THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of: ) Investigation Nos.: AMMONIUM SULFATE ) 701-TA-562 and 731-TA-1329 FROM CHINA ) (FINAL)

Thursday, January 12, 2017

Main Hearing Room

U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C.

The meeting commenced, pursuant to notice, at 9:30 a.m., before the Commissioners of the United States International Trade Commission, the Honorable Irving A. Williamson, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

CHAIRMAN IRVING A. WILLIAMSON, (presiding)
VICE CHAIRMAN DAVID S. JOHANSON
COMMISSIONER MEREDITH M. BROADBENT
COMMISSIONER RHONDA K. SCHMIDTLEIN
APPEARANCES (Continued):

STAFF:

ELIZABETH HAINES, SUPERVISORY INVESTIGATOR
JORDAN HARRIMAN, INVESTIGATOR
TANA FARRINGTON, ECONOMIST
DAVID BOYLAND, ACCOUNTANT/AUDITOR
JOHN HENDERSON, ATTORNEY/ADVISOR
SHARON BELLAMY, RECORDS MANAGEMENT SPECIALIST
TYRELL BURCH, LEGAL DOCUMENTS ASSISTANT
OPENING REMARKS:

Petitioner (Stephen J. Orava, King & Spalding LLP)

In Support of the Imposition of Antidumping and
Countervailing Duty Orders:

King & Spalding, LLP
Washington, DC
On behalf of:

PCI Nitrogen LLC
    Elio Mazzella, Sr., President PCI Nitrogen LLC
    Elio Mazzella, Jr., Senior Vice President and
    Secretary, PCI Nitrogen LLC
    Hans Quitmeyer, Senior Vice President, General
    Counsel and Corporate Secretary, AdvanSix, Inc.
    Mike Hamilton, Business Director, Plant
    Nutrients, AdvanSix Inc.
    Roy Houseman, Legislative Representative, United
    Steelworkers
    Bonnie B. Byers, Senior International Trade
    Consultant, King & Spalding LLP
    Stephen J. Orava, Benjamin J. Bay -- Of Counsel

CLOSING REMARKS:

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P R O C E E D I N G S

9:30 a.m.

MS. BELLAMY: Will the room please come to order?

CHAIRMAN WILLIAMSON: Good morning. On behalf of
the U.S. International Trade Commission, I welcome you to
this hearing on Investigation Nos. 701-TA-562 and
731-TA-1329 final, involving Ammonium Sulfate from China.
The purpose of these investigations is to
determine whether an industry in the United States is
materially injured or threatened with material injury, or
the establishment of an industry in the United States is
materially retarded by reason of imports of ammonium sulfate
from China.

Schedules setting forth the presentation of this
hearing, notices of investigation and transcript order forms
are available at the public distribution table. All
prepared testimony should be given to the Secretary. Please
do not place testimony directly on the public distribution
table.

All witnesses must be sworn in by the Secretary
before presenting testimony. I understand that parties are
aware of the time allocations. Any questions regarding the
time allocations should be directed to the Secretary.
Speakers are reminded not to refer in their remarks or
answers to questions to business proprietary information. Please speak clearly into the microphone and state your name for the record for the benefit of the court reporter. If you'll be submitting documents that contain information you wish classified as Business Confidential, your request should comply with Commission Rule 201.6. Madam Secretary, are there any preliminary matters?

MS. BELLAMY: No, Mr. Chairman.

CHAIRMAN WILLIAMSON: Okay, very well. Let's begin with opening remarks.

MS. BELLAMY: Opening remarks on behalf of Petitioner, Stephen J. Orava, King and Spalding LLP.

CHAIRMAN WILLIAMSON: Welcome Mr. Orava. You may begin when you're ready.

OPENING STATEMENT OF STEPHEN J. ORAVA

MR. ORAVA: Thanks. Good morning Mr. Chairman, members of the Commission, Commission staff. My name is Steve Orava. I'm representing the Petitioner. This case is about rapidly increasing unfairly traded imports of ammonium sulfate from China. As demonstrated in the petition and in commerce determinations, imports from China are being dumped at high margins, and are benefitted from a substantial amount of countervailable subsidies.

The scope of the petition includes ammonium
sulfate in all grades and forms. Because an identical product is manufactured in the United States, and because clear dividing lines separate ammonium sulfate from other types of fertilizers, the domestic like product should be defined commensurate with the scope definition. The conditions of competition make this domestic industry especially susceptible to injury from unfairly priced imports.

First, ammonium sulfate is a price sensitive commodity like product. Moreover, subject imports and domestically produced ammonium sulfate are highly interchangeable. As a result, purchasing decisions are largely based on price. Second, the industry is highly capital intensive. Fixed costs are high relative to variable costs.

Moreover, the equipment used to produce ammonium sulfate is designed to operate continuously in order to maintain technical efficiencies and to minimize fixed per unit cost. U.S. producers therefore have strong operational and economic concerns to meet lower import prices in order to avoid losing sales and underutilizing capacity.

Third, U.S. demand for ammonium sulfate has been increasing over the Period of Investigation. Nonetheless, U.S. producers have been denied the benefits from increasing demand, as subject imports have undersold U.S. producer
prices and captured market share. The record of these investigations demonstrates that the U.S. ammonium sulfate industry is suffering material injury by reason of subject imports.

First, the volume of subject imports and the increase in the volume of subject imports are significant. Subject imports increased 682 percent from 2013 to 2015. Moreover, as demonstrated in publicly available information, imports from China have increased their share of the U.S. market.

Second, imports from China have had negative price effects. Based on published industry data and information from several domestic producers, subject imports have consistently undersold the domestic like product by significant margins. The increasing volume and decreasing prices of subject imports have suppressed and depressed U.S. prices, even as demand for ammonium sulfate has increased.

Finally, the subject imports' negative volume and price effects have negatively impacted the domestic industry's market share, output and commercial shipments. The domestic industry lost over ten percentage points of market share from 2013 to 2015, and the domestic industry has suffered declines in production, profitability and cash flow.
The financial condition of the industry will deteriorate further in the absence of relief, making it very likely that one or more ammonium sulfate producers in the United States will be forced to shut down rather than run their operations at a loss. Although we believe the industry is suffering present material injury, there is also substantial evidence that the industry is threatened with additional injury.

The rapid increase in imports, the large margins of underselling, the excess in growing capacity in China and the significant level of government subsidies make clear that future injury is also imminent if duties are not imposed to offset the unfair pricing and illegal subsidies. Finally, we note the failure of any Chinese respondents or importers to appear before you today. We believe that the Commission should make adverse inferences based on this lack of participation.

In conclusion, this investigation is incredibly important to the U.S. ammonium sulfate industry and its workers. We urge the Commission to reach an affirmative final determination in these investigations. Thank you.

CHAIRMAN WILLIAMSON: Thank you. The first panel is seated, so you can begin when you're ready.

STATEMENT OF STEPHEN J. ORAVA
Okay, great. Good morning again. Steve Orava again for the Petitioner. I'll begin with an overview of the main issues before you today. Now for this presentation we used both non-proprietary information from the prehearing report and publicly available information. So the first slide here is a few key points on these investigations.

First, from 2013 to 2015, the volume of imports of ammonium sulfate from China rose by an astounding 682 percent. Second, from 2013 through 2015, Chinese imports took over ten percent of the U.S. market. Third, imports from China and the domestic like product are generally interchangeable, and they compete on the basis of price.

Fourth, during the Period of Investigation Rentech Nitrogen, which had been one of the biggest players in this industry, suffered enormous losses, losses on the scale of close to a quarter of a billion dollars, and they left the business entirely.

Fifth, despite years of strong demand, there can be no question that domestic producers have suffered severe harm by reason of unfair trade. Let me give you some background on the subject product. Ammonium sulfate is a fertilizer that is about 21 percent nitrogen and 24 percent sulfur. In other words, it provides two of the most vital soil nutrients.
As you will hear in more detail from our company witnesses, ammonium sulfate is used primarily to help farmers avoid the serious problem of sulfur depletion. In short, it is a very important and valuable product. Ammonium sulfate may be produced in a factory devoted to that purpose, or it may be produced as a co-product along with other chemicals. You'll hear more this morning from producers in each of these categories.

Whatever the production process, major domestic producers need a market-based rate of return. A few more points to keep in mind. Ammonium sulfate may be sold in granular or standard form. Both have the same nutrient value and they are both part of the same like product. Domestic producers and importers for that matter may sell to distributors or directly to retailers.

Finally, in recent years demand for this product has grown, in large part due to the efforts of U.S. producers to promote ammonium sulfate and educate farmers about its benefits. Unfortunately as you will see, unfair trade has deprived those producers of the full benefits of their efforts.

Now let's turn to the statutory factors, and we'll begin with the volume of subject imports. As you can see in Slide 4, U.S. imports of ammonium sulfate from China
have soared in recent years, rising from 47,000 tons in 2013
to almost 370,000 tons in 2015. This surge continued during
the first quarter of this year. Through the first three
months of 2016, imports from China were up more than 60
percent compared to the same period in 2015.

While demand has been strong, subject imports
have risen much faster than demand. Since 2013, imports
from China have increased their share of the U.S. market by
over ten percentage points. As China producers gain market
share, U.S. producers are losing. From 2013 to 2015, the
domestic industry lost seven percentage points of market
share.

As you can see in Slide 8, all of that market
share lost by domestic producers went to Chinese imports.
In other words, you have compelling evidence that Chinese
imports came into this market in large volumes and took a
significant amount of the business from the domestic
industry. That evidence alone justifies a finding that
subject imports have caused material injury to the domestic
industry.

Domestic producers cannot avoid the harmful
effects of unfair trade by increasing their exports to other
markets. As you can see here, exports fell over the Period
of Investigation, in part due to increased competition from
China and third country markets.

So next on price effects. As we've already mentioned, subject imports are generally fungible with the domestic like product, meaning that competition takes place on the basis of price. As import volumes grow, they suppress domestic efforts to obtain more favorable pricing, and then exert a downward pressure on pricing.

Unless domestic producers obtain trade relief, they will find it impossible to obtain true market pricing for ammonium sulfate. Now we've shown you the surge in Chinese imports. Now here in Slide 12 you can see what's happening to their pricing. These are averaging of values reported by the Commission staff for U.S. imports of ammonium sulfate. They show you just how cheaply importers are able to obtain this product.

