run our plants well so we could be profitable, at least profitable where we can get a return for reinvestments and those things.

MS. BURKE: So I would like to move to, then, the price of raw materials. In the exhibit that you provided, are the 2013 prices, are these year-end prices? Because the 2016 appear to be partial year prices. So I'm interested in knowing what the comparison would be.

MS. WARLICK: Okay. This is Amy Warlick. The prices that you see are averages of monthly prices. So the 2013, that's January to December, monthly prices with a simple average. And then the January to May 2016, that is January to May, monthly prices with a simple average. The June numbers may be out now. We haven't looked into it.

MS. BURKE: From a comparison point of view. I guess also because this is only Korea, U.S., and western Europe, could you speak to what you've observed in the price of raw materials globally for the whole time period and not just for these three regions?

MS. WARLICK: These data come from his, and they provide -- when I say Korea, that is what they call their North Asian price, but it's FOB Korea. So it's FOB Korean port. The U.S. is U.S. Gulf Port. Western Europe, I forget exactly what the terms of that are. So they don't really give

us a whole lot more than that. They do that -- the Korea is representative of North Asia. Then there's the North American price and the Western Europe. There may be some other ports represented there. I think they do a Singapore port and a Hong Kong port, but I can put on to the record everything that his provides data on, all of the different series.

MS. BURKE: We're trying to find out your observations just over the whole time period, how the price of raw materials has changed, because you're stating that that's a major factor in your pricing structure.

MR. NELSON: This is Greg Nelson again. So in general, you know, we look at U.S. Gulf Coast prices, because that's what a lot of our pricing is based on. The North America market over the last several years, especially this period 2013 to now, has been balanced for butadiene. So the pricing has been relatively stable. There's some movements that are short-term movements.

In general, Western European prices, Europe is long on butadiene because they have different feedstock that they crack ether so they produce more butadiene for feedstock. So they've been longer. So their prices tend to be slightly lower than the U.S. What they do is they price it parity to the U.S. except freight.

So if you use freight, the arbitrage is probably the same price. In general, Europe then ship, because they're

long, they ship either to the U.S. or to Asia. Asia has been short feedstock. So most of the product from Europe has been going into Asia.

This year, for the first time, you're seeing partials leaving the U.S. and going into Asia because we have been a bit long. So in general, the Asia prices tend to be a little bit higher than North America prices. There have been periods of time when it's been lower because of shut-downs or excesses or something like that. But that's how it's -- the market has been basically in parity except for those issues I've mentioned.

So our issue has been confusing to us that Asia can import volumes from U.S. and from Western Europe and still ship product back here at prices they've been shipping it.

MS. BURKE: So I have another question that kind of follows up on that. As we are collecting pricing data, would there be any reasons why we might find instances of overselling from the subject countries?

MR. NELSON: This is Greg Nelson. So are you referring to prices being higher than ours?

MS. BURKE: If we were to find that.

MR. NELSON: For ESBR, there probably wouldn't be much of that, I don't imagine. For SSBR, it could be, because it's a different product. But for ESBR, we have not seen that. That would be great. We would raise our prices

immediately. But we have not seen that.

MS. BURKE: Okay, and you stated -- I'm sorry. I don't know who said this. But someone stated that purchasers generally buy from both nationally and internationally. And I'm just kind of wondering, what are the reasons why they would be buying from different countries?

MR. NELSON: This is Greg Nelson again. So a lot of our tire customers are global customers. So some of them are European-based, but they're global. So they have plants in the U.S. And most of the time in those countries, the decisionmaking power to buy, it's centralized. So the buying strategic management may be located in Germany, let's say. So that person is responsible for all the sites of that company, whether it's in Europe or North America. And they like to have multiple vendors or suppliers. So they would buy from different places to meet their needs.

MS. BURKE: So I guess I'm getting to the question of why would they like to have multiple suppliers.

MR. NELSON: It's security of supply. So if, for example -- if you sole source, let's just say, you have one supplier for your site, then you're at the mercy of your supplier. You don't have any purchasing leverage. If there's a disruption, then all of a sudden, you have to go out and try to find product. And as a purchasing person, executive, because I used to run purchasing for several companies, the

last thing you want to do is shut down your plant because you can't find product. All right? So you tend to want to hedge your bets.

And because ESBR is a commodity, you can get it, and it's all fungible, it's interchangeable, you can then have multiple supplies in different regions, and that kinds of leverages you a little bit.

MR. ZERINGUE: This is Jesse Zeringue. Follow-up to that is there are those customers, like Mr. Nelson described, that are global and have that footprint. But there are also customers who will hold some part of their requirements out for spot purchases month-to-month. And a lot of that, I believe, is geared toward keeping your finger on the pulse of the market so that when contract negotiations come up at the end of the year they have a feel for where those market spot prices are, and they use that in negotiations for your contracts for the following year.

So it's almost like a barometer, if you will, for what's going on in the market and where prices are going overall. They don't typically hold out a large degree of their requirements for that, but there are some customers that hold out some part of their portfolio for spot buys.

MR. MC GRATH: If I could just add, Matt McGrath, to the answer that Mr. Nelson just gave about -- in terms of overselling situations. I don't think -- I may be stating the

obvious, but there are situations, there may be months, there may be periods when the domestic price is going to undersell some of the subject import prices because it had to to get the sales. I mean, if the company is trying to get volume, it's in a position where it has to -- it is pressured quite a bit in order to lower its prices. And also, in answer to your question about the tendency to have multiple sources of supply, the larger purchasers seem to have a fairly -- not just in this industry, but many industries, to have a -- it would be fairly common to have a number of alternative suppliers in order to maintain that leverage, to be able to negotiate lower supplies. The more offers that are available, the better position the purchaser is in to be able to get everybody to lower prices.

MR. ZERINGUE: This is Jesse Zeringue. Just to follow up with the question you had earlier, I didn't want to answer without looking at the actual statistics I had. Your question, Ms. Burke, regarding drop in demand, over the period of interest, the statistics that I look at show less than a 5 percent drop in demand over that period. So it wasn't a precipitous drop in demand over that timeline. So you would expect less influence due to that.

MS. BURKE: Okay.

MR. ZERINGUE: Thank you.

MR. ISAACS: This is Steve Isaacs. I would like to

add to that, too. One of the key differences today versus back in 1998 is the speed of communication. So today, you can go on to Ali Baba, you can go on to multiple Web sites, you can reach out as an industry to every area of the world. And so if a customer has multiple suppliers, it's very easy to leverage that price down. Really all it takes is one low price to start to drive it down because the communication is so quick.

So if we compare 15, 16, 17 years ago, we can go on, and we can go on Google, or we can go on anywhere, and we can see that pricing almost immediately. So that can drive the market down much more quickly today than it ever could in the past. So having diversity of suppliers throughout the world really gives customers tremendous power that they didn't have in years past.

MS. BURKE: I know it was mentioned that, I believe, for some tire manufacturing, that it's a 50/50 of natural rubber to ESBR. For nontire end uses, is natural rubber -- can you switch to natural rubber over ESBR.

MS. WARLICK: I will like my client take that one.

MR. ZERINGUE: This is Jesse Zeringue. So I think you have to understand the reasons why both polymers are used, I mean, if one had a clear advantage over the other without sacrificing property, then we would all be using one polymer over the other. Natural rubber imparts very positive

characteristics. Tire is a very complex thing to make. It has many layers of several different types of polymers. It has steel reinforcing, cloth reinforcing. So it's a very complex operation to make a tire.

One of the things that natural rubber does really well is it imparts superior building tact and green strength. And those properties basically help hold the tire together while it goes through the entire production process. Not so good on white traction. So ESBR has better properties in terms of white traction, which is important to passenger tires. Natural rubber has fairly good heat resistance, not so good heat history. But things like heat resistance and green strength and abrasion resistance, those are very important to airplane tires.

Airplane tires are not so concerned with wet traction. So you have to really consider the tire tread being formulated, the tire it's being put on, and the properties that each polymer imports.

In the typical passenger car tire, you look at three things, white traction, abrasion, which is your tread wire, and rolling resistance, which in the U.S. is less important in terms of fuel economy than it is in other parts of the world.

So you can't wholesale substitute one for the other.

MS. BURKE: I was actually asking about nontire --

MR. ZERINGUE: Again, I'm not sure this same complexity of these other components would require the same level of natural rubber.

Amy, do you have a better answer?

MS. WARLICK: I don't. However, Jesse, if you can just describe like when making a conveyor belt or the soles of shoes, would you use natural rubber? Would you need it? It's more expensive at this point. So you have to have a good reason for using. Are they at all substitutable in those applications?

MR. ISAACS: This is Steve Isaacs. So if you look at natural rubber -- and Mr. Zeringue commented about it, natural rubber has very good tack. That is, if you take two milled services and put them together, they will flow together and make a composite.

However, it doesn't have the same type of resistance to crack growth. So if you're making a conveyor belt, you're rolling a belt and you're constantly bending it. You want a material that has very good resistance to crack growth. And so SBR is going to be far superior in that particular application.

So what customers may do is they would blend together, so they're blending together for a composite or compound that gives them the physical properties they want of

tear strength, abrasion resistance, resistance to cracking and cutting. And in that case, you will find small amounts of natural rubber, but far larger amounts of SBR.

MR. NELSON: This is Greg Nelson. Ms. Burke, I don't think we're answering your question. So we need to just get back and give you the percentages. I think, for example, latex gloves, it's almost all natural rubber in a lot of cases. In conveyor belting, there is very little natural rubber, a lot more of synthetic rubber. But we can give you the breakdown like we did for tires and other products, that might help you.

MS. WARLICK: How about hoses, is it the same principals, that you wouldn't use natural rubber in that, and belts?

MR. NELSON: Yes. For example, in places where you need a lot of resistance, you don't use any ESBR at all. You use NBR. So it depends on the application.

Tire mounts, you would use a lot of ESBR, maybe a little bit of natural rubber, depending on the qualities. But we can give you a percentage by application.

MR. ZERINGUE: This is Jesse Zeringue again. So for things like hose, those are extruded goods. ESBR has much better extrusion properties than does natural rubber. So you don't see a lot of natural rubber in that type of application, in extraneous-type applications.

MS. BURKE: Okay. So I guess this is going to be a very similar question. Can SSBR be substituted for ESBR in any end use, not just tires?

MR. MC GRATH: I guess no one has an immediate answer. So we will answer that in the posthearing.

MR. ISAACS: Okay. So in some applications, SSBR, when you process rubber, you like to have a molecular weight distribution that is wider. It tends to give better processing characteristics. Extrusion is better. SSBR tends to be more difficult to process. It has a narrower molecular weight distribution. And so it can be applied in certain applications, but really, it's small relative to the versatility of SBR.

MR. ZERINGUE: This is Jesse Zeringue. Just to add to that, solution SBR is more expensive to buy, and it's more difficult to mix. So I guess chemically it could replace it in those applications, but it would be at a cost premium to do that.

MS. BURKE: Okay.

MR. ISAACS: To get back to that point, if one looks at the chemical composition of solution SBR versus ESBR, ESBR, the 1500-type series is around 23 percent styrene and about 73 percent butadiene. The solution SBRs, they are closer to 50/50 in terms of styrene and butadiene content, and they tend to be -- we say block ear, that is, a more thermal

plastic type of characteristics to them.

So they also in terms of making them, the SSBR is made with solvents, made with hexanes types of solvents, whereas, the ESBR is made of water. So if you take the overall chemical resistance of the materials, the processing characteristics and the like, they're really quite different.

MS. BURKE: Okay.

MS. WARLICK: Amy Warlick here. As I explained in my testimony, maybe I will provide a little more detail, the rise of tire manufacturers looking at SSBR, it came about because of this greater traction and the ability to achieve higher levels of miles per gallon. So they were and still are used for a lot of the OEM tires. So it's a higher priced product, but it helps the tire manufacturer -- excuse me, the automobile manufacturer achieve higher rates of gas mileage.

There was a thought there that once people understand that you're going to get better gas mileage with these tires, they're going to buy them, that it would be worth the much higher price to buy these. People shifted what types of vehicles they were driving, but they didn't shift tires, not in the after market. It just didn't happen.

So now you have a glut of that product, too, and because it's much higher priced, it just -- it can't be -- I mean, it can be substituted, but it's just not economical to do so.

Does that make more sense?

MS. BURKE: Yeah. And this goes to some of my other questions, and this can be in the post-conference brief. But you mentioned you could give price trends on SBR. If you have any information on any demand trends of that market, that would be great as well. This follows up on your question on the green tires, but the corporate fuel economy average standards is coming to fruition this year, 2016. So I'm interested in seeing how the market, with all of the automobile manufacturers having to meet these standards at the end of this year for this model year, how the demand in these tires has changed compared to maybe in 2013 when they were still -- they were changing maybe not the tires but the modeling themselves of the cars?

MS. WARLICK: Okay. In terms of tire shipments, the OEM is about 20 percent of the market, the after-market being 80 percent. So the standards that are on new cars, that wouldn't apply to the after-market. It would only affect a certain portion of that market.