No wonder imports are growing as more parties take advantage of these unfair prices to speculate on ammonium sulfate. The situation has gotten much worse in the last year. As you can see here the price of ammonium sulfate normally rises between early September and late May. This pattern makes sense, given that ammonium sulfate is strongest in the spring, when fertilizers are most likely to be applied.

But if you look at what happened in 2016, prices
for ammonium sulfate actually declined in the fall of 2015. In other words, you could have bought ammonium sulfate more cheaply in the spring of 2016, at the time when it is normally most in demand than you could during the off season periods of fall and winter. These facts strongly indicate that unfairly traded imports are distorting the U.S. market.

Now let's talk about impact. From 2013 through the first quarter of 2016, subject imports deprived the domestic industry of more than $160 million in revenues. There were virtually no imports from China before the Period of Investigation, and there was no need for such imports during the Period of Investigation. Those imports simply represent sales that were lost by the domestic industry.

If anything, these figures understate the revenues taken from U.S. producers, as they do not account for more favorable pricing that would have been available to domestic producers in a fair market. Remember that throughout this period, demand was generally growing. In other words, conditions were generally favorable for U.S. producers. This factor is significant, because it makes the difficulties faced by the domestic industry impossible to explain absent the impact of unfair trade.

We've provided a compelling example here in Slide
18 regarding what happened to the ammonium sulfate facility
in Pasadena, Texas. You'll hear more from others here with
PCI Nitrogen, the current owners. But let's take a look at
this chart. In November 2012, before Chinese imports played
a significant role in this market, the plant was sold to
Rentech Nitrogen for almost $160 million.

In other words, that was the market value of the
plant according to a sophisticated investor. After that
sale, Rentech spent tens of millions of dollars more on
improvements to increase capacity at a time of increasing
demand. In other words, the Pasadena facility is now a
better plant in a stronger market.

Yet in the spring of 2016, when Rentech sold the
plant after over a year of seeking new ownership, the market
value of the plant was less than $11 million. It is
difficult to imagine more vivid evidence of harm done by
unfair trade. I want to stop here and emphasize that the
Commission does not always have this type of evidence. Many
times in this type of situation the domestic producer at
issue simply shuts down, and the Commission may have
incomplete data or no data for its operations.

We call this survivor bias. In other words, the
record contains only evidence from those producers least
affected by unfair trade. But this time PCI Nitrogen bought
the plant and brought these petitions. And so you have the
chance to see just how quickly unfair trade can destroy the
value of a facility.

Given what has already happened here, the
Commission must not allow unfair trade from China to
continue. The potential risk to the industry is enormous.
Accordingly, there's no question that subject imports have
caused material injury. My colleague Bonnie Byers will
address the threat of injury later in our testimony,
including the significant growth in Chinese ammonium sulfate
capacity and production, and the vulnerability of the
domestic industry to additional low-priced imports.

In light of the facts on the record and the
testimony presented today, it is absolutely critical that
the Commission make affirmative determinations here.
Failure to do so would have disastrous consequences for the
industry and for its workers. Thank you for your time.

STATEMENT OF ELIO MAZZELLA, SR.

MR. MAZZELLA, SR.: Good morning. My name is
Elio Mazzella, and I am the president of PCI Nitrogen LLC,
which produces ammonium sulfate in Pasadena, Texas. I am
joined here today with my son, Elio, who is vice president
of PCI also. First, excuse me, first we would like to
express our thanks and appreciation to the Committee for
allowing us to present our case today.
We're here today to tell you about our facility in Pasadena, Texas, how the facility is being harmed by unfair trade from China, and why the situation is likely to get even worse unless we're able to obtain trade relief from this Commission. I've been in the fertilizer business for over 35 years, both as a producer and a marketer of the product. In 1985, I helped to found Interocemia Corporation, also known as IOC. PCI is an affiliate of IOC, and IOC is located in New York.

Since that time, IOC has become an international leader in bulk chemical fertilizer sales and distribution, with warehouses throughout the U.S. We have sold fertilizer all over the world, and we also import fertilizer into this market. We believe that fair competition leads to more efficient markets, and without question markets work best when they reward hard work and innovation.

We have never brought a trade case of this kind before. However, as I will explain, the events of the last few years have left us with no choice. Over the years, we at IOC have sometimes served as the exclusive selling agent for companies that produce various fertilizers. One such relationship involved Agrifos Fertilizer, which previously owned the fertilizer Pasadena plant. The facility originally made phosphate fertilizer, but due to
environmental restrictions Agrifos needed to find another
way to utilize the facility.

Some time around 2010, the folks at Agrifos came
to us with an idea. What if the plant produced ammonium
sulfate, not as a co-product but as a synthetically produced
item that was primarily focused -- which was the primary
focus of the manufacturing process? The ammonium sulfate
would be in granular form, which would make it easier to
blend with other granular fertilizers and spread easily on
large farmers' fields like those in the Midwest Corn Belt.

We liked the idea and told them so. Farmers were
becoming increasingly aware of the importance of replacing
the sulfur in their soil, and ammonium sulfate is the most
efficient way to do that. Accordingly, we were confident
that we could market large amounts of ammonium sulfate from
the Pasadena facility.

Agrifos went ahead with its plans and by 2011 the
facility had begun production of ammonium sulfate. From the
beginning, it was a success. The plant was making hundreds
of thousands of tons of granular ammonium sulfate, and we
were having little difficulty marketing and selling the
product at favorable prices. Soon, other major corporations
showed interest in the Pasadena facility. In November of
2012, Agrifos received an offer for the plant and sold it to
Rentech Nitrogen for roughly $160 million.

Rentech was a significant player in the nitrogen fertilizer business. Further, Rentech was so enthusiastic about the business that it immediately set out to expand production capacity at Pasadena based on projections of increased demand here in the United States. IOC continued to act as the exclusive agent and marketer for the Pasadena facility under Rentech's ownership, so we saw what happened next at very close range.

In 2013, Rentech spent $7.7 million on a project to increase capacity by 20 percent, and estimated to produce 700,000 tons. Rentech spent millions more on infrastructure improvements, a new co-gen, cogeneration plant unit designed to reduce energy costs and other projects designed to support its forecast of a growing business as a long term supplier to the market.

Rentech was correct that demand for ammonium sulfate was growing. Just as forecasted, more and more farmers were using this quality product. But something else, something no one could have predicted or looked at was the effect of the market -- which was also affecting the market. Suddenly, beginning in 2013, we were hearing about offers of imports of ammonium sulfate from China into the marketplace, imports that were entering the market at
extremely low prices.

That shouldn't be possible. I have been in this business for decades, and it makes no sense that Chinese producers can make ammonium sulfate, process it into granular form, ship it across the ocean to the United States and still undersell the ammonium sulfate made and produced here in Pasadena, Texas, which is only minutes away from the Port of Houston. This could only be possible due to unfair trade practices.

Rising imports from China were very troubling for Rentech, because it had significant fixed costs and needed to operate its facility at high levels of capacity utilization. In an effort to maintain sales volumes and compete with Chinese imports, Rentech's ammonium sulfate prices fell significantly during 2014. Sales volumes grew some, but not enough.

Rentech had hoped to produce more than 700,000 tons per year, but it soon became apparent that this would be impossible. By September of 2014, Rentech was forced to change its plans, and had to effectively reduce capacity to about 500,000 tons, which was far below the maximum and well below its projected forecast.

Meanwhile, imports from China continued pouring into the market at alarming volumes. The imports continued
to undersell Rentech's product, making it impossible for them to obtain a favorable rate of return on its investment. Remember that Rentech already had spent close to $160 million to buy the facility, and had spent tens of millions more upgrading and improving it.

Now the people at Rentech were finding it impossible to justify those expenditures, and they had to write down the value of the assets on its books. It was a terrible situation for everyone concerned, and it was the direct result of the presence of this unfairly traded Chinese imports entering the market.

By April 2015, Rentech had had enough. They began looking to sell the plant, but they found it extremely difficult to find a buyer. Almost immediately it was clear that they would take a major loss on the sale, and as time went on it become obviously that very few potential buyers were willing to take a chance on a facility that had been in great demand just a few years previously.

Finally, we at IOC bought the facility through PCI, an affiliated company, for a total consideration of $10.4 million in March of 2016, which was about $145 million less than what Rentech paid for the facility. So let me summarize the history of this facility. Less than four years ago, the Pasadena facility was purchased for roughly
$160 million. The facility today is significantly better and more efficient than it was then, to a large part due to the many upgrades and improvements made and paid for by Rentech.

Demand for ammonium sulfate has grown, and despite all these facts over the same period, the facility lost more than 90 percent of its value. China's unfairly traded ammonium sulfate is the only way to explain this combination of events. If Chinese ammonium sulfate had entered the United States at a true, legitimate and fair market price, Rentech would have completed expansion plans and the facility would be turning a healthy profit.

Instead, Rentech lost a fortune and the future of this facility is at risk. Let me be very clear. We believe in this plant and the people who work there and in this product. That's why we took over this facility ourselves. We believe that there's a healthy demand for ammonium sulfate and it continues to grow and that it is a truly competitive market. No one could provide customers with a better product at competitive prices.

But we absolutely must have some trade relief, to ensure that pricing in this market will reflect market forces rather than unfair trade. We urge you to grant that relief and let us go back to work. Thank you so very much.

STATEMENT OF MIKE HAMILTON
MR. HAMILTON: Good morning. My name is Mike Hamilton. I am Business Director for Plant Nutrients at AdvanSix, with responsibility for our ammonium sulfate product line. I'd also like to thank you this morning for your time and attention in this matter. I am joined today Hans Quitmeyer, Senior Vice President, General Counsel and Corporate Secretary at AdvanSix.

AdvanSix was created when Honeywell spun off its ammonium sulfate and caprolactam production lines to create a new independent company in October of 2016. I've been with the company for 26 years, and have been in the ammonium sulfate business for ten. I've held my current position for the last four years.

I am responsible for all aspects of our ammonium sulfate business, including both sales and operations. It is a big business. We are the nation's largest producer of ammonium sulfate, and our sales of this product generate hundreds of millions of dollars per year in revenue.