MS. BURKE: Yeah, I understand. If you have any demand trends in the last three years, from 2013, I would be interested in seeing that.

MS. WARLICK: Okay.

MS. BURKE: And I have one more question. So you gave us the capacity utilization in Exhibit 4, and I'm just

wondering, is this for just the subject countries, or is this demonstrating the global market?

MS. WARLICK: No, this is global. These capacity figures are from IISRP, and they're an average -- they have Western Europe, Asia, and North America so it's an average of averages.

MS. BURKE: In the post conference brief, if you have any inference on the capacity utilization of subject countries rather than globally, that would be great.

MS. WARLICK: We have a lot of information on capacity. That comes from the worldwide rubber statistics. But this would be the only information I can think of that we have on capacity utilization. These are the only folks that do that sort of analysis.

Unless my clients, do you know of any other source of capacity utilization information out of IISRP?

MR. MC GRATH: If I could, this is Matt McGrath. I believe we have all the manufacturer questionnaire answers. So maybe we're going to find capacity utilization.

MS. WARLICK: I was thinking about public sources.

MR. NELSON: I think that's true. I think we can get that for you by country that you would want.

MS. WARLICK: Do you mean capacity or utilization?

MR. NELSON: I think we can get both. IISRP has both.

MS. WARLICK: I have it from IISRP.

MR. NELSON: Looking for individual countries, they do do individual countries. We will get back to you.

MR. ANDERSON: Ms. Brinckhaus, the mic is yours.

MS. BRINCKHAUS: Good afternoon, I guess it is. I wanted to thank you all for being here, and your testimony and answers today have been extremely helpful. You've actually already answered the vast majority of my questions, but I do have a few.

I understand that you're not in the tire industry, but to your knowledge, has the amount of ESBR used in tires specifically as a percent of their raw materials changed significantly since the 1999 case, with differences in formulas? Have you noticed that -- I mean, I understand the type of tires is probably different.

MR. RIKHOFF: Good afternoon. This is Bobby Rikhoff. The amount of ESBR in tires has changed with SSBR taking over some portion of the OEM entire basis. And those would be in a lot of the more domesticated countries, you know. The smaller countries still have not gone to OEM tires being fuel efficient. They're still going on the cheapest tires.

But Europe and parts of Asia and the U.S., OEM tires have that fleet mile per gallon and their requirements. So that's one way in which they're meeting it. So of that 20

percent worldwide, because it follows that basic worldwide trend of OEM, a portion of that has been displaced by ESBR. And that shift, as we can show in IISRP data and other data, happened years ago. Europe did it long ago, and then the U.S. followed several years ago. So we've already stabilized on where that was even in the period of interest for those countries.

MS. BRINCKHAUS: Okay. Great. So if there's change, it's obviously going down, then, as a percentage, for the captive consumption?

MR. RIKHOFF: This is Bobby Rikhoff again. So you have the OE entire portion that's been shifted over there. But if you look at the number of automobiles and tires that have just grown worldwide, especially in Asia and those areas, that has highly offset some of that decrease.

MS. BRINCKHAUS: As a percentage of each tire, let's say, if you're looking at just a bus tire in general.

MR. RIKHOFF: It has not changed much at all.

MS. BRINCKHAUS: Okay. That's great. Mr. Nelson, I know you mentioned cost restructuring and the flexibility to move employees between lines. But does the level of automation differ from plant-to-plant, or is that pretty standard?

MR. NELSON: Clearly, the newer plants, the plants that have been built in the last 10, 20 years, the level of

automation has increased. Because of new equipment, there's new technology, and the drive has been to use less and less people. So compared to our plants, which are older plants in North America, the newer plants in other locations have gotten more automation and tend to use less people.

MS. BRINCKHAUS: Okay. And what about within North America?

MR. NELSON: In North America, there's been improvements in each of our sites. For example, we have a distributor control system. So we've been automating -- as a part of our reduction in costs, we've been automating portions of our plants. But it's not to the same level as if you build a new plant today or five years ago, because the technology has changed a whole lot.

MS. BRINCKHAUS: Okay.

MR. ISAACS: This is Steve Isaacs. Just to add to that, if you look at the chemistry related to ESBR, the chemistry in North America is going to be the same as really anywhere in the world. So you basically have the two types of materials and really the subject materials we have here. These are all cold type of SBR products. So if you look at our plants, we have really highly automated reactor systems in the plants, all D.C. S controlled, very highly automated recovery-type systems. When you make a rubber product, you initially take styrene and butadiene, polymerize the

materials. You go through a variety of reactors. You go through a purification or what's called a recovery process to remove the monomers. Then you achieve a latex.

So if you were to go elsewhere in the world, you might find some batch that is an individual vessel making it, but ours are very high volume, high efficiency types of systems.

Then we move into the finishing part of the process. So latex is -- if you imagine latex paint. So our latex is about 20 percent solid. So there's about 20 percent of the solid rubber floating around in water, and it's stabilized. And then what we do is we take that latex, we acidify it, and that causes the rubber to come out of solution and forms what we call a crumb. We take that crumb and we dewater it, that is, we squeeze it basically, and then we dry it. We wash it. We may add some other additives to it, and then we dry it in higher dryers or, in our case, we also have other types of equipment which are more advanced pieces of equipment today.

So much of the change in the rubber industry is on the back end, that is, the finishing end of the process, and specifically, the portion that relates to the dewatering and the drying.

So those particular parts of the process, if you were to go from our plant, if you were to look at -- since I

used to be in the East West plant, you would see some similarities there. If you went elsewhere in the world, you will you would see some similarities to our plants. You would also see some newer technology that's more of a -- not an air dryer type of basis. But in terms of the overall technology around the world, I would say there's very good parity in terms of reactors. If not we may have equal to or better reactor systems. And then on the back end we would have what we would basically term incremental capability because we have multiple smaller dewatering and drying lines that we can add as we meet capacity in our plant. So still very efficient. So we can compete in terms of processing the materials, but we have to compete on an even playing field.

MS. BRINCKHAUS: Okay. Absolutely. Thank you. And just to clarify, within the United States, the slight differences it wouldn't go to cost structures? It's not that different?

MR. NELSON: This is Greg Nelson. No, that would not equate for a large cost difference that we've seen.

MS. BRINCKHAUS: Okay. Thank you.

MR. NELSON: As a matter of fact, in the buildup, we built in some of those differences and still couldn't close the gap.

MS. BRINCKHAUS: Okay.

MR. NELSON: For example, energy costs in North

America is much lower than energy costs in Asia in general. The workforce wages are lower. So we try to account for that. You know, they didn't have more automation, and we tried to account for that. And we still couldn't close the gap.

MS. BRINCKHAUS: I was interested in a benchmark growth margin you would expect to see in a healthy ESBR industry. But with the discussion of fixed factor pricing mechanism, that might be a better measure, either as a margin or in actuals, what would we examine to see in a healthy market in SBR? This might be something that is better post-conference.

MR. NELSON: Yeah, this is Greg Nelson. We will give that to Matt and his team, and they can pass it on to you.

MS. BRINCKHAUS: Great. Thank you. With that, also if you could provide when the last time it received that level, that would be great, and what it's running at currently on average.

MR. NELSON: Okay. Thank you. We'll do that.

MR. MC GRATH: The average is negative.

MS. BRINCKHAUS: Also to the extent that you can speak about it publicly, what role does toll production play in the ESBR market?

MR. MC GRATH: I will be happy to talk about that. Those are individual contracts that were entered for

individual circumstances. Well, it will be confidential.

MS. BRINCKHAUS: Okay. Great. So following up on that confidentially in your post-conference, if there is toll production, with what we're hearing about these built-in variable price mechanisms for raw materials, I was just wondering if you would expect to see a difference in profitability on toll versus nontoll, if you were to toll, if you could maybe include something about that in that post-conference, that would be great.

MR. ZERINGUE: Without getting into proprietary information.

MS. BRINCKHAUS: Sure.

MR. ZERINGUE: A toll product is one where a customer will supply one or more raw materials. Since the formulas allow for pass-through of those cost fluctuations on butadiene and styrene, you don't see a tremendous difference between those two.

MS. BRINCKHAUS: Great. With that, that concludes my questions. Thank you again.

MR. ANDERSON: Thank you, Ms. Brinckhaus.

Mr. Cantrell?

MR. CANTRELL: Can I be heard? I'm a little bit at a diagonal here. Thank you very much for your test and for coming here today and giving us a good overview of the industry. I feel like I'm batting ninth here. My colleagues

have done, I feel like, a great job of covering nearly everything A to Z. I thought I had one ace in the hole on production technology, but that one has kind of been covered. But I would like to get into that a little bit more. Most of my questions are very fundamental, and if you have anything along the lines that I'll be questioning you about, if you could pencil those in in your post-conference briefs, I would appreciate it.

One thing I was interested in were the plants. I can remember going into my friendly Lion oil station post-WWII to fill up my 10 miles to the gallon automobile in those days. Anyway, that brought back old memories about Lion.

Something I was interested in was the changes that had occurred since World War II and the plants, in the U.S. plants. I think you went over that. I was just curious if there are any specific engineering design problems that make changes in the plants, in the U.S. plants globally also. If that's kind of done in-house by, say, Korea, U.S., whatever.

MR. ISAACS: This is Steve Isaacs. To go back to your question in terms of some changes since World War II. Most of the early technology and when these plants were built, many of these plants were built with some batch-type of technology. It may vary. Even though the plants were built basically by the U.S. government in conjunction with other companies, they did have some differences among the

facilities. So some plants had butadiene plants also to supply with them. Now those butadiene plants are either gone, dismantled, or they're a part of different companies. Many of the plants had batch types of reactors that have subsequently been changed over to continuous reactors because the continuous reactors offer higher volume and also greater efficiency in the plants.

With regard to engineering firms or how this work is done, typically it's done internally. There are equipment suppliers, for example. There are companies that manufacture dryers. There are companies that manufacture what we would call direct finishing equipment and the like. So what we do is we partner up with those companies, our internal engineers. So what we do is we look for best in class technology in all different areas. So reactors and how the reactors are stirred, in transfers, we would utilize engineering firms to do that. We would go to companies that manufacture the agitators for the reactors to help us to determine what is the best type of mixing for the reactors. When it comes to removing the monomers, we would go to companies that make distillation columns and the like.

And so there's so much specialization in the industry today, it's like a doctor today. A doctor typically doesn't cover the whole range of things; they cover individual parts of the body. And that's the same thing in a plant. So

we have a company that specializes in the size of the column and the number of components that are in a column to efficiently separate the difference monomers and give us the best recovery. It's the same thing when we look at reactor design and also when we look at really other parts of our facility.

So it's a partnering effort with companies that specialize in certain technology.

MR. CANTRELL: In the subject countries that we're looking at, could they have a turnkey plant contracted by some engineering design firm, or would they not do it that way?

MR. ISAACS: I can't speak for other folks, but certainly, companies can go to an engineering company that has those types of capabilities or engineers, hire them as basically a project management company, and then have them reach out to other companies that specialize in those areas.

If you look at the area that we talked about before that perhaps has changed the most, that's the finishing end of the business. Many of those companies that supply the equipment, they're primarily based here in the United States. So that technology is available here today, and we utilize some of that technology in our plants.

MR. NELSON: Could I add to that? This is Greg Nelson. To answer your question, when I worked at Exxon, we built a new butyl plant, and we contracted that out to someone

who built the finishing section, the reactor section, so that could be done. The basic technology for ESBR has not changed in maybe 50 years. As a matter of fact, DSM, before us, our site, invented this process of cold -- it used to be a hot polymer-type process. Now it's a cold process, which makes it more stable, and you can control the reaction inside the reactors. Bobby can talk a little bit about that.

So that basic process was invented in the U.S., and it has not changed since then. What you find is the improvements have been in automatic packaging equipment, more control from a D.C. S automation side. You can control your reaction better. Recovery of butadiene and styrene improvements, a lot of improvements from the environmental standpoint. Also in terms of emissions, you can't have butadiene leaking out of your valve and those sorts of things.

So there have been those kinds of improvements, especially in the U.S., but the basic technology for ESBR has not changed. The new technology that came in was for SSBR, which is different.

MR. CANTRELL: I am just guessing here, but it would seem that the leaders in synthetic rubber production, in general, back during the World War II surge to replace natural rubber at that time, I would think that Korea, Brazil, Mexico came in to the marketplace later than the U.S. and Europe. Is that -- in general, is that?

MR. NELSON: Again, this is Greg Nelson. Yes. What you find is that several of those companies then license the technology from Goodyear. For example, LG in Korea licenses their technology from Goodyear and use that technology to build a plant similar to the Goodyear plant.

Same thing with JSR, which is the Chinese company. So several of those companies did not have the original technology, and they licensed it from other people in the U.S.

MR. CANTRELL: So would there be advantages in production economics in these newer plants?

MR. NELSON: We believe that the level of automation in the finishing section gives them some advantage over maybe our plants. Even though we've been improving our plants, their plants are newer. But like I said before, the cost differential is not that great.

MR. CANTRELL: One thing, one term in the polymerization process, the term "modifier," I don't quite understand what a modifier is, what its function serves.

MR. RIKHOFF: Yes, sir. This is Bobby Rikhoff. The modifier is used to manipulate the molecular weight chain for the addition of the styrene and butadiene. So you use various amounts of modifier to make longer chains or shorter chains, to have a little bit more crossing. So a modifier helps us, we change it with every grade of rubber we make. The modifier helps us make the actual molecular structure

chain the way we want it for our finished product.

MR. CANTRELL: I see. Okay. Thank you.

MR. ISAACS: This is Steve Isaacs. To clarify a little bit, when we make and we talk about chains, and that's basically it, if you think about opening a link in chain, that's basically what the modifier does. It's called free radical polymerization. And so you're opening links, if you will, or causing links to open at a specific frequency. And so that's what the modifier is helping us to do.

So as with any chain, you bring it together, and we attach the styrene, the butadiene in desired frequency, and the modifier helps us to do that.

MR. CANTRELL: Okay. Thank you. I had some basic notes here on principal raw materials, and I believe we've gone over that. If you have anything to add, please do it in post-conference.

And we talked some about captive and merchant that are Goodyear here in the U.S. was basically captive for the most part and that Lion and East West were in the merchant business.

Do you have a mix, taking into consideration the subject countries, do you have a mix there of captive and merchant.

MR. MC GRATH: This is Matt McGrath. We were estimating, I believe, 20 percent or 25 percent of Goodyear's

production was to the merchant market. Most of it on a regular basis is captive consumption.

MR. CANTRELL: And in the subject countries that we're looking at, would you see the same type of business interaction, captive and merchant?

MR. NELSON: This is Greg Nelson. Of the POIs and the companies that listed in the POIs, none of them are captive. They're all merchant like us.

I say that, and Jesse is whispering in my ear. In Korea, there's one company that have a tire company as well as a rubber company. They operate separately. It's two different brothers. It's two different companies. They're listed separately. They have the same name, but I don't believe they have the same relationship to the marketplace as a Goodyear does. They're all merchant market companies.

MR. CANTRELL: As far as raw materials for the U.S. producers, is your source, say, of butadiene, styrene captive sources, or do you buy that on the merchant market?

MR. NELSON: I believe -- I know we do buy it on the merchant market, and I believe Lion also buys it on the merchant market.

MR. ZERINGUE: Yes.

MR. MC GRATH: If I could add one point on the captive sale. The portion of the Goodyear production that is going to the merchant market, we would invite you to take a

look at their performance and their metrics, because we think that you'll find that it's pretty consistent with the rest of the merchant market in the United States.

MR. CANTRELL: Okay. Thank you. I would like to get into just a little bit -- kind of the back end of the production chain on the dewatering and so forth and the differences between the 1500 grade and the 1700 grade. I know 1700 has oil addition. If we could start with the 1500 grade, as I understand it, you would clean it up, dewater it, coagulate it, and dry it. And then some of the information we had in the petition indicated that that would be -- the crumb would be bailed.

MR. ISAACS: This is Steve Isaacs. Correct. If we look at the 1500 product, you described it exactly. We take the latex, and the latex can either go directly from the reactors, or it can go into a storage tank. And then from that storage tank, we would feed it to the finishing lines. So at the finishing lines, we would take that latex, acidify it, make those crumbs fall out of solution, and then we would wash it, dry it, and then we would bale it.

If we look at the 1700 series, it also starts with a latex, and to the latex, we add an oil. And so the oil can be either directly injected into a pipeline, or it can be injected into a tank. We make a homogeneous mixture. So it's the latex and the oil, and it must be agitated, because oil

and water will separate. So it must be agitated. We take that mixture, that latex/oil mixture, and we acidify it. And as the crumb falls out of solution, the crumb captures the oil. So it's an oil/rubber mixture. We dry that material. We dewater it and we dry it and we bale it the same way.

So both the 1502 material or the 1700 series product for our plant, we would ship that in a bale form.

MR. CANTRELL: I was just a little bit confused about the oil, the 1700 process about, you know, how you prevent separating the oil from the rubber particles.

MR. ISAACS: Yes, sir. It's very vigorous agitation, must have vigorous agitation, either in a tank or in what's called a craning type of pump, that is, a pump that puts very high agitation in there, mixing the oil and the latex together.

So latex has a characteristic that if you perturb it, that is, you mix it too hard, then the little rubber particles can fall out when we don't want them to, and that causes a mess. It's like, if you look at your paint can and you see that layer on the bottom, that can happen on a very large scale in a plant. So we handle the product. We handle it carefully in the facility. The proper agitation, which is as specified based upon engineering, take the oil, bring it together, keep it agitated, and then once we acidify it, that is, once we start to coagulate it, that rubber captures the

oil, and then the two, the oil and the rubber are together.

MR. CANTRELL: Is the -- does the oil actually penetrate the rubber particle, or is it just a coating on the outside?

MR. ISAACS: It can. There is a certain degree. But mostly, it's encapsulated.

MR. RIKHOFF: This is Bobby Rikhoff. Yeah, the oil is saturated rubber with the oil. So you have a complete -- if you make a die section of this piece of rubber at that point, you get the same amount of rubber and oil at every die section along that point. It was a complete homogeneous mixture, and it is dried as that complete homogeneous mixture.

MR. ISAACS: So if we were to take that bale and cut it, oil wouldn't run out of it. It's together. So the oil actually softens the rubber. So if you were to take that same latex and coagulate it, it would be much harder than it would be than after adding the oil.

MR. CANTRELL: I guess what I was a little bit confused about is, you know, understanding when you have the oil/latex mixture and you're agitating it and then you've got to dewater -- right? You've got to dewater it. How do you prevent the oil from separating?

MR. RIKHOFF: This is Bobby Rikhoff. The oil is completely scavenged by the rubber. Rubber is a lot larger percentage of the oil. The oil has no affinity for water.

The water completely soaks up the oil like a sponge. You do not have any oil left in the water.

MR. CANTRELL: Oh, okay.

MR. ISAACS: This is Steve Isaacs again. If you look at the 1700 series, it's about 27 percent oil. And so you have the vast majority of the material is the rubber itself. So 70-plus percent, 73 percent rubber and 27 percent of the oil that's in there. So really what happens is that dewatering part, when you have the oil fully absorbed into the rubber, we put it under pressure, and we squeeze it, but the oil does not come out.

MR. CANTRELL: Oh, okay. Thank you. Is there any further working of the like running through mills to sheet out the rubber, you know, in other words, not just only producing the crumbs for bale but sheets for bailing also.

MR. ISAACS: In our facility we produce the crumbs, there are a variety of different mechanical methods, a French press or an Anderson type of extruder, expeller type of product. It comes out at the end, and it's in a particle, and then it goes into a hot air dryer or another type of processing unit. But when it finishes, it's in a bale. All the subject products come out as a bale. For us, we don't have any further processing of that bale in our plant.

MR. CANTRELL: Okay. In a chloropurine rubber plant, I had seen one time they were milling out the

precipitate and drying it into sheets. That's the reason I asked that question, because it was the only process I've ever seen in person.

I guess some of this, I believe, has been answered. I believe it was said, it has been stated today that most of the product 1500 and 1700 is produced in the bale form. Is that --

MR. ISAACS: This is Steve Isaacs again. That is correct. We produce and ship them in the bale form. The reason why the product is in bale form is really simply to improve the shipability. It cubes nicely into the containers that we ship it in, either pallets or returnable containers or boxes. And so it cubes out very nicely, and it's easy to ship, and it's easy for customers to handle that way.

MR. NELSON: And we have a very small amount that we can sell as a crumb in a sack, but it's -- 99 percent of it is by bale.

MS. WARLICK: This is Amy Warlick. I wonder if one of our clients can explain to you what the machinery looks like that the tire manufacturers are receiving the bales into and why it needs to be in consistent size bales.

MR. RIKHOFF: This is Bobby Rikhoff. The bale provides a uniform raw material feed for the tire plants, which the tire plants are the largest consumer of ESBR. So the bale goes on to conveyor belting. They unload it using

assist mechanisms or actually hand-loading the bales on to a conveyor belt. On that conveyor belt, they will add in all the other raw material or several of the other raw materials that are solids to go in along with the solubles, the mixer and other rubber chemicals and additives that they're going to put into that tire compound.

So to make sure that we are uniform that X, Y, Z tire manufacturers are all receiving the exact same raw material feedstocks so they don't have to sit there and change any of their equipment around to receive that bale, the bales are uniform across the globe.

MR. ISAACS: This is Steve Isaacs following upon this. The bales typically measure 14 by 28 inches, and the thickness is based upon the wait of the bales. In our plant, the heaviest bales way 80 pounds, in that area. So when the bales come off the end of our production line, we have robots on the end of the lines. Robots will pick up the bale, and they will stack them in a specific order, either on pallets or inside of a -- an aluminum type of returnable container or on -- inside of a cardboard box that is either used domestically or for export. So that's all automated on the -- at the end of the plant. And we may see similar types of situations in customer plants.

MR. CANTRELL: As far as the end use description of the 1500 and 1700 grades, in general, what percentage would

1500 be and what percentage would -- of the distribution would 1700? I mean, do you produce more of one than the other, I guess is what I'm asking?

MR. MC GRATH: This is Matt McGrath. I think it varies between the companies. Their estimates are maybe something they don't want to disclose. The far more, I believe, is the 1500 series.

MS. WARLICK: You will find answers to that in the questionnaires. They've asked questions on shipments based on those series. But it's confidential.

MR. CANTRELL: You mean in pricing products?

MS. WARLICK: No. There's a question asking to differentiate shipments, just shipments overall based on what series, not based on the grade within the series but based on the series.

MR. CANTRELL: Oh, okay. Thank you. And as far as the end-use distribution, let me take one at a time on this. 1500, what -- if you broke down kind of just your general perception of the percentage of the end use like to new tires, to retreads, and to other nontire uses, what would be, say, like on a 1500?

MR. RIKHOFF: So 1500 grade, as I can best explain it, is vanilla ice cream. It has no additives in it. It is just base rubber. So it can be utilized in more products and more companies than any other rubber it is. So it is the

largest volume that is sold, the 1500 series grades.

MR. CANTRELL: So for tires, whether for tires, retreads or --

MR. RIKHOFF: For new tires, 1500 grade would be the predominant portion of that. For retreads, actually, there's a combination of different rubber that's used for that. Carbon black master batch is actually largely used with the retread business more than the other grades.

MR. CANTRELL: Oh, okay. And the 1700, would it be --

MR. RIKHOFF: And the 1700 series also is in new tires, and the difference between those two grades, so 1500 has a lot lower viscosity than the 1700 series. So they impart different physical characteristics. So they blend those two rubbers into their products to give two different physical properties to make sure their end product properties that they're looking for are achieved.

MR. CANTRELL: So 1700 is more into tires; is that right?

MR. RIKHOFF: 1500 and 1700 are more into tires. Those are two large grades that go into the tire manufacturer.

MS. WARLICK: Bobby, would you be able to give any percentage of the 1500 series that would go into tires versus belts versus shoe soles and do the same for 1700, or is that going to be proprietary?

MR. RIKHOFF: The actual percentage, I don't know, but I can give you the vast majority of 1500 and 1700. As we said almost 70 percent of ESBR is used in the tire manufacturing process. So you can assume, you can just carry that through --

MR. ZERINGUE: This is Jesse Zeringue. It's not like one is a tire grade and one is not a tire grade. They're just differences in molecular weights, and customers will use ratios of one or the other to get the right overall viscosity of their compound. So it's kind of hard to say one's tire and one is not, because they both go into tires. It's varying percentages based upon the tread compound.

MR. CANTRELL: Okay. Thank you. And I believe we've gone over the substitution trends between SSBR and ESBR. What about polybutadiene? Is there any substitute between SSBR and --

MR. RIKHOFF: No, sir. They impart very different physical properties. They have very different plasticities. They are not interchangeable products.

MR. ISAACS: This is Steve Isaacs. They're not really interchangeable at all. However, customers may take a small amount of polybutadiene rubber and blend it with SBR, just to help with the heat buildup a little bit, but that's very small.

MR. CANTRELL: Now, what about NBR production? I

mean, from some of the information that I have read, it appears that you can produce NBR on an ESBR lines?

MR. ISAACS: This is Steve Isaacs. In terms of the reactors, companies can produce NBR on the same reactor line. There are substantial differences, though. NBR tends to give off more heat, that is, the heat of reaction. The exotherm is much higher. So you have to have very good cooling, apply better cooling for that.

So once they go through the reactors, the removal of the monomers and that's where it becomes different, the recovery section. So in the reactors, it's the same equipment, but the recovery system is really quite different, because the solubility of acrylonitrile, when you make NBR it's acrylonitrile and it's butadiene.

Acrylonitrile is an acutely toxic material. So much different handling concerns in terms of people's exposure and the like. The solubility of acrylonitrile is higher with butadiene and water than it is with styrene. So there are additional pieces of equipment to remove acrylonitrile from the system.

So once all of that is done and there's the final latex, then it can be finished on similar pieces of equipment. There need to be some modifications potentially to do that, because it tends to be a bit tougher type of material. But there is additional capital investment required in most plants

to add equipment to be able to handle that separation of acrylonitrile and keep it separate.