Unfortunately for the past several years, our ammonium sulfate business has been under attack from an ever-increasing surge of unfairly traded imports from China. This is why we are here today, to testify in support of trade relief. To understand the impact of unfair trade, it will be helpful for you to understand how our ammonium sulfate business works.
I work at our facility in Hopewell, Virginia. It is a large manufacturing plant with multiple integrated operating areas and over 600 employees. It is also the world's largest ammonium sulfate production facility. At Hopewell, we produce ammonium sulfate, a critical fertilizer and caprolactam, an intermediate product in the manufacture of nylon simultaneously as co-products.

In our process, we cannot make one product without making the other, and we produce roughly four to four and one-half tons of ammonium sulfate for every one ton of caprolactam produced. It is critical for you to understand that we do not regard ammonium sulfate as a mere byproduct of our caprolactam production. From our perspective, both of these products are extremely important, and we cannot obtain an adequate return on the assets at our Hopewell facility unless we can obtain a profitable price for both of these products.

As business director, my focus is only ammonium sulfate production and sales. We have a dedicated sales and marketing team that focuses only on ammonium sulfate. We have agronomists located in the United States and Latin America that focus completely on education and on promoting the use of ammonium sulfate.
We are always looking for ways to grow demand for this product, because that demand has been and continues to be critical to the long-term health of our Hopewell operations. We've spent millions of dollars to educate the agricultural industry about the benefits of using this product. Traditionally, farmers have focused on three primary nutrients and fertilizer: nitrogen, phosphorous and potassium. But sulfur has increasingly become a soil fertility concern due to a decrease in sulfur depositions and an increase in crop yields.

As a matter of fact, the application of sulfur has become so important that it is now often described as a fourth major nutrient. Historically, farmers did not have to worry very much about adding sulfur to their crops. One of the ironic benefits of so-called acid rain and other forms of pollution was that they provided sulfur for crops.

In recent decades, however, the air has gotten cleaner and farmers no longer get sulfur from the sky. At the same time, yield levels have been increasing due to a variety of technologies, from improved genetics to better management and advanced equipment, resulting in higher nutrient needs, including the need for sulfur.

Taking corn as an example, yields for corn crops in the United States more than doubled over the past 50
years. Ammonium sulfate is the best solution for farmers seeking to add sulfur to their fields. Ammonium sulfate is typically composed of 21 percent nitrogen and 24 percent sulfur, two vital amino acid components, the protein building blocks and plants. Nitrogen and sulfur are also essential for chlorophyll formation, key to the photosynthetic process.

These two nutrients work hand in hand, and by plying them together the efficiency of the nitrogen is optimized. Thanks to the efforts of our sales, marketing and agronomics team, and the numerous studies that we have supported in collaboration with universities like Virginia Tech, the University of Illinois and Penn State, American farmers are now much more knowledgeable about the benefits of ammonium sulfate, and as a result demand for this product has grown.

No company was better positioned to serve this growing demand than we were. Most of the ammonium sulfate that we produce is what we call granular. It comes in small grains of roughly two and a half millimeters diameter, that can be easily blended with other fertilizers and efficiently spread by machines over the types of large farms you see in states like Iowa.

We also market what is known in the industry as standard ammonium sulfate. Standard grade ammonium sulfate
has average particle sizes under two millimeters, and looks
more like sugar. It has the same nutrient qualities as
granular product, but tends to be used more in places like
orchards, where spreading over large distances is not
required, or in some cases even possible.

In the United States, most of the ammonium
sulfate sold is in the granular form. Our product served
the needs of American farmers throughout the major crop
growing regions of this country. Indeed, as I mentioned
before, no one makes as much ammonium sulfate in this
country as we do. We are really good at it, and we would
like to make even more.

In short, our company has worked hard to increase
demand for ammonium sulfate, and we were in a very strong
position to benefit from that increased demand. Since 2013,
according to the Fertilizer Institute data, U.S. demand for
ammonium sulfate has been growing about nine percent per
year. But then in 2013, almost 50,000 tons of Chinese
imports entered the U.S. market, at prices far below
prevailing market prices, triggering the first wave of
pressure from our customers to lower our prices.

We are especially vulnerable to such cheap
imports because our facility at Hopewell is a large complex
facility with high fixed costs. We cannot survive by
reducing our volume in the hopes of stabilizing market price. First, we would struggle to cover our fixed costs, and second, we know that additional imports from China will follow.

So we have no choice but to lower our prices to the level of the subject imports. After the first wave of imports, we responded by doing everything we could strategically to both maintain volume and profitability as imports continued to flood the market and adversely impact our sales.

We continued our successful work to expand the market by being a leader in agronomic education, and even developed an app that growers could put on their iPhones to calculate the yield and economic benefit to them of using ammonium sulfate. We have also made significant other commercial and go-to-market changes.

Despite our efforts to remain competitive, however, imports from China continue to increase, hitting 230,000 tons in 2014 and then shooting up again to 370,000 tons in 2015. As the availability of Chinese ammonium sulfate began to increase, more and more of our customers required price reductions from us. It seemed like every day my sales people were reporting new offers of Chinese ammonium sulfate, new customers switching to the Chinese
product and business being lost.

Instead of reaping the benefits from increasing demand that we had worked so hard to cultivate, we suddenly found ourselves in a position of just scratching out a profit. The wave of Chinese imports continued into 2016, with Chinese imports hitting 152,000 tons in the first three months of 2016. Had imports continued at this level for the remainder of the year, they would have reached over 600,000 tons.

The only thing that prevented this disaster was the filing of the petitions in May. Even after the filing of the petitions and for the remainder of the year, we continued to feel the downward pressure on prices from inventories of Chinese imports. In the absence of relief, we expect that Chinese imports will resume, and we will be back in the position of having to reduce our prices even further to maintain volume.

This is a tactic that we just cannot sustain every time more imports from China arrive. We cannot profitably continue to maintain volume by beating the Chinese on price, and if we reduce our production, we cannot afford to cover fixed costs. We are a publicly traded company trying to make a healthy rate of return for our shareholders, and we can never match the unfair prices
charged by Chinese producers.

We've been badly hurt as a result of imports from China. Our total profits for 2014 and 2015 combined are lower than the profits we made in 2013, even as demand has grown. Demand in 2016 remains strong, but our profits are on pace to be even lower in 2016 than they were in 2014 and '15. Our profitability would have been even worse had it not been for a drop in raw material prices during 2016.

These prices appear to have bottomed out however, and have already increased in the last quarter of 2016 and into this year. If Chinese ammonium sulfate reenters the U.S. market at dumped and subsidized prices, I fear that we will be unable to ensure our prices respond to changes in our raw material costs. It's only going to get worse. I've been to China. I've heard about more factories making more ammonium sulfate. I've heard the discussions about new facilities to put even more of their ammonium sulfate into granular form, and since most granular ammonium sulfate is used here, that is a sure sign that China intends to increase exports to the United States.

I know that in the absence of trade relief, the situation will only get worse for American producers and workers. Although China has focused primarily on exporting granular product to the United States, we have started to
see imports of standard grade as well. In June 2015, a huge
shipment of Chinese standard grade product came into the
Port of Manatee in Florida.

Immediately, we got calls from our citrus growing
customers in Florida demanding lower prices, which we have
had to give them. At this point, there is no part of the
ammonium sulfate market that has been left undamaged by
Chinese imports and their extremely low prices. As business
people, we have done all we can to grow our ammonium sulfate
business. We've developed a great product. We are the
business that has invested through universities to
understand how this product helps farmers improve their
crops, and we are the business that has spent the money to
promote the product and to educate farmers about what it can
do.

We have a talented sales team and a strong
support system. We've done everything possible to make
ourselves competitive on price. But we simply cannot get a
fair rate of return on this product without your help. All
we ask is that you give us a chance to compete in a market
that is not distorted by subsidies and other unfair trade
practices. You do that, and we will do the rest. Thank you
very much.

STATEMENT OF ELIO MAZZELLA, JR.
MR. MAZZELLA, JR.: My name is Elio Mazzella, Jr. I am Senior Vice President for PCI Nitrogen, and Executive Director at Intro Oceana Corporation.

As part of my responsibility at IOC, I work closely with Rentech on the sales of ammonium sulfate made at their facility Pasadena, Texas. I was actively involved in the decision to buy the Pasadena facility, and I have detailed knowledge of the operations there.

I agree with everything my father has told you about the impact of unfairly traded imports on that plant, and on the entire domestic industry that makes ammonium sulfate. I would like to supplement his testimony by emphasizing a few critical points about this industry.

Fixed costs associated with producing ammonium sulfate are very significant. Our plant is designed to operate 24 hours a day, 7 days a week, with only limited down time for maintenance. The plant includes a cogeneration unit that produces electricity for our factory, with excess generation being sold into the local market.

That unit must operate at a high level of capacity utilization to justify its costs. I know from my years of experience in this business that companies making ammonium sulfate by other methods face similar pressures to maintain high levels of capacity utilization.

Domestic producers are highly vulnerable to
unfairly traded imports from China. When we were the
exclusive sales agent for Rentech, our job was to sell as
much of their product as possible. Now that we own the
facility, we have the same goal.

Low prices, especially when they're caused by
unfairly import competition, can cause severe damage, and
cutting production can be disastrous given the high fixed
costs.

Under these circumstances, the fact that imports
from China have grown so rapidly, and taken so many sales
from U.S. producers with no regard to pricing, it is causing
enormous damage to our industry.

We deal with highly sophisticated buyers. We
sell ammonium sulfate to distributors and retailers who have
been buying fertilizer for many years, with a very strong
desire to get the best possible price.

These customers are extremely familiar with
market conditions, are well aware of prices available from
other parties, and will ultimately make their purchase
decisions based on who has the lowest price.

When we negotiate with our customers, we know
that they will seize upon any opportunity to pressure us to
lower our prices to meet competition. In recent years we've
repeatedly been told of very low Chinese offers, offers that
our customers generally require us to meet or lose the
business.

I have studied the report prepared by your staff, and the purchasers who responded to your questionnaires confirmed that U.S. producers were forced to lower their prices as a result of imports from China.