So one of the key things is if acrylonitrile and styrene come into contact with each other, it makes a plastic material. It will make either styrene-acrylonitrile or acrylonitrie-butadiene-styrene plastic.

So if anyone has seen the Dirt Devil-type of vacuum cleaner, that's ABS for the most part. As one can imagine, if you have those two materials and they get together in pipelines or pumps, vessels, it will sit there, and it will harden up in the wrong place, and it will plug up your whole plant.

So that's the key thing. There has to be different infrastructure, tanks to hold the acrylonitrile, different separations in that. So it's really quite intensive in terms of engineering and cost to have the proper infrastructure in place.

MR. CANTRELL: So I would take it -- it sounds like that in most ESBR plants they would kind of shy away from NBR?

MR. NELSON: No, not really. This is Greg Nelson. So in the East West plant, we have the capability of making NBR. We've done it in the past. We have not made much in the last three years, because we've been focusing on SBR. But we do have the capability to make it. We made some in 2014, I believe, Bobby, and so we can make it and sell it. And

depending what the margins are. The margins on SBR and NBR typically is 50 percent higher than ESBR, but lately, it's been very low. So we haven't bothered to make it. But we do have that capability to make it. I think we're the only ESB plant in North America that has that capability.

MR. CANTRELL: Thank you. I think also in testimony today it's been indicated that the Chinese dumping actions, the U.S. dumping actions on Chinese tires have kind of paved the way for improved business in the U.S. tire markets. And that would lead to raw materials use, like ESBR.

But I had just -- I mean, are these projects that I'm going to read here in line with that thought? There have been several new plants in the U.S. -- of course, everything is multinational, I believe, except for Goodyear. But Continental has come online or the truck plant in Mississippi, and Kumho and Hankook are bringing tire plants online this year, of course those being Korean. And then trailer boring bringing an ag tire plant on in Spartanburg, South Carolina.

And then the Chinese are building GITI. China is building a plant in South Carolina. And then Goodyear is building a plant in Mexico.

So do you think -- I mean, is all this activity, do you believe, tied in to the Chinese dumping actions, or are there other reasons for the multinationals deciding to build more plants in the U.S.? I mean, there haven't been any other

plants built in the U.S., to my knowledge, maybe some debottlenecking and things like that.

MR. NELSON: This is Greg Nelson. So I think that if you look at North America, it's become the preferred place for manufacturing. So in recent years, because of the shale gas and fracking, our feedstock costs, energy costs is the lowest in the world except maybe for the Middle East. 10 years ago, if you look in that curve, we were the second highest cost place to build a plant. So because of productivity improvements in the workforce, low energy costs, low feedstock costs is driving more manufacturing materials, and multibillion-dollar ethylene plants being built in North America by Exxon and those places. So North America has become the place for manufacturing, whereas it wasn't a few years ago.

Couple that with increased environmental pressure in China on the tire companies, as we said earlier, increased wages, our energy costs, a bit lower quality maybe, the tire companies are basically bringing a lot of that capacity back into North America.

In addition to that, the North American built tires is pretty good. So I think that's one of the changes between the U.S. and -- so it's a lot cheaper now to build a plant and manufacture tires in North America than it has been in the last 15, 20 years.

MR. CANTRELL: Do you believe this will benefit the ESPR demand in the U.S. for U.S. product?

MR. NELSON: Greg Nelson again. Only if the price is fair. I don't want to be flip. Even though the demand is there, we would like to take advantage of it. But if there are imports coming in at the level they are now, it would be very difficult for us to compete for the increased volume.

MR. CANTRELL: Oh, I mean perhaps if the Korea plants, if they choose to divert some of their current supplies to the U.S., to the new plants, that would appear to possibly be beneficial to the U.S. industry situation?

MR. NELSON: First of all, the Kumho tire company is separate from the Korean SBR manufacturers in Korea. I'm not saying that they can't work something out and still supply it, but it's not tied that's automatically going to move pounds into those plants.

MR. MC GRATH: Mr. Cantrell, if I could just add, this is Matt McGrath. Your question is a good one. Shouldn't all of these actions result in higher demand, which is going to benefit U.S. producers of ESBR. The problem is the existing capacity elsewhere is so high that all that new demand is much more likely to be going to the existing suppliers who are selling ESBR into the United States.

So we haven't seen the benefit certainly of increased tire production here turning into increased sales.

Yes, there's increased demand, but that demand is being soaked up by excess capacity from abroad coming into the United States.

And where we have to focus, and as we started this presentation, is being able to get a price that covers this fixed cost and a profit. As it is, all we're getting is price suppression that is driven by declines in the input costs. But the pressure is on getting a margin of some sort to become profitable.

MR. NELSON: This is Greg Nelson again. The other point I was going to make is of the new capacity, the 10 or so plants that's been announced, some of those plants will be rationalizing volume in China. So it's not going to be plus -- 100 percent plus demand globally or in North America. It will just be a bit of shifting. So the SBR that was going to those plants will be available to come in and compete with us.

MR. CANTRELL: One thing, I saw the graphics on the natural rubber and ESBR prices kind of falling in tandem. However -- and I believe it's been mentioned that the butadiene-styrene prices have dropped. And that seems to correlate with the bottoming out of the petroleum market. Is that your perception?

MS. WARLICK: Amy Warlick. Butadiene, you're correct that it is correlated with crude oil prices, and so is

styrene to an extent. And yes, that is a part of the reason why prices globally have come down for ESBR. That is not the whole story. And in a way, it's kind of a good cover for what's happening. The customers demand, and they can say you've got these price advantages on your supply side. The problem is, the formula takes that into account, and they're getting these variable rate. So they're seeing that in their contract. It shifts to lower prices once those raw materials fluctuate. But the part that's really hurting us goes way beyond that. So the prices of ESBR have just come down so far, you cannot justify it by the price of the raw materials going down, not just by that.

MR. CANTRELL: Thank you. One last thing. On the capacity utilization rates, I notice for the -- and it's been pointed out that this is a global outlook where over the last two or three years the capacity utilization has fallen from about -- I believe it was 85 percent to 65 percent. And that means, of course, mathematically that the production volume has declined. But I'm wondering, has anybody thought about rationalizing capacity or idling plants? I mean, is that a real world operating rate, or is it -- or would the operating rates theoretically be higher if you've got -- you have some producers choosing to rationalize or to hold capacity idle for extended periods of time?

MR. NELSON: This is Greg Nelson. So one of the

reasons why you see overcapacity is because there have been a number of plants that have been built over the years, especially in China and Asia. So you know, Kumho built a pretty good plant and expanded. JSR has built a plant. Reliance just built a huge plant in India, even though the demand in India is not that great. So those pounds are going to go somewhere. There's a new plant being built in Saudi Arabia with Exxon and Aramco because they have the feedstocks.

So it's not that there's been a lowering demand. People have been building plants in anticipation of growth, especially in China. Remember, China was reporting growth rates of 9, 10 percent, and now it's down to 7. So people are anticipating a lot of growth in the market, and they've built plants in anticipation of that, and the growth has slowed.

If you spend billions of dollars in building new plants in China or in Saudi Arabia or Korea, you can't just shut it down. There's too much investments in it. So you tend to want to run it, and when that happens, it impacts pricing, because the way you get volume is to lower your pricing in a certain region. It just so happens, North America is the hottest region in the world. Contrary to what anybody says, you know, our economy is pretty healthy. So this is a place people want to come. Europe has been slowed. China is not growing as great as it should be. So where else do you go and put your pounds?

MR. CANTRELL: Are these data showing where the new plants come on stream, some kind of a timeline capacity list available?

MR. NELSON: Yes. This is Greg Nelson again. ISRP has a pretty good listing of the timeline of all the new plants, where they're going, where they've been built. It has an outlook of new ones being built and tells you what products they are and that kind of stuff. It's a pretty good --

MR. CANTRELL: Could that be provided, if it has not already been so, in post-conference?

MR. MC GRATH: We have not provided. We will provide it with the post.

MR. CANTRELL: Thank you very much. Thank you for your responses to all of our questions, and that's all I have.

MR. ANDERSON: Thank you, Mr. Cantrell. And I've polled my colleagues here. They've done a very thorough job of asking questions, and they don't have anymore.

I wanted to follow up on just two quick items. On Exhibit 1 in the power slides of Ms. Warlick, could you just clarify, are these figures by value or by quantity?

MS. WARLICK: They're in quantity. This is Amy Warlick. They're in pounds.

MR. ANDERSON: I would invite you, in anticipation of comments we might here later this afternoon, I would invite you to comment on the trend in the imports on this particular

graphic or table from Mexico, noting the trend that they were up in 2014 but seem to have come back down to the 2013 level a year later. If you could either do that in post-conference brief and particularly maybe after you hear some of their testimony this afternoon.

MS. WARLICK: Okay.

MR. ANDERSON: And the other comment we would be interested in is, recognizing that subject imports doubled between 2013 and '14, according to this pie chart, but as subject imports declined in 2015, it appears that there was also fairly significant increase in nonsubject imports or a large portion of that decline in 2015 was captured by nonsubject imports. So in your post conference brief, if you could just maybe highlight what those countries are and what you think are the factors behind that.

MS. WARLICK: Okay. I can tell you that most of the nonsubject is imports from Germany.

MR. ANDERSON: Okay. Any factors as to why that increase happened in 2015?

MS. WARLICK: I should probably let my clients handle that one, if they know more about it.

MR. MC GRATH: We have some theories on that. It hasn't -- the German product was not there before. It appeared in a larger volume and it's not really in the same category as the others in terms of low pricing hitting the

marketplace. But I think it probably has to do with some intercompany transfer transactions. But we're trying to chase that down, and we will give you whatever information we can get about that.

MS. WARLICK: The unit values in the import data are much higher for Germany, for whatever reason, and we have not, our clients have not found the German product to be particularly difficult and the market particularly low prices, and that's why they're not included as a subject country.

I actually have a chart on my computer I can show you, showing the unit values. In the manifest data, we can see that it's going primarily to Continental and a distributor. So it's not arm's length.

MR. ANDERSON: That's all very helpful. Anything you want to add in post-conference brief would be appreciated. I appreciate the response.

And my last question, and thank you for your patience here, is there's been a lot of talk about capacity utilization, about the contracts and the volumes and everything. But I was curious, there were a couple comments or allusions to inventories increasing. Could you just help us have a better understanding of what is in this industry a typical inventory level and whether you call it normal or consistent inventory levels and also how should we look -- the Commission look at the data that we're going to get in the

questionnaires about inventories, considering there were some comments earlier about, perhaps, ramping up inventories or having enough inventories to -- I think the language was carry over the customers during that two-month period or whatever. So how should we look at that, you know, end of 2013 inventory level and the beginning of 2014 inventory levels, given some of those comments?

MR. MC GRATH: If I can just clarify, this is Matt McGrath. You're interested in that particular period, '13-'14?

MR. ANDERSON: Just overall whether typical industry levels for this industry. Are they higher, lower than you would expect in normal conditions, and then particularly focusing and given the conditions of competition that happened in that 2013-2014 period with one plant being shut down for a short period of time and the comment that there were inventories to close the gap or keep those customers supplied.

MR. MC GRATH: I understand.

MR. ANDERSON: And so forth.

MR. MC GRATH: I would also observe that we've only done initial evaluation of the questionnaire database, but it appears that inventories are higher right now than they have been in some time.

So there might be two different characterizations,

what was going on at the end of 2013 with the closure of the one plant and what's going on now, and we will try to analyze both of those.

MR. ANDERSON: Thank you. Thank you very much.

With that, I wanted to on behalf of my colleagues and the team here thank you very much for being here this morning and for answering our questions and for your direct testimony. It's been extremely illuminating and helpful, and we appreciate that.

I think right now we will take a 30-minute break. So we will reconvene at -- in 30 minutes, according to that clock. Thank you.

(Whereupon, at 1:11 p.m., the deposition was recessed, to be reconvened at 1:41 p.m. this same day.)

AFTERNOON SESSION (1:42 p.m.)

MR. ANDERSON: Good afternoon, and welcome to our panelists and our speakers.

And Mr. Okun, when your panel is prepared, please proceed.

MS. OKUN: Thank you, Mr. Anderson.

I don't know that Petitioners are in the room, but we're happy to proceed, if you want to keep going.

MR. ANDERSON: I think maybe we will pause for a minute or two.

(Discussion off the record.)

MS. OKUN: Thank you, Mr. Anderson.

Mr. Sjoberg will introduce our industry witnesses, but before I do so, for Ms. Alves' benefit, to save you a question, I ran out of time in my opening to address a few issues. One was domestic-like product. With respect to domestic-like product, because we think very little has changed with respect to the factors that you look at on domestic-like product, the Mexican Respondents do not intend to dispute the domestic-like product or the scope. Thank you.

MR. SJOBERG: Thank you. My name is Will Sjoberg, here on behalf of Negromex and Insa, and I would like to introduce this afternoon's panel. To my furthest left, Ms. Okun, my partner. Next to her is Jose Plaza with Insa. Next is Daniela Quintero with Insa. To my right is Tomas

Acevedo with Insa, Alvaro Gomez-Godoy from Negromex, and Herfried Woss. Ms. Quintero will begin her testimony.