We cannot avoid the harmful impact of imports from China by increasing our exports to other markets. We export some of our ammonium sulfate from the Pasadena facility. Our granular ammonium sulfate is only used in a limited number of markets outside the United States. You need sophisticated farmers with mechanized equipment for use of our granular ammonium sulfate.

One of the few export markets for granular product is Brazil, and this market has also been adversely affected by imports from China. In fact, the prices we obtain for our exports are usually even lower than the prices we can get here.

Currently, Chinese ammonium sulfate is being offered into Brazil at over $30 per ton cheaper than equivalent European and North American product, with no end in sight of supply.

Pricing for the U.S. market can be affected by the location of your customer. Traditionally, producers look at the price of their ammonium sulfate in terms of the price they obtain after freight costs have been taken into
account. Thus, producers generally adjust prices to account for the cost of shipping the ammonium sulfate.

This practice means that a facility like ours, which is so close to the Port of Houston, would have an advantage when it came to making sales in the Gulf region. Unfortunately for us, however, many of the imports from China come directly into the Gulf region, which has made it extremely difficult for nearby producers, including PCI.

Furthermore, we know that imports from China have entered the United States at such low prices as to allow them to spread all the way up the Mississippi River, as far as Minnesota and North Dakota, and throughout the Midwest and Northern Plains.

PCI is able to supply these same markets with over ten warehouse facilities throughout these areas. We have been forced time and again to lower our prices to compete with the Chinese product. There is no question that the surge in imports from China is a result of their unfair trading practices, and the Commerce Department has now confirmed the extent of those practices by imposing significant antidumping and countervailing duties.

Because of those practices, Chinese producers can offer ammonium sulfate to importers at extremely low prices. Those prices allow the importer to bring the product to this market, under-sell the domestic like-product, and still come
out ahead. Naturally these facts encourage importers to buy
even more Chinese ammonium sulfate.

    Domestic producers like PCI may lower their own
price to maintain volume, and in fact we have repeatedly
been forced to do so. But because the prices in China are
so low, the importers have plenty of room to cut their own
prices further, and continue under-selling us.

    We literally cannot afford to reduce our prices
as much as they can. We have also seen an increase in our
raw material costs starting last quarter and continuing into
this year. These increases make us very vulnerable to
renewed imports of dumped and subsidized ammonium sulfate
from China.

    If subject imports start to enter the U.S. market
again at the price levels we saw in 2016, we will have
little ability to respond to cost increases.

    I am also very concerned that if duties are not
imposed on imports from China to offset their unfair trade
practices, there will be a stampede among importers to bring
Chinese ammonium sulfate into this market.

    When we first started hearing about imports from
China, the name most frequently mentioned was Gavilon.
Since then, however, numerous large trading companies have
set up operations, including Trammo, Nitron Group, and JM
Fertilizer, among others. With so many importers involved,
there will be no limit to the amount of product that will be brought into this market, or the damage that can be done to competing U.S. producers.

In fact, these imports can be brought into the U.S. market at a very rapid rate, as trading companies have the ability to divert shipments already at sea to another country in response to market opportunities.

A recent example of this is when trading company Eurochem diverted a shipment of ammonium sulfate already heading to Brazil from China to the United States in response to the Department of Commerce delaying its countervailing duty determination in the investigations of this product.

That is how quickly imports from China can flood this market. And let me make one thing absolutely clear: I read in the staff report that some purchasers said that imports came into the United States to fill a void left by U.S. producers. I totally reject the self-serving observations.

There is a natural ebb and flow in our business due to the seasonal nature of fertilizer demand. Product is plentiful in the summer and fall, and inventories are drawn down in the lead up to the spring peak in demand. This is true for all fertilizers, not just ammonium sulfate.

But let me make clear, we have always had
inventory of ammonium sulfate and could supply product
whether directly from our facility or from our inland
warehouses. So the notion that there has been tight supply
that necessitated imports from China is just plain wrong.

At the end of the day, it is all about price. Purchasers didn't buy the Chinese product because they
couldn't buy it from U.S. suppliers, they just liked the
price of the Chinese product a whole lot better.

As several customers said to me, don't even waste
your time giving me a quote. You'll never be able to
compete with the Chinese.

Another customer characterized Chinese ammonium
sulfate this way: Any price, any location, and they will be
able to supply.

We need your help, and hope that you will vote to
find that our industry is materially injured by imports of
ammonium sulfate from China. Thank you, very much.

STATEMENT OF ROY HOUSEMAN

MR. HOUSEMAN: Good morning. My name is Roy
Houseman. I am a legislative representative for the United
Steel, Paper, and Forestry, Rubber Manufacturing, Energy,
Allied Industrial, and Service Workers International Union,
better known as the USW.

The USW is the single largest industrial union in
the United States, and we are the dominant union
representing 30,000 workers in the chemical industry. The
USW's chemical units include traditional chemical plants,
petrochemical units, and chemical end producers
manufacturing.

The USW represents workers at PCI's ammonium
sulfate facility in Pasadena, Texas, and Advance Six
Ammonium Sulfate facility in Hopewell, Virginia.

In addition to the USW at these facilities, the
International Brotherhood of Electrical Workers, otherwise
known as IBW, also represents members at both of these
sites. The Hopewell facility also has workers that are
represented by the International Chemical Workers Union
Council, affiliated with the USCW, the International
Association of Machinists and Aerospace Workers, IAM, and
the United Association of Journeymen and Apprentices of the
Plumbing and Pipefitting Industry, UA, and the International
Association of Heat and Frost Insulators and Asbestos
Workers.

In all, there are about 520 union workers at the
two sites alone. In addition to these two facilities, USW
also represents workers who make ammonium sulfate at JR
Simplot in Lathrop, California, and in Pocatello, Idaho.
These two locations combined employ about 300 additional
workers.

The USW strongly supports the Petition covering
ammonium sulfate from the People's Republic of China. As is
the case in multiple industries where unions or companies
have petitioned for relief before the ITC, workers have
suffered from unfairly traded imports from China.

PCI is no different. In 2013, the owners of PCI
facility invested tens of millions of dollars to increase
the capacity of their facility in Texas in response to the
steady increase in ammonium sulfate demand. However, just
as they were making this investment, imports from China
began flooding into the U.S. market, undercutting prevailing
market prices, and causing a significant deterioration in
profit.

By the Fall of 2014, it was clear that imports
from China were going to continue their surge into the U.S.
market, and the owners made the painful decision to reduce
capacity at the facility only one year after investments
were made to expand capacity to meet growing demand.

In September 2014, capacity reductions were
implemented which had a negative impact on the workforce.
Then in 2015, Rentech, who owned the Pasadena facility at
the time, decided they wanted out of the business. They
searched for a new owner, but the market had deteriorated so
significantly as a result of imports from China that it took
over a year to find a buyer, PCI Nitrogen. Even then,
Rentech had to sell at a price well below the prices that
they had paid only a few years earlier.

Workers at the facility felt like they had dodged a bullet, but imports from China have only continued to increase, and uncertainty about the future remains.

USW, and indeed all the unions represented at American ammonium sulfate facilities, are very concerned about the impact of the flood of low-priced imports from China will have on jobs in the industry.

If U.S. producers cannot run these facilities and make a profit, they will shut them down and our workers will be thrown out of their jobs. It's as simple as that.

Instead of working for a good job, our members will be forced to file for federal trade adjustment assistance benefits. And while I've personally assisted over 7,000 workers who qualify for benefits, the one refrain I hear over and over again in these workers is that they would have preferred to keep their old jobs.

Keep in mind that the Pasadena facility was designed to produce only ammonium sulfate and not capable of producing other products. If PCI can't run the facility profitably because of imports from China, it will certainly have to close its plant. Moreover, if these jobs are lost, they will not be easily replaced. Jobs in that part of Texas are hard to come by, given the downturn in the energy sector.
We applaud PCI Nitrogen for having filed these cases. We urge the Commission to make an affirmative determination so that duties can be imposed to offset the injury the sector is experiencing, and to save good-paying jobs in the ammonium sulfate industry.

Thank you for your attention, and I'll be happy to answer any questions.

STATEMENT OF BONNIE BYERS

MS. BYERS: Good morning, Mr. Chairman and members of the Commission. My name is Bonnie Byers. I'm with King & Spalding, and I'm here on behalf of Petitioner.

You have heard from our witnesses this morning the very compelling evidence of present material injury. I plan to discuss now the significant evidence that also exists with respect to additional threat of injury to this industry.

Applying the statutory criteria, the threat of injury of imports from China is both real and imminent.

First, imports are increasing rapidly. In 2013 to 2015, imports increased by 682 percent from 47,000 tons in 2013 to 370,000 tons in 2015, based on public data. Imports in the first three months of 2016 totaled 152,000 tons, which was a 60 percent increase for the first three months of 2015.

Absent the filing of petitions in this case,
imports for 2016 would have been much higher than in any previous year, indicating not only that imports from China increased but that the pace of that increase was accelerating.

U.S. market shares also demonstrated an accelerating import penetration, with Chinese imports increasing their market share over the period of investigation. These rates of increase in the volume and market penetration of imports indicate a strong likelihood of substantially increased subject imports in the near future.

Second, imports from China are entering the United States at increasingly lower prices that are likely to increase demand for further subject imports at the expense of U.S. producers. This will have a significant depressing effect on domestic prices.

The average unit value of subject imports declined from $218 a ton in 2013 to $185 a ton in 2015, a decline of 15 percent. Average unit values also declined by another 11 percent in 2016 to $165 a ton.

The pricing product data also supports a finding that subject imports are entering at prices that are likely to have a significant depressing and suppressing effect on domestic producers' prices. For pricing product one, for example, prices fell over 44 percent from $340 a ton in the
first quarter of 2013 down to $233 a ton in the fourth  
quarter of 2015, and then dropping further to $189 a ton in  
the third quarter of 2016.

The unfair and declining prices of subject  
imports for this very price sensitive product will stimulate  
demand for additional Chinese imports in the near future.

Moreover, purchaser responses in the record of  
this investigation demonstrate that U.S. producers were  
forced to lower prices due to the presence of dumped and  
subsidized subject imports.

Third, China's capacity to produce ammonium  
sulfate is significant and growing. China is now by far the  
largest producer of ammonium sulfate in the world,  
accounting for about 38 percent of total global capacity.