STATEMENT OF DANIELA QUINTERO

MS. QUINTERO: Good afternoon. My name is Daniela Quintero, and I am the global commercial intelligence manager at Insa. I have worked for Insa for a little over 10 years now, and I have a little over eight years' experience in the emulsion SBR industry.

I am here with my team to share the perspective of Insa and Negromex about the U.S. and the global ESBR market during the period of investigation identified in the petition starting in 2013 and ending in 2015.

As you probably know and has been already mentioned several times this morning, this is the second investigation by the ITC involving the emulsion SBR. In the first investigation beginning in 1999, the Commission did not find material injury or threat of material injury. We believe that many of the facts and the trends that the Commission observed in the emulsion SBR market leading up to that negative determination are very similar to the facts and trends present in the emulsion SBR market from 2013 to 2015.

I would like to explain how pricing works in the emulsion SBR market and why prices declined are closely tied to the price of raw materials, the price of natural rubber and the availability of substitute products. The manner in which

the prices are set are the same now as they were in the 1999 investigation.

Consistent with the Commission's finding in the prior investigation, the overwhelming majority of Negromex emulsion SBR sales involve annual contracts, and these agreements account for adjustments to the contractual price of emulsion SBR, based on changes in the market prices for both styrene and butadiene, the principal raw materials for the production of emulsion SBR.

Essentially, the price of emulsion SBR tracks the costs of its raw materials. Between 2013 and 2015, the USITC's own DataWeb reported that the unit price of emulsion SBR from the subject countries actually decreased by 30 percent. During the same time frame, the contract and spot unit prices for styrene decreased by 46 percent and 35 percent respectively. Similarly, contract and spot unit prices for butadiene decreased by 36 percent and 48 percent respectively. And you can see this in the handouts looking at chart A.

In addition to closely tracking raw material costs, prices for emulsion SBR are influenced by the pricing of substitutable rubber products, including natural rubber and solution SBR. For example, the price of natural rubber decreased by no less than at least 50 percent between December of 2013 and December of 2015. And you can see this graph in chart B in the handout.

I should also mention the gradual trend in the market for the use of more solution SBR. Out-of-market companies are continuing to develop vehicles with superior performance and durability, as well as reduce fuel consumption.

When comparing emulsion SBR to solution SBR, it is the International Institute of Synthetic Rubber Producers petition that, and I quote, "the market is getting more and more demanding in the aforesaid specifications, and such performance improvements cannot be achieved with ESBR. Making a gradual trend toward the use of solution SBR is inevitable."

Put simply, the improvements needed cannot be achieved by using only emulsion SBR. And tire producers have found no alternative to SBR for increasingly stringent tire performance specifications.

In 2012, the European Union implemented what is called a tire labeling program for certain tire specifications, which include wet grip, noise reduction, and fuel efficiency. People within the industry anticipated a similar labeling program being implemented in other regions, and SSBR capacity worldwide has been increasing as a result.

However, the transition has not happened as quickly as insiders expected. So overcapacity and oversupply of solution SBR has been driving down prices for solution SBR. The increased addability of solution SBR has pushed prices

down, and SSBR prices have a direct impact on emulsion SBR as one of the main drivers.

The main driver for pricing of emulsion, as I mentioned earlier, is the cost of its raw material, especially butadiene. Natural rubber is the second main driver, which is substitutable for synthetic rubber up to a certain point. And the third main driver for emulsion SBR pricing is the supply of synthetic rubber.

Currently, there is an oversupply of emulsion SBR, solution SBR and natural rubber. This is a situation that is not only happening in the United States but is happening worldwide, including Mexico, Latin America, and Asia. We know this because we export to all regions, and we have seen how prices have decreased due to the excess of natural rubber, synthetic rubber, and other raw materials.

STATEMENT OF JOSE PLAZA

MR. PLAZA: Thank you, Mr. Anderson and other members of the committee. My name is Jose Plaza, the commercial manager for Insa. I have 23 years of experience in the industry and 17 years with emulsion SBR.

As the petition explains, the domestic industry in the United States consists of three producers, one of which is Goodyear. Based on our understanding of the U.S. market, we agree with the Petitioners that Goodyear consumes most of the ESBR internally.

Although the company names have changed, the U.S. market has only had the other two producers since before the prior investigation. We understand from our customers that they need to ensure a continued source of supply, and therefore, it is important to have a diversity of supply. Negromex products helps fill the gap in the demand.

In fact, we have supplied the market for the past 25 years with a steady raise of customers. I can confirm that series 1500 and 1700 are the most commonly sold forms of ESBR, and these two series make up the majority of Negromex exports to the United States. The 1500 series is made up of product without oil. The 1700 series products contain oil.

In 2010, the European Union banned aromatic oil in grade 1712. So now different oils are being used.

Negromex has been supplying its customers according to demand agreements. Even though the U.S. market has decreased modestly in size recently, our participation has remained very steady throughout. We have not gained significant market share during 2013 through 2015. In fact, we have maintained the same market share during this period.

Also, in terms of volume, the trend of our sales are lower. Let me explain what is happening in the U.S. market for ESBR for the period between 2013 and 2015. In October 2013, according to our customers in the market, Lion Copolymer announced an indefinite shutdown of its plant in

Baton Rouge, Louisiana, and this shutdown was confirmed in December 2013.

To understand the impact of this announcement, I have to briefly explain how contract negotiations typically function in our industry. The vast majority of the agreements we have with customers are annual contracts.

The reason why annual contracts are preferred by customers is because they don't want to jeopardize their supply. We use a formula to calculate price that is valid for the year, and this formula incorporates changes in the price for monthly measures, which can vary on a monthly basis. These contracts are negotiated every year, and negotiations might start in September and end in December. With current customers, we negotiate based on a running formula. With new prospects, we start with a price proposal based on the market. As I mentioned earlier, negotiation for these annual contracts occur between September and December. And ESBR suppliers have to close all the deals and the negotiations by the end of the year to be ready to supply by the first day of January for the following year.

On March 3rd, 2014, the Baton Rouge ESBR plant opened operations as East West Copolymer. By this time, U.S. buyers have already allocated products with other suppliers. This situation disrupt the market and caused a loss of confidence by the customers. That was a big change in the

strategy for the domestic tire companies, and operationally, they thought they could not guarantee the supply domestically and would have to supply their need through imports.

That was not the only substantial change to the domestic industry during the period of investigation. In September of 2014, Lion Copolymer acquired Ashland Elastomer, and in December 2014, Ashland completed the sale of its facility to Lion Copolymer. During this period of uncertainty, involving two or three U.S. producers in ESBR, the consumers in North America looked for options outside of the U.S. We assume that this is one of the reasons why imports increased in 2014 and 2015. Please refer to chart D and E.

Now let's explain about our inventory system. We have a specific inventory system where we talk to the customers every month and ask for their requirements for the next two months so we can schedule the production accordingly. This ensures that the product is in the warehouse in the way that the customers need it.

At the end of each month, we have the product available in our warehouses for the customers' orders for that month. Although warranties regarding supplies are important to customers, it is also important that the supply arrive on time.

So essentially, the inventories that we have are already sold to the customers by the time they arrive in the

warehouses. They are shipped to and stored in the warehouses based on the customer's specific needs.

Thank you.

MR. SJOBERG: At this point we would welcome your questions.

MR. ANDERSON: We will start our questions with the investigator, Mr. Comly.

MR. COMLY: Thank you. Good afternoon. Thank you for coming and presenting and answering our questions. We really appreciate it.

Let me start with some basic questions. I know Mary Jane Alves already addressed this to the Respondents, but can you talk about the import coverage, and if we're missing any big importers or anything like that. I know from Mexico you're the only producers and importers. So Mexico, we have received your questionnaire responses. So we have coverage for that. But the other sources, if you could talk about that now or later.

MR. SJOBERG: We will take that up in the post-conference responses.

MR. ANDERSON: Thank you. Do you have any knowledge of the Chinese imports, and do you agree with the Petitioners that the majority of those imports are not ESBR imports from China? So in the marketplace, do you see competition from Chinese ESBR?

MS. QUINTERO: Daniela Quintero. In regards to the imports of emulsion SBR, we have seen some emulsion SBR from China, but in small quantities, not a whole lot.

MR. COMLY: Thank you. Can you talk about the recent merger creating the Dynasol group and how that has impacted your corporate strategy, particularly toward ESBR and the shipments? In particular, when we are talking about shipments, it would be particularly shipments into the U.S., so imports into the U.S.

MR. ACEVEDO: Good afternoon. Tomas Acevedo. Yes, this joint venture -- let me go back a little bit. The initial joint venture between Repsol and the KUO Group happened in 1999. At that time it was a corporation just for the solution polymers in Mexico and solution polymers in Spain.

Last year, we got together, both parties, KUO from Mexico and Repsol from Spain, and decide to increase the corporation that we originally had, and that corporation involves the incorporation of the emulsion business, known as Emulsion Negromex in Mexico, and also another plant in Spain for raw chemicals, basically intended for the tire industry. So that was kind of a perfect match, because you have chemicals in a tire and synthetic rubber.

On top of that, there was another two joint ventures that we have in China to produce natural rubber

before the JV. The ownership of that company belonged 50 percent to the Chinese partner and 50 percent to KUO. With the joint venture, now it's 50/50, 50 percent for the Chinese parter, 25 percent for Repsol and 25 percent for KUO.

Based on another joint venture in China to produce solution polymers, at that time it was KUO, 25 percent, Repsol, 25 percent, and the Chinese party, 50 percent.

So actually, the Dynasol group is composed the joint venture we have in Mexico and the facilities that we have in Spain. That's the Dynasol group.

Now, we are serving different markets. Because of solution polymers, we have a small participation, for instance, in tires, in comparison with the participation that we have with emulsion. And most of the shipments that we make, as I said, go to different application. In case of solution polymers, we're talking about goods.

Also, we produce some specific polymers for high specialty materials. Nothing has changed in the way the emulsion business has been operating. Nothing at all.

As a matter of fact, the fiscal reason for each one of these entities remain without change. So you will find Insa LLC in the United States and Negromex in Mexico.

So nothing has changed. Of course, more synergies, definitely. That's one of the reasons of the JV, operation, purchasing, leverage with the size we have as a company. We

are now the eighth largest synthetic rubber producer in the world when we compare to our peers.

So we are not a stand-alone company anymore. We are a bigger group now. But again, the policies, the way we proceed in the market, the way we treat our customers, that hasn't changed.

MR. COMLY: Thank you. That does help me a lot. Can we touch on the SSBR. We heard from the Petitioners earlier this morning that there is some competition, but it's very limited, with SSBR and ESBR. So with the overcapacity of SSBR, does that affect ESBR at all?

MS. QUINTERO: Okay. Daniela Quintero. Okay. So the trend of switching or using solution SBR is not new. Actually, if you go back to the 1998-1999 case, this was really a fact. It was already happening. But when pushed harder, the switch of the usage of solution SBR was the implementation of the tire labeling program in Europe.

Now, this tire labeling does not exclude replacement tires. So solution SBR is used in both original equipment and replacement tires. And this is not only Europe. This is worldwide.

Now, the trend, and still expected, is that a similar tire labeling program will be implemented in the United States and in Brazil, and it's also being pursued in China as well, which is one of the main region of consumption

for tires.

Now, with this in mind and with this happening, like we mentioned earlier, a lot of synthetic rubber producers, a lot of capacity to meet this coming demand. However, we had this crash of crude oil prices, which was a big, big driver for the United States to implement a similar program, because the main goal of the tire labeling program in the United States was the push of higher mileage with the tires.

So what has happened now is that this oversupply in this capacity of solution SBR has driven prices lower. So where you had, perhaps, before, you know, a big gap between emulsion and solution, that gap has been -- continually being closed, because this solution plants are running at 50 percent, 55 percent. So they actually have a lot of pressure by now to push the usage or more usage of solution SBR into the production of tires.

Again, remember, this is 70 percent of the usage of both emulsion and solution SBR. So it has had an impact and what is perceived as the devalue of synthetic rubber, in this case emulsion and solution.

MR. COMLY: I think I will have to come back to that. I will think about your response, and I will come back to that maybe after my colleagues ask questions.

Looking at the global demand for ESBR specifically,

and, as Petitioners talked about, the movement of -- or, I should say, the dumping orders on Chinese tires and the resulting movement of plants and lower exports to the U.S. and China of tires, has that changed your company's shipments of ESBR in any way, and has it affected the exports to the U.S. or imports to the U.S. of ESBR from your firm?

MS. QUINTERO: For the period of investigation, which is 2013 and 2015, as you can see by the trade data and, of course, the questionnaire we turned in, our shipments have remained steady in the past three years. And even if we go back even further, all the way to 2010, '11, '12, as a total, all market share has remained very steady.

Like Jose mentioned earlier, we have a very steady base of customers, and the vast majority is over contracts, and the vast majority is with tires. So we have not had any changes.