China's capacity has skyrocketed from 5.5 million  
metric tons in 2012 to 12.5 million metric tons in 2016.  
Because ammonium sulfate production is so capital intensive,  
producers have a very strong economic incentive to export  
their excess capacity in order to lower their fixed per-unit  
cost of production. The amount of excess capacity in China  
is absolutely staggering.

For example, China's fertilizer trade association  
reported that in 2015 China's ammonium sulfate capacity was  
11 million metric tons. In that same year, China only  
produced 8 million metric tons, signifying a capacity
utilization rate of only about 73 percent.

Moreover, most of what China does produce now goes into the export market. In 2015, China exported 5.3 million metric tons of ammonium sulfate, but only consumed 2.8 million metric tons.

That means that for every ton that China consumes domestically, it is now exporting 2 tons. Moreover, China's demand for ammonium sulfate is now forecasted to grow at a rate that will ever catch up with this increasing capacity in production.

Fourth, significant new capacity is slated to come online in China within the next couple of years, most of which will focus on the export market because, as noted, China already produces far more than it can consume.

We've provided information regarding specific capacity expansion projects in our prehearing brief, and China's fertilizer trade association estimates that new capacity exceeding 4 million metric tons is going to come online in China within the next several years.

Fifth, many Chinese producers are highly export oriented and have invested in capacity design specifically for the export market. About 90 percent of the ammonium sulfate consumed in China is standard grade ammonium sulfate. By contrast, the vast majority of exports to the U.S. were in granular form. Chinese ammonium sulfate
compactor Wu Zhoufeng, for example, exports nearly all the
ammonium sulfate it produces.

Other ammonium sulfate producers and trading
companies in China are installing compaction capacity
specifically aimed at the U.S. market.

In addition, Chinese producers face significant
antidumping duties in Mexico, between 44 and 80 percent.
Absent relief in the United States, those exports are very
likely to be redirected to this market.

Moreover, China is now facing saturation in most
of its Southeast Asian markets, which means that its excess
production will have to find other outlets, most likely the
United States.

Sixth, the United States is an extremely
attractive market for Chinese exporters. There are no
ordinary duties on ammonium sulfate in our market. Demand
for ammonium sulfate in the U.S. is significant, and it's
growing, and Chinese producers are now investing in new
production and compaction capacity to target the huge U.S.
market for granular grade ammonium sulfate.

Seventh, the number of U.S. companies importing
ammonium sulfate from China is growing rapidly. In 2013,
the vast majority of import volume was brought into the U.S.
by Gavilon, according to public ship manifest data. Now
there are over a dozen importers entering Chinese ammonium
sulfate into this market.

There are absolutely no barriers to entry for Chinese product. Gavilon paved the way, and now there are many routes for Chinese ammonium sulfate to enter the U.S. through a host of importers.

Eighth, as confirmed by the Department of Commerce, ammonium sulfate producers in China benefit from significant and highly distorted countervailable subsidies that are likely to increase production and export of ammonium sulfate.

Finally, the financial condition of Petitioner and the supporting producers materially worsened from 2013 to 2015, leaving domestic producers extremely vulnerable to further material injury in the absence of trade relief.

Moreover, the domestic industry is already facing increases in their raw material prices in the fourth quarter of 2016, and into this year. The increases in raw material costs contribute to the vulnerability of the domestic producers and will make them even more susceptible to injury from subject imports in the absence of relief.

Thank you. This concludes our presentation and now we would be happy to answer your questions.

CHAIRMAN WILLIAMSON: Good, thank you. I want to thank all the witnesses for coming today and taking time from your businesses to be here.
This morning we're going to begin our questioning with Commissioner Schmidtlein.

COMMISSIONER SCHMIDTLEIN: Alright, thank you.

Good morning. I'd also like to thank you all for taking the time to be here with us today.

Mr. Mazzella, I think I'm going to start with a question for you. You said in your testimony that we deal with highly sophisticated buyers and these customers are extremely familiar with market conditions as well as the prices available from other parties.

Can you talk a little bit, given the sophistication of your buyers about how the costs of raw materials affects your prices? So for this particular product, obviously the cost of the main raw materials is a large portion of the cost of that product, so are buyers aware of that and do they use that in negotiations with you.

MR. MAZZELLA, JR.: This is Elio Mazzella, Jr. from PCI Nitrogen.

I think, as the buyers, they're going to look at it. When it's to their advantage, they'll try to use it.

COMMISSIONER SCHMIDTLEIN: Okay.

MR. MAZZELLA, JR.: So if they see our raw material prices going down, yeah, they're going to try and say Rentech they're completely different markets. And I think over the period of investigation you know our raw
material prices of ammonia and sulfur were basically skyrocketing in 2014 while our ammonium sulfate was going down.

As a producer, yes, you would love to, as you have higher raw material, pass the cost on. You know a big problem here and a huge problem that Rentech had and we saw that up close and personal was that it couldn't be passed on.

COMMISSIONER SCHMIDTLEIN: Okay.

MR. MAZZELLA, JR.: So raw material, but it's completely separate markets.

COMMISSIONER SCHMIDTLEIN: So if they did see prices of raw materials going down, then would that be something you'd have to react to in your negotiations with them?

MR. MAZZELLA, JR.: No.

COMMISSIONER SCHMIDTLEIN: I mean I understand the demand was growing so strongly during this period.

MR. MAZZELLA, JR.: No, it's just that, typically, the buyer will try to use a talking point, but no, we're not looking at our pricing at all and saying this did this or we're doing this that. No, ammonium sulfate is globally traded. It's a very independent market. It has its own supply and demand fundamental, so you know.

COMMISSIONER SCHMIDTLEIN: Mr. Hamilton, would
you like to comment on that for AdvanSix?

MR. HAMILTON: Mike Hamilton, AdvanSix.

And I agree with his testimony. I believe that, for the most part, our purchasers of ammonium sulfate ultimately look at the produce based on the value, so the growers understand by adding sulfur to their crops that they get crop yield increases and that's going to drive more economic benefit from them. And I believe the buyers, whether they be distributors or retailers, are typically looking at the supply/demand of ammonium sulfate, not raw material prices.

And it's funny that you ask that because just in the past three or four days our CFO sent me an email saying that natural gas prices were going up and I should think about a price increase. And I sent him a very heated email back that our buyers don't respond to natural gas prices moving up or down. Our buyers respond to changes in the market of ammonium sulfate from the supply/demand standpoint.

COMMISSIONER SCHMIDTLEIN: Okay. So you find it difficult to pass on cost increases?

MR. HAMILTON: I believe that, for the most part, that if raw material prices increase go up it's not necessarily going to transfer into a price increase for ammonium sulfate. I mean that has to be driven by the
supply/demand characteristics in the AG markets, not by the
price of natural gas.

COMMISSIONER SCHMIDTLEIN: Okay. Alright, thank
you very much.

Let's switch gears back to your testimony, Mr.
Mazzella. You also mentioned the supply constraints that
the staff report talks about, that there were some
purchasers who indicated that they had experienced supply
constraints. And from PCI's perspective, you never had an
issue in terms of being able to fill orders or requests.

MR. MAZZELLA, JR.: This is Elio Mazzella, Jr.,
again.

No, we never ran out of product ever. You know I
think Rentech would've loved if we sold enough that we
could've done that. I mentioned in the testimony that we
have a bunch of warehouses throughout the Midwest, so we
produce in Pasadena, Texas, where we never ran out of
inventory. And in Pasadena, we are on the Houston ship
channel, so we can load barges. We also are on the
Burlington Northern Railroad and the Union Pacific and Texas
is also a big truck market. So just from the Pasadena
facility, we could pretty much economically hit as far as
east as Pittsburgh going up the river system and as far west
as the Pacific Northwest by going on the railroads and up to
Minneapolis.
In addition to that, we have 10 warehouses throughout the Midwest and they'll span from Owensboro, Kentucky to St. Paul, Minnesota, kind of Burns Harbor, Indiana, which is the Chicago area and we never ran out of any of those spots either, so you know our marketing strategy is that we're hoping that, in season, which is the fall and spring, we're going to see good demand, so we make sure no matter what we have tons in places.

You know during this period what ended up happening was we couldn't sell all the tons, so we were using all that offsite storage just to really manage inventory to try to keep the plant running at first.

COMMISSIONER SCHMIDTLEIN: Okay. Mr. Hamilton, would you like to comment on this too?

MR. HAMILTON: Yes, I'll respond. Mike Hamilton, AdvanSix.

As I noted in my testimony, we're the world's largest single production site of ammonium sulfate and as such, our goal is to sell as much as we can. We've developed a very large global footprint of the product. So in result of that, we have quite a bit of sales in the Southern Hemisphere, quite a bit of sales in the Northern Hemisphere and a couple of times in the past several years, due to sort of the vagaries and variation of seasonal demand overlapping, we had, on a couple of occasions, reduced our
willingness to take orders temporarily in order to make sure we could meet our commitments.

COMMISSIONER SCHMIDTLEIN: Okay. And was that during a peak season?

MR. HAMILTON: Obviously, it's more likely to occur during peak season than it would be during the off season.

COMMISSIONER SCHMIDTLEIN: Okay.

MR. ORAVA: Steve Orava for PCI.

One of the comments in the pre-hearing report suggested that AdvanSix was withdrawing from parts of the market and Mike you might want to address that as well, but they were being pushed out of markets more than being -- you know pulling back because of some sort of supply constraints. The pricing was just so severe that they had to pull back from markets because they simply couldn't compete with the Chinese import.

COMMISSIONER SCHMIDTLEIN: Okay. Do you want to comment on that and could you expand a little bit more on your statement?

MR. HAMILTON: Yes. I mean our footprint in the U.S., at one time, expanded further West, particularly, in the northern plains. And due to the impact of pricing on imports and I think as Elio, Jr. mentioned in his testimony when we looked at our business we look at our margins based
on price minus freight. Freight is a very significant portion of the cost of doing business in the fertilizer industry. And when you look at the price depression caused by imports and some of those parts further west in our markets it did not make sense for us to do business there.

So as I note in my testimony, we've made some commercial changes and some of those changes are to change the footprint in which we've sold, somewhat.

COMMISSIONER SCHMIDTLEIN: So can you expand a little bit on your statement prior to that that due to the vagaries of seasonal demand or overall demand around the world that you had some instances where you were refusing to accept orders? Do you have any more specifics or could you follow up in the post-hearing brief with a little more -- be a little more specific about that?

MR. HAMILTON: Yeah, I think it'll probably be better to follow up post-hearing. Yes.

COMMISSIONER SCHMIDTLEIN: And what kind of volumes are we talking about when you said that?

MR. HAMILTON: Yeah, we could do that. We could follow up in a post-conference brief.

COMMISSIONER SCHMIDTLEIN: Okay, that would be great.

Mr. Mazzella?

MR. MAZZELLA, JR.: I've read that pre-hearing
brief as well and the fertilizer market, in general, is a small market in terms of number of buyers. So if anybody did have -- if a customer of AdvanSix is said he couldn't get product, 99 percent chance we know them and we know them very well.

One of the things at IOC we don't just sell ammonium sulfate. We sell all the other fertilizers, so we're very involved with the other people who are some of the importers and also all of the end users, regardless. They could've very easily picked up the phone to call us. And you know one of the things I read in the pre-hearing brief was that they talked about, I think, product not being available like on the Illinois River and we have warehouses in Rock Island, Illinois, Camacho, Iowa, which is on the upper Mississippi River, right on the border of Illinois, Burn Harbor, Indiana, which covers northeastern Illinois, and we always had product. And kind of what lead to my comment at the end of my testimony where it was don't waste your time. You can't compete." That was exactly it. You know I talked to those people and I would assume who might've given those comments as people that we wish they came to us to buy from us.

COMMISSIONER SCHMIDTLEIN: So did you ever get calls over this period from purchasers who said I can't get it from another domestic supplier?
MR. MAZZELLA, JR.: No.

COMMISSIONER SCHMIDTLEIN: Can you --

MR. MAZZELLA, JR.: No. And there were customers that we were always trying to get into. It was very public. You know with Rentech being a public company, to our chagrin as the marketer, they would always give out the info. We're increasing capacity. We're doing this. And with that, we'd put on a very strong sales push. And you know some of the big importers we directly approached. We do business with other products and you know we completely given a stiff arm, basically, saying don't waste your time.

And they're people that we're friendly with. I mean we do a lot of other business. So it was almost more like a friendly thing being like, Elio, don't waste your time. So if they really needed product, if they had an outage in the spring, we cover from the warehouses I said all the way west to Shelby, Montana. So there was not a spot that a customer should've had an outage if they wanted to call a U.S. producer.

COMMISSIONER SCHMIDTLEIN: Okay. Well, my time is about to run out, but I'm just sort of curious. Can you talk a little bit about why there wasn't any Chinese product in the market before 2013? From what I understand, you know demand was really taking off or it looks like demand took off over the POI and right around that time the Chinese come
in with granular product, which is what U.S. farmers are
using. So was demand taking off before and they were
ramping up? I mean was that just a coincidence that they
actually hit it just right? Like why was there nothing in
the market before then?

MR. MAZZELLA, SR: Well, you hit on the head when
you turned around and said the word "granular" product. The
USA is a granular product market for all of its fertilizer
needs.

As was mentioned, it's a sophisticated market
with spreading patterns of the material into the farms, the
soils, and so on. Just picture a big soil spreader, okay,
if you have a very small product, as Mike had mentioned
earlier, which is standard grade in size of salt or sugar it
can't spread very evenly and very far, just doesn't have the
volume to it.

The U.S., at one time, going back 30 years ago,
was a standard grade pro market, but due to efforts and
requirements of the larger farms, especially, in the grow
crops you need a bigger product that's homogeneous with the
other fertilizer products. So the granular was produced
here in the States, mostly. The customers when Rentech,
Agrifos and PCI went into a sole production of granular
that's why it was so easily accepted and easy to sell
because it was a product that the customers had been looking
forward to, okay, on a consistent basis.

Well, I think the Chinese at around that 2012/2013 level went out and bought some technology to convert their standard grade by compaction method to produce a granular grade.

COMMISSIONER SCHMIDTLEIN: And is that hard to do, to convert?

MR. MAZZELLA, SR.: It was very hard to do and still is not easy, but it's a situation that because of the overproduction, as you've seen by the charts, they had to take some kind of position to increase their market share by going into different markets and producing a granular they opened two of the largest markets in the world, the United States and Brazil. So they found this new toy, okay, and they started producing tremendous amounts of tons of granular, which was easy to sell and gave them a premium over their standard grade product, which they were selling to some of the Third World country markets that utilize the standard grade easier because they don't -- the fields and the applications are totally different in some of these places.

COMMISSIONER SCHMIDTLEIN: And that's what happened. Alright, thank you.

CHAIRMAN WILLIAMSON: Okay, thank you.

Continuing along that line, so granular is not
interchangeable with the standard grade just because of the way it's applied or is there other differences?

MR. MAZZELLA, JR.: Elio Mazzella, Jr., PCI Nitrogen.

It's the same chemical analysis, so to a farmer it's exactly the same. The question is how does that farmer get it onto the field. So if you are row crop in Illinois, you're going to have highly sophisticate equipment that's driving down the center of the field. And as my father was referring to, will spread it and it will shoot it out the back and so they want an even tread.

If you're applying the ammonium sulfate in Central America on fruit crops or vegetable, maybe you're hand applying it, so that spreading capability is not as important. But overall, I mean it's all the same. It's all, more or less, 21 percent nitrogen and 24 percent sulfur, so it's all one big global market and then within there you know have a little bit of specialties.

CHAIRMAN WILLIAMSON: Okay.

MR. MAZZELLA, SR.: Excuse me, sir. It is interchangeable. As Elio, Jr. said, it's the same analysis of the product. It's just the most efficient way of presenting it to the soil. You know before there was the granular product -- and Mike could probably speak much more closely to this -- many of the people spread the material,
the standard grade even though they didn't have the granular
or limited granular at that time. You can spread it, but
you don't get as good of an application as you would with
the granular.

MR. HAMILTON: Mike Hamilton, AdvanSix.

I think the primary difference is the
requirements, particularly, in the U.S. of growers and the
retailers who apply the product of to be able to do things
efficiently. I've traveled around the world and I've walked
through farms everywhere and you know one of the striking
features is is that U.S. growers are the most efficient in
the world and part of that efficiency is fertilizer
application. So what they're looking for is in a short
window of time in the spring to be able to get fertilizer
down and to get their crops planted. And because of that
they look for blends of fertilizers and those blends have to
have common size particles so that they spread evenly and
they spread a good distance.

I've been in rice paddies in Peru where the
fertilizer application efficiency is not even remotely the
same and so the need for granular product there doesn't
exist. They can either apply the various fertilizers
individually or even if they blend them it's not as critical
that the fertilizers blend as well. So U.S. farmers, and in
a few other places in the world like Brazil, where the
agriculture has reached a fairly significant level of sufficiency, they'll pay more for the granular product because they get the return through efficiency and application.

CHAIRMAN WILLIAMSON: Okay, thank you.

Now how quickly do changes in demand for fertilizer impact ammonium sulfate?

MR. MAZZELLA, JR.: The U.S., in general, is a very mature fertilizer market. Ammonium sulfate has been one of the real bright spots really with growing demand. You know we should've been -- I think Mike's testimony referred to it. You know that upswing in demand we ought've been able to really keep more tons here in the U.S., take advantage of that market, but overall, the market it's pretty ratable. It's not like some other products, other commodities where maybe you see like a huge spike. You know we're talking 5 percent. It's kind of ratable.

Agriculture is very seasonable, so you get a lot of forward selling, typically. So it allows time for a U.S. producer to see. You know you're seeing from your customer that they're expecting better demand for the spring and we're seeing that today, as we speak, where now they'll start ordering their tons now. So it's kind of the thing that you don't really feel the increase in demand 'til after the season where you're sitting and you look back. It's not
the kind of thing where you're waking up tomorrow and saying there's a huge spike.

CHAIRMAN WILLIAMSON: Tell me a little bit about your customers because you all keep referring to them, but are they primarily -- is there a mixture of sort of nationwide distributors and regional distributors? Kind of describe them.

MR. MAZZELLA, JR.: Sure. So we have the large distributors. With the large distributors you'll have the Gavilon. You'll have ADM, Archer Daniels Midland, the big grain company and those are guys who are going to have warehouses all throughout the U.S. and they're going to be selling to retailers.

In addition to that, you'll have what we call the end users retailers or primarily the cooperatives. At the cooperatives level, you'll have some national ones, such as CHS, which is Cenex Harvest States is probably the largest co-op I'd say in the U.S. And then at the retail level, you'll also have people like --

CHAIRMAN WILLIAMSON: What do they produce?

MR. MAZZELLA, JR.: They're just a very big consumer of fertilizer. They, more or less, do everything for the farmer. They will sell them seed. They will sell them chemicals. They will sell them fertilizer. A lot of their locations will then buy their grain. It's kind of
like an end all/be all for that farmer. So when you go to
the Midwest, you'll see big grain elevators and typically
attached to that grain elevator is a fertilizer warehouse as
well, then you kind of get to the regional co-ops. You'll
have like South Dakota Wheat Growers, which is a very large
South Dakota co-op. And then you'll get down even to the
next level where it'll be like a county-type co-op.
    In addition, you'll have independent retailers.
The biggest one is CPS, Crop Protection Services and they
will just have very small locations. I mean they have
thousands of them spread throughout the U.S.

    CHAIRMAN WILLIAMSON: Okay, thank you. That's
helpful.

    Can you comment on what has driven the huge
growth in subject imports? You already talked about the
Chinese, I guess, developing a capacity to do granular. Are
there other market factors at work in addition to price in
terms of their ability to get into this market?

    MR. MAZZELLA, JR.: No. I think we saw the exact
same thing in the Brazilian market. They just had
significant capacity expansion. 2011/2012 they weren't
compacting it and they kept significantly increasing
capacity. And with that they said, alright, we need to go
after more markets, so they put in the compaction and
they've really just put a huge bull's eye on the U.S. and
Brazil. And so it was purely driven by just we're going to move these tons and they put the compaction on it and they started pricing it to make sure that they moved it no matter what.