And back to your original question, if this tariff being implemented in China has had any big impact or significant, no. We have remained -- our volumes have remained steady for the period of investigation and even if we go further back, and we estimate a market share, it's a very, very similar market share.

MR. COMLY: Thank you. That's all the questions I have for now.

MR. ANDERSON: Thank you, Mr. Comly.

And I will turn the microphone over to Ms. Alves.

MS. ALVES: Thank you. And thank you also for appearing today. I greatly appreciate the fact that you've traveled to be here and that we're taking up time that you could be devoting to your businesses. So I greatly appreciate it.

Let me start by letting you know that any of the questions that I've asked of Petitioners' panel this morning, please feel free to answer them in your postconference brief if I don't ask you directly those questions.

I extend that offer not only to the Respondents' panel but to any Respondents' counsel who are in the audience, and I'm gathering that there are probably some of you, either clients or attorneys. So we are at a stage where we're trying to gather as much information as we can, and the best way to do that is to give us information and arguments. So please send them in.

Turning first to cumulation. I recognize that you are the sole producers and exporters from Mexico, but the case involves imports from four countries. And so before we can get to considering Mexico by itself, I first need to get through the issue of whether or not to cumulate imports from all four countries or not.

Are you going to make an argument not to cumulate imports from Mexico?

MS. OKUN: Deanna Okun with Adduci, Mastriani Schaumberg. We would certainly be making a very strong argument that Mexico should not be cumulated for all the reasons we've heard from witnesses in terms of the market share, all the things that we will be arguing with respect to not cumulating Mexico with other countries in a threat context.

With respect to cumulation for purposes of the original investigation, because we continue to believe that the findings of the Commission that applied in 1999 investigation are very applicable today and the factors haven't changed, and while I might look at them slightly differently if I were looking at it for the first time, we will not be arguing that the country should not be cumulated.

MS. ALVES: Thank you. Basically what the Commission looked at before were imports, regardless of source, and the domestic-like product were fungible with one another made for some of the same applications, went through the same distribution channel, were sold nationwide, and were simultaneously present in the market. That was part of the reason why I wanted to ask that question, to see if there were any differences along the way.

Certainly for purposes of your postconference brief or later today, if you want to make arguments concerning cumulation, I would be interested in those arguments as well.

For the moment, let's just focus on present material injury considerations.

Okay. So looking at the trends of imports as a whole and not just with respect to Mexico, would you agree, based on your knowledge of the U.S. market, that there has been an increase in subject import volume?

MR. PLAZA: Yes, we agree with information that we have seen in the numbers.

MS. ALVES: I understand Petitioners have made some arguments about not having a very good sense of what the volume from Korea is based on official import statistics.

What is your general sense? Are imports from Korea among the largest of the subject import suppliers?

MS. QUINTERO: We would like to, if it's possible, provide that information after, because we do have knowledge of those shipments and the market share.

MS. ALVES: Okay. Obviously, any of these questions that delve into confidential information, feel free to respond -- I don't need to hear it publicly.

Petitioners are arguing the imports may be arriving from Korea as bales, but the import statistics may, in fact, be showing them arriving in a different form. Are you aware of any imports from Korea coming in in a different form?

MR. PLAZA: Well, according to the information of the market that we attend, basically, the form for this

product is in bale. We are not aware of big volumes in crumb or other different form. Sorry, Jose Plaza.

MS. ALVES: Although you describe imports from Mexico as being relatively stable over the period of the investigation, why do you believe there has been an increase in subject imports?

MR. PLAZA: We think the reasons are, because as we mentioned, by the end of 2013, there was an announcement, or at least the market started to contract, and also we had this information. And we learned that the Baton Rouge plant shut down, the announcement. I'm talking about the chart number 2.

MS. QUINTERO: Chart E, it has a timeline. Sorry. Daniela Quintero. You have a chart of what is the time period or the window, if you want to call it, where annual negotiations start and when the announcements of these two events were. They both coincide with that same period of annual negotiations.

MR. PLAZA: Jose Plaza. Yes, as I mentioned, we started to know about this change in -- it was basically at the end of the year when the negotiations had started. At the moment that they announced it, some of the deals were running. So what we understand is because of this disruption, some of the big companies started to look for some supply from companies coming from other regions. That way, they can procure and secure the supply for 2014.

As we mentioned, volumes for those companies are big volumes and cannot be jeopardized. So that's what we understand has been the increases in the imports to the United States. This is a part of the situation of the disruption that we saw in the market.

And we also saw another situation by the end of 2014 when Lion buys Ashland. The same period of time, the last part of the year, when you are running the negotiations with the main big contract companies. So that is also this kind of, you know, negotiations that can be jeopardizing, you don't guarantee the supply for the next year. The timing is exactly when you are having those kind of negotiations.

MS. ALVES: What is your sense of the market now that that transaction has occurred? Are those imports beginning to dissipate going forward? We're coming up on the next round of negotiations presumably, at least for the tire market. If we're in August, those would starting to be taking place now so they can be finalized by December. How is the market reacting to that?

MR. PLAZA: The negotiations, I don't think, are going to change. They're going to start September, October, and will end around December. The situation of the local suppliers, I think, is going to be complicated because imports from other countries are already here for two years. They have a good position. So I think the situation is going to be

hard, and I don't think it is going to change much.

MS. ALVES: Okay. So your sense is subject imports aren't necessarily going to leave the market?

MR. PLAZA: To leave the market.

MS. ALVES: Thank you. It's helpful to know, not being a member of the industry, what some of the thoughts are out in the market.

Then can you talk about nonsubject imports? There was some discussion about nonsubject imports from Germany. Are you aware of other countries that are not involved in this case that are supplying?

MS. QUINTERO: No, only, as you mentioned, Germany would be one of the main importers as well.

MS. ALVES: Okay. To the extent that there was a recent increase in imports from Germany, do you have any sense what that was responding to?

MS. QUINTERO: No. Again, I think this was mentioned also in the morning. Most of the tire companies are global companies. So these global companies have global agreements with synthetic rubber producers, and perhaps they might give to some producers two or three plants and then another producers two or three other plants or more plants. So this, I guess, selection or strategy of suppliers' explanation will better be answered from the tire companies.

MS. ALVES: Thank you. Let me turn back to more of

a legal question. In the last case, the Commission looked at the issue of whether or not the captive production provision applied. It found that it did not. Nevertheless, the Commission considered the level of captive consumption to be a relevant consideration in this industry.

Do you have any thoughts one way or the other?

MS. OKUN: We will certainly address this in our posthearing brief. I want to look at the information that's come in. But it looks consistent with how the Commission viewed it, and obviously taking into account the changes in the law. I want to make sure we take that into account when we brief it as well.

MS. ALVES: One less prong to analyze. With respect to conditions of competition, we've talked a little bit this afternoon and this morning about the fact that tire producers account for a large share of the purchases in this market and that there are also nontire purchases as well.

Can you talk to us a little bit about the number of purchasers in this industry, both on the tire side and on the nontire side and then how many changes there are over time in terms of who those purchasers are using as suppliers? Is there that much turnover, and where is the purchasing power? Is it with the purchasers? Are there a few purchasers that account for a large volume of purchases?

MS. QUINTERO: The structure remains very similar

to the 1998-1999 case. Perhaps there has been more consolidation. That's one of the changes, there has been more consolidation in the tire industry. And the tire industry remain the biggest buyers for emulsion styrene-butadiene.

MS. ALVES: And has there similarly been consolidation for conveyor belts or some of the other compounders or other purchasers for nontire uses?

MR. PLAZA: Jose Plaza. Probably in the compounding you can find more consolidation than some other consumers of rubber.

MS. OKUN: Ms. Alves, maybe Mr. Plaza can also respond to the portion of your question about their own purchasers and whether you have many changes in your customer base over time.

MR. PLAZA: Yes. Jose Plaza. And as we mentioned, we have had a base of customers for many years, and the most, majority of our customers are based on contract.

And these agreement have been in this way for a while. If you see the structure of the contracts and the formula as we work with them have no changes. As we mentioned before, obviously, you have the fixed cost of the formula and composition according to the raw material.

And the changes are on a monthly basis, and this is according to the contract cost. That has not changed. So for us, the structure of the industry and the difference between

1999 up to today is similar, is not big difference.

MS. OKUN: I probably should ask the question better, which is whether the number of customers you have changed. So I think what you're saying is you start in any given year with these contracts. You're saying customers come back to you mostly, and you're negotiating with the same people? Is that how I understand it? Ms. Alves is asking whether often customers would switch to another supplier.

MR. PLAZA: As I mentioned, the base of customers are basically the same, and we negotiate on the previous formulas and contracts that we have.

MS. ALVES: And have you noticed any changes with respect to your competitors? Are purchasers frequently changing suppliers, even if your customer base is relatively stable? Are other purchasers changing suppliers from one year to the next, or are they generally stable over time?

MR. PLAZA: Well, probably the main changes happen by the end of 2013 and 2014 with this disruption in supply in the U.S. Basically, we cannot share. We don't have information from the customers about who are the suppliers. That's confidential information. We don't have access normally. But we know that the market had those changes in those periods of time.

MS. ALVES: Okay. Thank you. And you have alluded to discussions that we had this morning, Mr. Plaza, in terms

of the contract prices and the variable component and then the fixed component.

Have you been seeing in your negotiations more pressure on reductions on the fixed component of the contract pricing?

MR. PLAZA: Well, this pressure is every year. The situation and the buyers are always looking for a better position and better leverage. And I think that one of the factors, there is a fact, obviously having more pressure is the global situation, which is an oversupply of emulsion SBR and also, the solution SBR. So you can see those kind of drivers pushing on the prices.

However, as I mentioned, the formula is still the same. It's just the fixed price that you can negotiate, and you have some limitations to go lower and cause damage to yourself.

MS. ALVES: Thank you. There was some discussion this morning and additional discussion in the petitions about how attractive the U.S. market is. Would you agree with the characterizations of how attractive the U.S. market is based on the fact that there are now antidumping duty investigations or petitions in other countries, there are now orders on tires in the United States and elsewhere? Is that making the United States' ESBR market more attractive relative to some other markets globally?

MR. PLAZA: Jose Plaza. Well, I think if you consider that you are not in North America, it could be really attractive for some other regions or producers. In our case, as we mentioned, our participation has been steady, and we see the demand steady or slightly lower.

I don't know if you have any other comment about it.

MS. QUINTERO: Daniela Quintero. I think yes, the United States is an interesting market. But we think also what is driving this change in the flow of synthetic rubber from one region to another one is the oversupply of capacity. The installed capacity that we currently have, I think that's one of the main difference between the 1998, 1999 case to this one, is that there is more capacity of emulsion, there is more capacity of solution, and there is more ability of natural rubber production. Those three factors are weighting in to what is happening, not only in the United States. Like I said, this is a global situation.

MS. ALVES: And then there was mention this morning, so I will put you on the spot, that you're considering filing a petition of your own on ESBR. Did you want to comment on that?

MR. ACEVEDO: They were talking about -- I'm sorry. Tomas Acevedo. A time ago, I would say 2009, we were suffering a situation in Mexico where product coming from the

U.S. was sold at the prices that we couldn't understand. At that time we made an evaluation based on interpretation of damage. We couldn't come out with a final conclusion. But we issued a note in this magazine here in the United States saying that we might consider that possibility.

At that time our concern was material import from the U.S. into Mexico by one of the producers here. So yes, that was an intention. Yes, we are still weighing the possibility, because the same argument that you heard this morning about -- and they're talking about the attractiveness of North America market, including Mexico. We talked about all different investments in new tire plants, et cetera.

So one of the risks that eventually we want to consider is that in the same way, if something happens here in the United States in terms of dumping, producers in other regions might see Mexico as an attractive market.

So this situation, as Daniela mentioned before, is global, but this impact is more regional in the NAFTA area.

MS. ALVES: But at this point in time, are you seeing additional imports into the Mexican market from Brazil or from Korea or Poland?

MR. ACEVEDO: Yes, from those countries, not Brazil. This morning, it was mentioned that we have a process in Brazil. That process was concluded last year. We decided, after three periods, four periods, many years just to drop it,

just to give an opportunity to have fair competition. So far, we haven't noticed any difference in the Mexican market. But given the current situation, the current circumstances, it wouldn't be a surprise.

MS. ALVES: Okay. Thank you. I think those are all the questions I have at this point. Thank you for all your answers. They've been extremely helpful.

MR. ANDERSON: Thank you, Ms. Alves.

Now we will turn the microphone over to Ms. Burke.

MS. BURKE: Thank you. I first want to ask about -- there's been a lot of talk about all of the like overcapacity globally in terms of SSBR, ESBR, and natural rubber.

So I guess my first question would be, how substitutable do you find the three products for your purchasers? Have they told you? Because I guess I'm wondering how -- I understand your response on SSBR and the regulations that would have been -- that were thought to be in different countries and how that would be changing demand, but I'm not quite following how that would translate to the ESBR demand market if they aren't substitutable.

MS. QUINTERO: Daniela Quintero. So the theory of natural rubber producers was to follow the price of crude oil prices. And I believe we added a chart where we compare the price of crude oil versus natural rubber. And the reason

behind this is the assumption was if crude oil prices go up, then the raw materials for the production of synthetic rubber will go up, and therefore, they will go hand in hand. And that would be the price, the market price for natural rubber.

Now, back to your question, why, if they are not 100 percent interchangeable, why does it affect. It's still one of the main drivers. It's also substitutable, but it's one of the main drivers for the pricing of emulsion SBR and solution SBR, because, as I mentioned earlier, they go into the same applications, are very similar. 70 percent of it, again, goes into tires.

So at the end, when you look into the prices of oil, you go and see the prices of synthetic rubber, they will be likely in line with natural rubber prices, because they're one of the main drivers, and vice versa. It's an indicator or index to look at.

MR. SJOBERG: Could you also talk about the substitutability between ESBR and SSBR.

MS. QUINTERO: I think I said this earlier, but in the production of tires, there has been an evolution, if you want to call it like that, of increasing the production of what they call high performance or, they called this morning, green tires. These green tires, of course, include or have more solution SBR in them. This strain is not specifically or only for the European unit. Even though there has not been

any tire labeling program as strong as the one in the European region, it is happening in the rest of the world. The main producers are switching and using more solution SBR.

So it is affecting also the prices of emulsion, because as solution SBR producers are trying to push this new product, if you want to put it, or new element into the production, it's also giving leverage to the buyer saying solution SBR prices at this level, then emulsion should be similar or below. So it's leverage that they use, for one, and for two, it's impacting the tire demand for their type of rubbers. Again, they're trying to compete to go into that same tire.

MR. PLAZA: Jose Plaza. From the technical point of view, and it was mentioned earlier, you can replace ESBR with natural rubber, not 100 percent, but it's possible.

And it depends on the price and the availability that is going to dictate that change. Under the current situation, the natural rubber is more available. I don't remember, but this period of time, has been available in all the regions in the world. So you can use natural rubber because it is cheaper.

And we have some references that we have and we can share. You can see the price of the natural rubber is even below the ESBR. So that's one of the drivers that you can use to replace the emulsion.

Some years ago when the situation was the opposite and you could see prices of emulsion below the natural rubber, then you can see the trend to replace the ESBR -- or the natural rubber with ESBR.

Now, talking about the SSBR, this is a different product with a different technology, and the properties that you are going to get with the SSBR are going be different, and those properties are really good for high-performance tires.

So at a point, you can replace each other, but the final properties are going to be different. So if you're going to participate in a market that is high-performance tires, you have to go to SSBR. So then you can see this replacement or this interchangeable within emulsion SBR.

MS. BURKE: What I'm taking from this, and I want to make sure I understand, if natural rubber is priced lower than ESBR, then you have seen before that customers will switch to natural rubber. And so that's affected your pricing demand. And then also with the increase in high-performance tires and that ESBR can't be used in those, that's also affecting price and demand?

MR. PLAZA: Yes. As mentioned before, this excessive capacity for solution SBR -- I mean in ESBR and solution SBR. However, if you see the prices in North America, basically in the U.S. between SSBR and ESBR, there is a gap, and there is a higher price for the SSBR. In some

other regions, this gap has been shrinking, and it's because you have this pressure because of the availability, and the prices are going to get closer.

MS. BURKE: Okay. Then I guess I would like to switch to the raw material costs. I appreciate the document you gave us.

So to what extent do you attribute the decrease in raw material costs to the change in prices? I know that it's -- you said it's a major factor in production, but we just were talking of the overcapacity. I'm trying to figure out which do you think has had a bigger impact on the prices of ESBR, raw material costs or, you know, the global market and demand?

MR. PLAZA: Jose Plaza. Well, as mentioned before, the main drivers for the prices of the emulsion SBR are the raw materials. You have also the prices of the natural rubber. And in the third place, you have this supply or availability of other interchangeable products like natural rubber or NSBR. So these are the main drivers that you can see in this situation of the ESBR.

I'm not sure if that is the answer that you are expecting?

MS. BURKE: That's fine.

MS. OKUN: I think you were talking relative importance of the three, and I think maybe posthearing with

confidential information we can go into a little more detail about that.

MS. BURKE: That would be great. So my next question would be, how interchangeable are like imported ESBR to, say, the Petitioner's ESBR? Is ESBR completely interchangeable globally from different countries, or are there properties in each product from each country that are different?

MR. PLAZA: Jose Plaza. Talking about the series 1500 and 1700 that we are renewing, yes, those are interchangables, and this is from the Petitioner's places or some other countries.

MS. BURKE: Okay. I think that's all my questions. Thank you.

MR. ANDERSON: Thank you, Ms. Burke.

Now we will turn it over to Ms. Brinckhaus.

MS. BRINCKHAUS: Hi. Good afternoon. I would also like to thank you all for coming and answering our questions. It's been very helpful.

I just have one quick question. Mr. Plaza, you just mentioned, in reply to one of Ms. Burke's questions, and we've heard a lot this morning about SSBR having different properties for high-performance tires, and there's a price premium for this product. Is it substitutable the other way? Are there any -- does ESBR have any properties that would be

considered more desirable than SSBR? Besides the price factor, would you be able to put SSBR in instead of ESBR?

MR. PLAZA: Well, no, it's not possible. I mean, you can replace each other, but the final properties of the tire are not going to be the same.

MS. BRINCKHAUS: Okay. But depending on the properties you're trying to get with the tire, the final properties you want to get -- I know mileage is one you can get from SSBR. Are there any like desirable properties in tires that you can't get from SSBR? Does that make sense? Like with the trend toward SSBR, and understanding that that might contract the ESBR market, I was wondering if there was any properties where it's going to keep it on the market forever kind of thing.

MR. ACEVEDO: May I? Tomas Acevedo. Definitely, the properties you achieve can be different than those with emulsion SBR. In some cases you can contain one or two or 1-1/2 of those properties you're looking for from emulsion SBR, but not 100 percent. You have wet traction, noise in the case of Europe as a regulation, but also you have -- and traction.

And you have ability of the tire. So you have that balance with a pointer and also with a filler. So it's not a mixed system. It is not only the rubber providing all those properties. It's solution SBR in combination with silicon,

for instance. In the case of emulsion SBR, you're talking about a standard tire. You're talking about emulsion SBR and carbon black. It depends on the system you are using.

In general terms, you cannot obtain the same properties with emulsion SBR and silica than solution SBR and silica. In short, no, you cannot get the same properties with emulsion SBR if you are trying to achieve the same properties as solution SBR.

MS. BRINCKHAUS: Okay. That's all my questions. Thank you.

MR. ANDERSON: Thank you, Ms. Brinckhaus.

Mr. Cantrell?

MR. CANTRELL: Thank you all for your presence here today and for your responding to our questions.

I am interested in the differences in the manufacturing processes between the Mexican operation and the U.S. operation for ESBR. This would include engineering design comparisons, production economics, product distribution, the age of the plants, and any additions or deletions to capacity. Anything of that nature, we would be interested in.

MR. SJOBERG: We will provide that in posthearing.

MR. CANTRELL: Okay. And also, any product characteristics that may be different. I believe you said that the 1500 and 1700 are basically interchangeable. But if

there's anything that you can address in that that you think may be different or also in conjunction with the solution SSBR.

Another thing that would be of interest, if you could comment on the ramifications of the Goodyear building a new tire plant in Mexico, would be of interest, and how that might affect the supply of ESBR or SSBR or both.

MR. ACEVEDO: Tomas Acevedo. In that regard, talking about the Kuo plant. We will provide the other information that you requested. In the case of the Kuo plant, it's ongoing. The capacity of the plant is going to be around 6 million tires per year. In principle, it's going to be a state-of-the-art facility. So normally, when the tire producer refers to a state-of-the-art facility, they're talking about high-performance tires. And we are talking about solution SBR.

As a customer, we have conversations with them because we have two facilities in Mexico, one for emulsion, the other one for solution. But so far, nothing has been concrete.

My thought is that they have enough capacity in U.S. to supply that plant. So if any, the efficiency factor or operating rate will go up based on the consumption of rubber. That's the best assessment that we have so far.

Normally what they do, plants all over the world,

most of the time, they supply themselves, either with emulsion SBR, solution SBR, or even polybutylene.

MR. CANTRELL: Thank you. And something I was just curious about, we were talking about oversupplies of ESBR and SSBR. But are there any other synthetic rubbers that are even in more critical oversupply than those two?

MR. ACEVEDO: For the industry of interest, no. There was some oversupply of polybutylene maybe one year, two years back. The manufacture is still low. Most of that capacity is in China, so it doesn't have much of an effect globally.

Yeah, in general, you might say that considering the numbers all together, yeah, polybutylene, emulsion SBR, and solution SBR, the three of them, we have more material available than what is in demand.

MR. CANTRELL: All right. Thank you very much and for supplying the information request.

MR. ACEVEDO: Thank you.

MR. ANDERSON: Thank you, Mr. Cantrell.

I'm going to visually scan our team here and see if they have any follow-up questions.

Okay. Ms. Burke, if you would like to go ahead.

MS. BURKE: So going back to the mention of like contract negotiations, are you aware of any customers that bundle purchases of ESBR or SSBR or natural rubber from a

producer that -- well, a producer that produces both or all of them?

MR. PLAZA: Yes, it's possible. We have seen some negotiations when they are including ESBR and solution SBR, and also polybutylene.

MS. BURKE: And my last question is -- and this kind of goes back to the interchangeability question. So if it doesn't make sense, just tell me. But are there any factors that affect the quality of ESBR from a customer's point of view? Is there like a higher quality or lower quality? And if that's the case, why might that be?

MS. QUINTERO: Daniela Quintero. In regards to the 1500 series and 1700 series from the countries that are being investigated, including Mexico, it's very similar quality, very similar, for those series, 1500 series and 1700 series, yes.

MS. BURKE: Okay. Thank you.

MR. ANDERSON: Thank you, Ms. Burke.

I think Mr. Comly has a question or two.

MR. COMLY: You talked about natural rubber and the price on natural rubber in comparison to the prices of ESBR. And you had noted that natural rubber was at a lower price than ESBR; am I correct?

MR. PLAZA: Yeah.

MR. COMLY: I'm looking at the Petitioners' Exhibit

6. I don't know if you have that. But it shows natural rubber being higher priced in North America, in particular. Can you address that? It seems to be a little different story.

MS. QUINTERO: So one of the main differences that you see in this chart is, I believe, if I'm not wrong, that the information presented by the Petitioners was obtained from his Global, which is a consultant here in the United States. And the price reference that we use or the source of it, it's the Singapore Commodity Exchange.

And the reason why, in the particular case of Negromex, we follow the Singapore Commodity Exchange as an index of natural rubber price is because Singapore is one of the main hubs for the trade of natural rubber. 93 percent of natural rubber is produced in Asia. And the Singapore Commodity Exchange price index, it's reported on a daily basis.

In comparison to the indicator that they used, this is an indicator that comes out monthly, and it's available five days once the month begins. Let's say -- for instance, we're in August. You won't see the price of July until August 5th.

So for us, because natural rubber prices are one of the main drivers for emulsion, we follow the trend of the price on a daily basis from Singapore, which is one of the

main hubs for trade of natural rubber, to understand and to have a better grasp of what is happening in the market.

So we think that this is the best indicator to know what is happening as quickly as possible if you want to see it that way.

MR. COMLY: But if you look at it from a purchaser's perspective, I believe your argument was that the purchaser would buy more natural rubber because it's a lower price; right? From a purchaser's perspective, they probably don't look at it on a daily basis, I would assume, because they don't purchase on a daily basis.

MR. PLAZA: Well, please keep in mind that we are supplying to the big companies in the U.S., basically the tire companies. Those companies are global, and some of them have locations and offices in Singapore where they are trading the natural rubber. So that's why we are following this index which represents typically the industry that we are serving.

MR. COMLY: So when you go to negotiate in those yearly contracts, because those are the majority of your sales, do they -- what do they look at? When they go to decide for the next year, am I going to buy more natural rubber or am I going to buy more ESBR? Do they look at the average across the whole year and say I'm going to buy more natural rubber because I believe it's going to be lower?

MR. PLAZA: Well, I don't have that information. I

can't tell you exactly what are the drivers our buyers have to make that decision.

MS. OKUN: Perhaps, Mr. Comly, could you comment on when -- because I don't think you've touched on this, when a contract price would change during the course of a contract because of raw material costs? Would there be be any changes during that time?

MR. PLAZA: No. Once you have the agreement with the formula, the prices are not going to change. The negotiation that you make is for one year. It's not going to change the structure of the formula.

MR. ACEVEDO: May I add something? What they do, when we go to negotiations, they look at the big picture, what is the demand of natural rubber, what is the trading price for the previous year, for the coming year, what is the balance over and demand of synthetics.

It's not that they take the price of natural rubber literally. What they do, they make the assumption of how it's going to be projected, based on price of crude oil, demand, GDP. And they combine all these drivers, and based on that, they can estimate what is going to be the balance over demand and the availability of products, X, Y, or Z. Based on that is how they're going to negotiate. It's a combination of factors. It's not only that they center their attention on the specific price of natural rubber at that particular time.