MR. MAZZELLA, SR.: Another factor is that the U.S. market, and even Brazil, to an extent, is a very easy market to enter. There's no import license required. The monetary currency is accepted throughout the world. Basically, you can ship to the United States 12 months out of the year. It's not a seasonal situation. The material usage is seasonal, but you know we've got various modes of transportation. You can use the Mississippi River all the way up to St. Louis 12 months out of the year and 8 months out of the year you can go all the way up to Minnesota.

So the U.S. market is a very, very attractive market. Like I say, the constraints are not there that other markets have. So if you can get your material into the U.S. that's the market you want to go and so that's why they targeted it and it's increased so rapidly. And the other thing that you notice is that on the ammonium sulfate some of their other fertilizers; the Chinese had an export tax most of the times of the year or at various times of the year, okay, for some of their other phosphates and nitrogen. There has never been an export tax for ammonium sulfate by the Chinese, which meant open season, okay, so there was no
restriction on any of the producers of ammonium sulfate to
China to watch or be careful for any reason.

MR. ORAVA: Just one other comment -- Steve
Orava, King & Spalding.

We also talked in the testimony about the
measures that were put in place in Mexico and for some
reasons we've actually seen diversion coming from Mexico
into the U.S. market and you know the expectation is now the
Chinese have one less market, although not as significant as
Brazil and the United States, it would still -- they were
still taking in granular.

CHAIRMAN WILLIAMSON: Have there been any other
cases? Brazil is an after user of the dumping law.

MR. MAZZELLA, JR.: We're not aware of any other
active cases, although you would expect, as you indicated
that Brazil may certainly have some concerns.

CHAIRMAN WILLIAMSON: Okay. Is the filing of the
petition the only reason imports from China decreased so
historically in the latter quarter of 2016 or were there
other factors contributes to this.

MR. MAZZELLA, SR.: I would say the factor that
they reduced their imports was the potential duties that had
to be paid and so it was price driven.

CHAIRMAN WILLIAMSON: Okay.

MR. MAZZELLA, JR.: I reference a EuroChem cargo
so that's how quick stuff can get diverted. So when Mexico put their anti-dumping in, immediately there was vessel going to the west coast of Mexico. It was immediately diverted to the West Coast of the U.S. and that means it's on the water. So the EuroChem that was going to Brazil, on its way to Brazil -- you know it was seven days out from Brazil and someone says, oh, you know what, we have until October 15 or whatever the date was, now to get it into the U.S. They changed their charter probably with the vessel owner, diverted to the U.S. So you know if we weren't successful here, you would immediately see vessels that are going to Brazil just get diverted. It's not like there's some big, long lead up. It would just be that vessel that's on the water send it to the United States instead.

CHAIRMAN WILLIAMSON: Okay, thank you. I've heard about that with other products too. Okay, thank you.

Vice Chairman Johanson.

VICE CHAIRMAN JOHANSON: Thank you, Chairman Williamson. I would like to welcome all of you here today to the Commission and thanks for further informing us on this product.

Mr. Mazzella, I visited the site of the Battle of San Jacinto about three years ago, which I think is only about three or four miles from your plant. I'd never been to the Pasadena area before, even though I'd visited Houston
a number times and the contribution of the Pasadena area to
the U.S. economy must be strong. For those of you who've
never visited the area between Houston or the Gulf Coast,
there are many, many chemical plants located there. It's a
major center of U.S. manufacturing. So for any of you who
ever visit the Houston area, this is an area worth seeing if
you're interested in U.S. manufacturing.

The pricing data, as noted in your pre-hearing
brief at page 22, shows that imports from China undersold
domestic ammonium nitrate in 14 out of 26 quarterly
comparisons. I'm curious. Why don't we see more instances
of underselling in the price comparisons?

MS. BYERS: Bonnie Byers with Kings Spalding on
behalf of Petitioner.

You know I think this is a pretty typical pricing
product scenario. In an industry like this one where
constantly the U.S. producers are having to decrease their
prices in the face of offers of Chinese product and I think
that's what you've seen here. You know things ratchet down.
Rather than lose the sales, they lower their prices and you
know I think this is pretty reflective of that kind of
scenario.

MR. ORAVA: Steve Orava, King Spalding.

You know the other factor here is that it is a
highly capital intensive industry. They've got to operate
at high utilization rates, so they need to try to push those
utilizations rates, so they're often incentivized to meet
those prices, even though it has a significant adverse
impact on them.

VICE CHAIRMAN JOHANSON: Thank you.

And Ms. Byers, you mentioned that the Petitioners
feel a need to keep selling products and matching those
prices, of course. And I wanted to link that to something
in which Mr. Elio, Jr. spoke about. You talked a minute ago
about the high fixed costs for domestic producers and the
inability to cut production. Could you please explain
further the nature of these high fixed costs and how they
impact the domestic producers' ability to adjust production
levels, depending upon market conditions?

MR. MAZZELLA, JR.: Sure. You know I don't think
our fixed costs are any different than a plant in China. I
think it's that we just -- you know, unfortunately, we don't
have a subsidy or anything that's allowing us to look at it
the way that they look at it. So, more or less, you know we
have a fixed number that we have to run our plant, whether
we produce 400,000 tons a year or 700,000 tons a year.

One of the things that Bonnie referred to was
having to sell and meet the Chinese prices, so if we were
priced at 200 and the Chinese were at 190, at some point if
you keep losing sales you have to make a decision do we
reduce production. When you reduce production or if you
take -- taking that sale you lose an extra ton. Reducing
production you might be taking a much bigger financial hit
because you're not producing enough product against that
fixed cost. So we have to make really an unfortunate
decision of what do we do here.

And at first, you say we have to maintain market
share, so you match it and you keep matching it. And we did
that for 18 months and then eventually Rentech just said
enough's enough. We have to pull the production back down
from the 700,000 ton rate.

MR. MAZZELLA, SR.: No matter what price was out
there, which we thought were legitimate prices for the price
of our product and so on and against any legitimate sellers,
it seems that the Chinese product always undercut us. And
so in reality, because of the trade practices in China and
their ability to sell much less -- at a less price, the U.S.
industry, basically, hold an umbrella up and everybody who
wants to -- well, the Chinese who want to bring it in have
that ability to go under our umbrella and continue to reduce
their prices.

I think Elio, Jr. brought that out before. You
know no matter what the price was we were told outright by
some of the importers and buyers here in the United States
it doesn't matter. They're going to beat you. So to have
that umbrella up there is you know sometimes
counterproductive, but you've got to give a price to your
customer when he wants it. And then it almost becomes,
okay, I'll get the price from you and beat you over the
head. Then I'll get their price and beat them over the head
and it just continues to spiral. It continues to spiral
because it is a fungible good. You're buying something.

MR. MAZZELLA, JR.: One thing I would just like
to say is the unique thing with the Chinese versus other
competitors is the Chinese they don't have a floor price.
And the price we're competing with the Chinese sell this to
a U.S. importer, who then doesn't really have a floor price,
so we don't even know what price they're selling that
importer at. And so what we've found out real quick
throughout 2013 was there was no bottom. You know we keep
going down. They keep going below us and it was just a
constant cycle where eventually you just had to basically
put your hands up.

MR. HAMILTON: Mike Hamilton, AdvanSix.

I'll touch on the fixed cost piece of the
question real quick too. I think one of the things to
understand I mean we compete in the ammonium sulfate
industry globally. When we say we have high fixed costs, I
believe we can be cost competitive with any of our
competitors around the world, so it's not an instance of us
not being efficient, but I think the nature of running a
large chemical process plant is that your costs generally
don't go down when you slow down.

So if we were to reduce volume -- when you reduce
volume by 10 percent in a big chemical process plant,
workers don't go home. It takes just as many workers to run
the plant at 90 percent as it does at 100 percent.
Generally, utility costs don't go down. You're still
heating the same vessels and heating the same pipelines and
everything else, so you're spending the same amount on
utilities. In addition, you still have spend the amount on
maintaining the equipment.

So in general, with a chemical process plant,
that when we talk about having to cover fixed costs is
because costs, in general, don't go down when you slow the
plant down.

VICE CHAIRMAN JOHANSON: Are there physical
constraints to curtailing production? In other words, do
you have to keep the plant running?

MR. MAZZELLA, JR.: When you take the plant down,
it's a very cost-intensive process to ramp it up again. I
mean we've got a lot of raw material suppliers who are
buying from you. You have to push them back. You know
you're at risk of probably having contract violations there
as well. I know when Rentech made the decision to reduce
production again it was a very long process to decide that
because you had to get the okay with the raw material
suppliers. We also have 114 employees on site who if you're
not producing 700,000 tons and instead you produce 300,000
tons you know a lot of those employees are loading railcars
and loading barges, loading trucks, so it has an immediate
impact on that as well.

VICE CHAIRMAN JOHANSON: Yes, Mr. Hamilton.

MR. HAMILTON: Yes, Mike Hamilton, AdvanSix.

Yeah, to touch on that, I mean in order to reduce
fixed cost you really would have to shut the plant down so
you're not using electricity. You're not using fuel.
Employees are going home. And it's very difficult and
complicated to shut one of these plants down. The risk
involved to shutting it down and starting it back up and the
costs involved do not make it worthwhile to try to operate
on those kinds of scenarios.

VICE CHAIRMAN JOHANSON: Thanks for your
responses to that question.

And a minute ago, there was a discussion
regarding the Mexican anti-dumping investigation order on
the product from China. Out of curiosity, does Mexico
supply any product to the United States because it seems
like for a period of time the only major suppliers to the
U.S. market were Canada and U.S. producers.
MR. HAMILTON: Mike Hamilton, AdvanSix. To my knowledge, there have been zero or very limited imports of ammonium sulfate from Mexico. We've participated in the Mexican market as an exporter up until the anti-dumping duties that were put in place there about a year, year and a half ago.

My understanding of the Mexican market is that there is enough local production to support something like 80, 85% of the Mexican demand, so Mexico is a natural net importer of product, and because of that, I just don't think that there's much incentive for Mexican producers to export.

MR. MAZZELLA, JR.: And just to say, one unique thing about ammonium sulfate in this country is that we have production kind of spread across the board. So AdvanSix is in Hopewell, Virginia, us and BASF are down on the Texas, the Gulf Coast. You have Dakota Gas up in North Dakota, and you have Simplot out on the West Coast.