So they look at a whole picture.

As a matter of fact, as we mentioned before, in some cases, and you will look at in the volume, sometimes we have to walk out and say no, we are not going to take that proposal or that opportunity.

MR. COMLY: Thank you. That's all I have.

MR. ANDERSON: Thank you. I want to give you a fair opportunity to comment on the one question I have, which is, of the last panel I asked the question about the trend in imports for their Exhibit 1 for Mexico.

In particular, there was an increase in 2014. Either now or in your post-conference brief, if you would describe that increase. Did you pick up additional contracts? We heard today the demand was down roughly 5 percent over the period of investigation. So what factors drove that increase in 2014 imports from Mexico. You can do that in post-conference brief or comment on it now. Thank you.

With that, I want to thank you, the panelists and counsel here, for all the information in your presentation and for being here today with us. It's been very helpful and very enlightening to learn more about your industry and the factors of competition. We will take just a minute or two to let the Petitioners present their closing arguments. Mr. McGrath, maybe take a few minutes to get ready and then present. Thank you.

CLOSING REMARKS OF MATTHEW T. MCGRATH

MR. MC GRATH: Okay. Thank you very much.

How much time do I have, by the way, Mr. Chairman?

That's okay. We will be about five minutes.

Thank you very much. I should mention, before I forget, we are always very thankful for how quickly and accurately the Staff works on these cases. It's pretty amazing in what short a period of time how much you accomplish and without any self-awarded extensions of deadlines. It's a difficult job, and we will do our best to provide everything that we can as quickly as possible.

I just had a few comments, and if you don't mind, we will offer rebuttal and closing comments here at the same time. I had a few comments, and also, Mr. Zeringue will offer some critique as well on what we've been hearing about SSBR, because that seems to be an important factor for some in looking at the nature of this market.

First of all, one of the things that we just heard was that there was -- there was discussion about the increase in imports and volume in imports in 2014. That mention was repeated more than once. And the 2014 incident, at the end of 2013 when Lion announced it was closing the one facility, and the implication, I think, has been offered that the increase in imports in 2014 was a defensive measure by purchasers in the United States who needed to replace what they anticipated

would be lost supply, and that explains why the imports went up.

Two comments there. We're not really arguing or trying to make a point that imports went up in 2014. We wouldn't be here if that's all it was. We're saying that imports in volume have gone up over the entire period, since 2013 up until now, and it appears that the data that have been submitted confirm that they continue to go up. 2014 was a spike and apparently for reasons that were described to you. But it's not that it went back down to 2013 levels. It was already on the rise and continued going up.

But the other thing that's missed in that repeated discussion about the reason for that surge in 2014 was the reason for the announced shutdown of the plant in Baton Rouge at the end of 2013. According to the news reports, Mr. Zeringue had indicated that it was market conditions. Well, a part of market conditions is low prices because of imports in the market. Oil prices were continuing to go down. The company was not seeing profits. It was having a hard time recovering its costs because of the presence of very low priced imports.

So for that period of time, there was, then, uncertainty in the market caused by the exit of a company due to low priced imports. I think that that's pretty much the definition of dumping.

A second point, I'm glad that we're -- I think we're in agreement on the issue of overcapacity. Ms. Quintero did mention, because it's difficult to deny that oversupply of capacity is what's pushing ESBR from one place to another around the world. And she had indicated that she agreed with us, I guess, that the global situation in that respect is different from 1999 when you looked at this before. There were some trends that superficially appear the same, but the capacity is so much higher now than it was then. It changes the picture quite a bit.

And I would like to turn now to Mr. Zeringue to talk about natural rubber and what we've heard about its impact on ESBR, as well as SSBR.

CLOSING REMARKS OF JESSE ZERINGUE

MR. ZERINGUE: Thank you. I appreciate your patience. Again, Jesse Zeringue. In regards to natural rubber, I tend to agree with the information that has been presented in terms of the pricing of natural rubber. So you have been presented information that show the price of natural rubber trended the price of crude oil because crude oil derivatives are the feedstocks for ESBR.

I agree. In that case, you would expect the price of natural rubber to follow the price of ESBR, not lead the price of ESBR. So I tend to agree with that data set.

In terms of substitutability, from our experience,

there is some substitutability between the two, but it's limited. So you don't see, and I mentioned this earlier, a 100 percent natural rubber tread or 100 percent synthetic rubber tread on replacement passenger car tires. Yes, there is some degree of substitutability, and our estimate is plus or minus 10 percent in or around that 50/50 mark. But again they're not wholesale substitutes for each other.

Regarding solution SBR, Mr. Isaacs gave a little bit of information on the characteristics of production of emulsion SSBR. They are very narrow molecular weight polymers. They are not broad molecular weights. Typically, these polymers are tailored for certain needs by the tire companies for tread compound, rolling resistance, high performance as they mentioned. These are very tailored materials.

Supporting this is the fact that most of the major tire producers in the U.S. are backward integrated into solution SBR. Guys like Michelin, guys like Bridgestone, Firestone, guys like Goodyear, they all have their own solution SBR plants, and that's all because of the closely held technology and the tailored nature of those polymers.

There was a recent press release that Zeon and Sumitomo are considering combining their solution SBR businesses, and we believe much of that is due to the fact that they couldn't really penetrate the merchant-type market

for the polymer because these are very tailored polymers. So I want to offer that as a point of clarity, and I'm sure in your investigations you will see that those tire companies have those facilities in their portfolio.

MR. MC GRATH: To wrap up on the SSBR point, one of the handouts that you got was a quote from IISRP, indicating that "it is IISRP position that the market is getting more demanding and such performance improvements cannot be achieved with ESBR and the gradual trend for the use OF SSBR inevitable."

That quote is not about the general substitutability of those two products. It's about high-performance specification tires and that ESBR could not satisfy those high-performance specifications, as Jesse has said, that a lot of the producers are backward integrated to their own SSBR. If anything, we think that it indicates a disconnect between the two. They are not substitutable. They do not affect each other's pricing and could not affect each other's pricing.

So with that, I just want to conclude by saying that I urge you to look back, once again, at the financials of this industry, including Goodyear, and just see what has been happening.

When you take a look at that and compare it to the pricing level of ESBR over the last three years, where it's

gone, where it is going, and look at the -- look at some of the new possibilities, some of the new markets were pointed out to be in the future, we should be able to take advantage of them and become profitable, and it's not happening. There has to be a reason for that, and it's pretty clear when you look at the pricing. The volume is higher, and the pricing is lower. And the profitability is not there. So we ask you to recommend a affirmative determination.

Before I leave, I just want to point out that the Commerce Department did initiate the cases today. Obviously, you knew or we wouldn't have been here all day. So all four countries are subject to investigation now. Thank you very much.

CLOSING REMARKS OF DEANNA TANNER OKUN

MS. OKUN: Thank you again, and I really thank the Staff for their patience today and for asking so many great questions of both panels, and we look forward to providing more information in the posthearing brief. Mr. Sjoberg is going to do the closing, but I would like to go through a few rebuttal points. And we will cover this in our postconference brief.

There is a lot of agreement from what we heard from the Petitioners' panel. It continues to be the case that replacement tires drive demand. There was agreement that these purchasers are global buyers and that security of supply

is important, and therefore, they often have more than one source of supply and need that.

There was agreement that the raw material costs are still a large portion of the market and of these contract pricing. There was agreement that the monthly contracts -- I'm sorry, the contracts continue to comprise a large portion of the market, and that they are still set by a formula that's been around -- I think someone said back to World War II. I don't know about that, but I know it's been a formula that's been around.

So where is there disagreement and the opportunity to rebut? First, the impact of the shutdown and the restarting. And I'm going to -- Mr. Sjoberg is going to talk about that in detail, but I do think it is very relevant to the point of what subject imports did in the market during that period and how to evaluate both the volume and the pricing when there was a disruption in supply, where it was clear that you had purchasers who needed to look for alternatives, where there's an admission that you had high-cost plants, and where they were in the spot market for some of their product, and that can impact both volume price and impact the statutory factors the Commission needs to look at.

And there was also, of course, the recognition that the producers had to spend some time gaining back the trust of

their customers. That isn't the fault of subject imports, and nor should subject imports be punished for it.

With respect to the other factors, with respect to raw material, we will, of course, be going through this in our posthearing and talking about the impact that that has.

But you heard time and time again from our industry witnesses that it's not just one driver that matters for these prices. There are several. There are the impact of raw materials. There's the impact of the substitutable. They don't have to be 100 percent substitutable.

What these sophisticated producers are telling us is that this is a global market where you have an impact from many things that make a difference to prices. Raw materials, substitutability, the price of natural rubber, which a sophisticated buyer is looking at and seeing it before they sit down and negotiate.

So I think that's the bigger picture and provides context to the evaluation of the statutory factors.

And then with respect to the overcapacity argument, we will, of course, address that in greater detail, but the point of that relates to my earlier point, that it is a global market for several products, all of which play a role in the pricing of ESBR.

So this is not a case where you have a commodity product, where you have unsophisticated producers in other

countries looking to dump product here or there. This is a case where you have a product that's been around for a long time, with sophisticated purchasers and sophisticated producers, and the subject imports are not having a material adverse impact on this industry.

And I will turn it over to Mr. Sjoberg for the closing.

CLOSING REMARKS OF WILLIAM C. SJOBERG

MR. SJOBERG: Thank you for your patience today. When I first got involved in this case, I thought of Yogi Berra's quote. This is déjà vu all over again.

The trends and patterns associated with the facts of the POI of this investigation track for, for all intents and purposes, those of the 1999 investigation, except for two critical events. The effects of which, when taken together, clearly support a finding of no reasonable indication of injury or threat thereof.

It is impossible for me to overemphasize the effects that the fourth quarter 2013 shutdown and sale of the Baton Rouge facility and the fourth quarter 2014 sale of the Port Neches facility had on the market. As previously stated, the fourth quarter is a quarter in which contracts for SBR for the coming year are negotiated. As recognized by the Commission in the 1999 investigation, ESBR customers want a steady, reliable, diversified source of raw material.

To the extent that subject imports increased during the POI -- and Petitioners have said there's an increase throughout the POI. But to have an increase, you have to have a base. So 2013 is your base. Now you're looking at 2014 and 2015 and what happened. To the extent that the subject imports increased during the POI, those increases were precipitated by the Petitioners' shutdowns and restructuring. Customers acting to maintain a steady, reliable source of supply acted as any prudent businessperson would. They sought to diversify their sources.

Put it another way, there was customer uncertainty as to whether the Petitioners could or would be able to supply ESBR. I believe the Petitioners provided you an example of how that uncertainty created by the shutdown caused Hardwick to switch source from the domestic industry to subject imports.

Petitioner also admitted that East West had no contracts in 2014 and was forced to rely on the spot market. Coming back online, it's only reasonable to assume that they were forced to aggressively price at levels low enough to regain market share and otherwise re-establish themselves as a reliable supplier.

With the Petitioners' own reported high cost structure, that had to have a negative impact on the prices it was able to obtain, particularly the fixed component. As

reported, the other petitioner, Lion, sold the Baton Rouge facility because of competition from imports.

Within a year, it purchased the Port Neches facility for reasons other than ESBR -- or other reasons than the ESBR facility. It's only reasonable to assume that this also caused uncertainty in a market, because why would a customer continue to source from a company who is not dedicated to ESBR. Indeed, Petitioner stated that Lion had to spend at least a year establishing -- re-establishing a commitment to the industry.

In short, the uncertainty caused by the Petitioners' shut down and changes in ownership, both of which are new to this POI, and decreases in prices of raw materials and prices of natural rubber, both of which are consistent with the previous POI, are the basis of the increase in volume and subject imports and decreases in prices for ESBR, not imports.

Thank you very much.

MR. ANDERSON: Thank you for your closing statements. On behalf of the Commission and the team here, I would like to thank the witnesses for coming today and to counsel for the helpful information and helping us learn more about the industry and the conditions of competition for ESBR.

I want to mention a few key dates that would be of interest to many of you. The deadline for submission of

corrections to the transcript and submission of post-conference briefs is Tuesday, August 16th, and if briefs contain business proprietary information, please also provide a public version. The Commission has tentatively scheduled its vote on these investigations for Friday, September 2nd, and its determinations will be reported to the Secretary of Commerce on Tuesday, September 6th. And the Commission's opinions will be issued on Tuesday, September 13th.

Again, with that, I thank all of you, and this conference is adjourned.

(Whereupon, at 3:18 p.m., the preliminary conference was concluded.)

CERTIFICATE OF REPORTER

TITLE: In The Matter Of: EMULSION STYRENE-BUTADIENE RUBBER FROM BRAZIL, KOREA, MEXICO, AND POLAND
INVESTIGATION NOS: 731-TA-1334-1337
HEARING DATE: 8-11-16
LOCATION: Washington, DC
NATURE OF HEARING: Preliminary

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 11-16-2015

SIGNED: Mark A. Jagan
Signature of the Contractor or the Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker identification and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceedings.

SIGNED: Christopher Weiskircher
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I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.

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Signature of Court Reporter