You know, we're a self-sufficient market, and I think you alluded to the Canadian imports which now have gone down in the face of the Chinese. But the Canadian market as well, you know, they export to the Pacific Northwest. So it's a market that, for most other fertilizers, the production is in the Gulf, or maybe a production site in the Midwest.

Ammonium sulfate's very unique, that we basically
have the entire country covered, so there is never a
customer in this country who does not have a cost-effective
way to get product to their location.

VICE CHAIRMAN JOHANSON: All right. Thanks for
your responses. My time is about to expire.

CHAIRMAN WILLIAMSON: Thank you. Commissioner
Broadbent.

COMMISSIONER BROADBENT: Thank you. What's going
on with exports in this market from the U.S.? What have the
trends been?

MR. MAZZELLA, JR.: I don't know the actual
trend. I mean we do export our product to Brazil primarily.
We prefer not to. The price in Brazil is a much lesser net
back than we get here. Our intention when Rentech did their
capacity expansion was, we saw it grow in U.S. market here
and we were saying, you know, our goal is to keep every ton
here.

You know, I think you saw that in Rentech's, when
they made the announcement they were reducing -- you know,
they wanted us to cut out the exports to Brazil and keep
more tons in this market. So --

COMMISSIONER BROADBENT: Wait. Who did that?

MR. MAZZELLA, JR.: Yes, we did, and we --

COMMISSIONER BROADBENT: Wait. Say that again.

MR. MAZZELLA, JR.: Rentech wanted us to reduce
our exports to the Brazil market because it's a much lesser
price to go down to that market. So our goal as a producer
is to keep every ton we can in the U.S. market.

COMMISSIONER BROADBENT: Okay. And then, when
the, I guess, Honeywell spun off a company -- but there's a
dumping duty in Mexico on the exports from the U.S.; is that
right?

MR. HAMILTON: Yes, that's correct.

COMMISSIONER BROADBENT: Okay. And then, what
was the pricing on that product? Like, these would be the
Mexicans.

MR. HAMILTON: So one of the things that I think
we have to -- the difference between our two production
processes is -- the production process that they're
describing, they produce 100% granular. The nature of our
production process is that we produce both granular and
standard and as noted in some of the earlier testimony,
standard is generally not as well -- the demand for standard
in the U.S. is not as high because of the level of
sophistication in agriculture.

So most of the product, almost all of the product
that we ship to Mexico was of standard product, and the
pricing of standard product because of the nature of high
sophistication of farmers willing to invest a higher price
for granular. The prices for standard are generally lower
than that of granular.

So I don't think the price in the Mexican market for the standard necessarily is relevant to the prices of the granular market in U.S. because they are generally looked at as different products, even though the nutrient qualities are the same.

COMMISSIONER BROADBENT: Okay. So how much -- does anybody have any sense of how much was being sold to Mexico? And what the duty was that the Mexican applied?

MR. HAMILTON: I'm sure I would give you numbers that probably aren't exact, but I believe Mexico consumes somewhere in the order of 1.6 to 1.8 million tons, and I think something like 150,000 tons of that has generally been imported. I do know that we have exported somewhere between 50- and 100,000 tons to Mexico.

COMMISSIONER BROADBENT: Okay.

MR. HAMILTON: Largely standard though.

COMMISSIONER BROADBENT: Now, Mr. Mazzella and Mr. Hamilton, how do your two companies compete on price? And how does it compare to how you compete with the Chinese on price?

MR. HAMILTON: I mean we are -- obviously, we are separated by a fair amount of U.S. They're in the Gulf and we're on the East Coast, so there are regions where I do not believe we have -- you know, we have limited competition,
but there are other regions where, you know, we're
definitely head-to-head direct competitors. And I, you
know, I think we compete on price like any other competitors
in a market.

From my standpoint over the past three years, if
I look at the impacts where we've had to reduce price, you
know, most of the time, when sales come to me, sales folks
come to me and say we've had to reduce price, it's been
because of Chinese competition. There are imports coming
into the market and our customers are getting offers at a
price where they cannot afford to buy our product at the
price we're offering based on the price that's being driven
by the Chinese. In order to compete in that market, we're
going to have to lower our price or we're going to have to
say no. We're going to have to give up the sale.

MR. MAZZELLA, SR.: Domestic competition is a lot
driven by logistics. When you look at rail freights, barge
freights, so on and so forth, you know, there's areas of the
United States that we can hit a lot easier than Mike's
customers and vice versa. So when you look at your
marketplace and your competition, your customer only cares
about his delivered cost. Couldn't care less about the FOB
or whatever. He's looking at his delivered cost.

So in those areas where we might overlap,
legitimate competition is good for the market, and we've
accepted that we'll compete on price and personalities and
supply, timing and everything else. So, you know, it's --
that's the way we compete. And, you know, the best man gets
the piece of business.

MR. ORAVA: Steve Orava with King & Spalding.

Just one point. I've learned a lot from listening to these
guys, and one of the things in the highlight earlier about
the diverted shipments -- it doesn't take much for the
Chinese imports in this--basically a fungible--commodity
product to really infect the pricing across the country.
You know, there's sophisticated buyers that -- there's a lot
of transparency in what's going on, and so a few shipments
at significantly lowers prices than market really have a
significant ability to impact those price negotiations.

MR. MAZZELLA, JR.: Just to elaborate there, that
was the interesting part, I think, as we started seeing the
Chinese imports. First, we saw barges getting offered in
Mississippi, which makes sense. They discharge a vessel in
New Orleans, they barge it to Mississippi. Then we see it
in St. Louis, then St. Paul, and next we know, they're in
North Dakota.

And to get to North Dakota from coming into New
Orleans is extremely expensive, yet somehow they were more
or less offering the same price to customers in North Dakota
that they were offering on barges on the river system.
Which means that they were taking nothing into account on their logistics cost. It was 100% volume-based.

Because any other product you would import, or anything we sell from our plant, we're looking at -- it costs us $20 to get to them or $60, that's a legitimate cost. You have to take that into account when you price it. Somehow the Chinese product never takes that into account.

COMMISSIONER BROADBENT: Are you looking at the Chinese price as -- I mean they have to assume a lot of logistics costs coming all the way from China, getting out of China, getting here.

MR. MAZZELLA, JR.: I think it's the price that the importers are bringing in from China is so low that to them, they want to make the volume work. So that's how much room they have to just infiltrate the U.S. market.

COMMISSIONER BROADBENT: One of the earlier witnesses, and I don't know who said it, said they needed a market based rate of return even if the product is a co-product or something else that's being produced. Why is this? If you're making a product that's a co-product, why do you need a market based rate of return?

MR. HAMILTON: The nature of how we produce caprolactam and ammonium sulfate when you, you know, there's various chemical raw material inputs that go into this process and, you know, the nature of many chemical
processes, not just this particular process is, is that when
you have a chemical reaction, ultimately you make two
different products. You have one output, you have another
output.

In our plant we make, on the order of one a half
billion tons of ammonium sulfate. It's four times the
amount of the caprolactam that we make. And there's
significant raw materials that go into making that ammonium
sulfate, so in order for our business to be successful as a
whole, then we can't afford to lose the revenue that we have
on this particular product and still survive and be
profitable.

As we noted, we have hundreds of millions of
dollars of revenue that are based on this product. And
that's a substantial portion of the revenue we have as a
business. And we have to maintain this as a successful
business.

COMMISSIONER BROADBENT: Okay. Are there
specific agricultural end uses that require ammonium
sulfate? Or is it generally just kind of preference for the
farmer?

MR. HAMILTON: For the most part, ammonium
sulfate is a good fertilizer across the board for crops. In
the one instance in which it's not used as much is on
soybeans. Beans and legumes in general do not need as much
nitrogen because they have the ability to fixate nitrogen
with nodules on the root system, so they don't tend to use
as much nitrogen on bean crops. But they still actually do
benefit from the sulfur.

And we're actually doing some research looking at
ammonium sulfate on soybeans in various regions right now to
see the benefits of potentially farmers using it on soybeans
as well. But otherwise, it's generally applicable to all
crops. There are some crops like cotton and canola that
need more sulfur than other crops, so there are some
variations, but in general it's a very good fertilizer for
most crops.

COMMISSIONER BROADBENT: I took note of your
comment about sulfur from the sky and not having as much of
that available now. Are there environmental regulations
that impact demand for ammonium sulfate?

MR. HAMILTON: I think other than the regulations
that went into place over the last, I'd say quarter of a
century -- I mean we actually have some maps where we've
used promotional literature where we've shown sulfur
deposition from 1990 to current times -- I'm not really
aware of other regulations that have had an impact.

I mean certainly in areas of the country,
particularly if you look in the Corn Belt, Ohio, and that
places the amount of sulfur deposition over 25 years, it's
significantly decreased. And so, that has reduced the
amount of sulfur deposition on farmer's fields, and so
they've had to put that back.

But it's also important to note that the increase
in yields -- I mean you're taking more crops out of the same
amount of acreage -- so that's required more fertilizer to
be applied in general. I mean you're producing more food in
the same amount of acreage, so you have to put more
nutrients in, so that's also been a factor.

COMMISSIONER BROADBENT: Okay.

MR. MAZZELLA, JR.: One thing additional. It's
not really regulation, but after the West fertilizer
explosion, ammonium nitrate consumption has gone down
significantly. I don't think much of it is regulation. I
think it's honestly been driven more by banks and insurance
companies. And so customers just can't buy the product
anymore.

So ammonium sulfate demand, that is one of the
things that has helped drive the increase in demand. A lot
of farmers will blend ammonium sulfate with urea. That's
why it's a granular product we talked about. And that's a
fairly good replacement for the ammonium nitrate.

COMMISSIONER BROADBENT: Okay. Thank you. Mr.
Chairman.

CHAIRMAN WILLIAMSON: Thank you. Commissioner
COMMISSIONER SCHMIDTLEIN: This is just an aside.

Is ammonium nitrate what people use to make homemade bombs?

MR. MAZZELLA, SR.: Yes. There's different grades, but yes.

COMMISSIONER SCHMIDTLEIN: Different grades?

MR. MAZZELLA, SR.: Yes, the ammonium nitrate is the one that has --

COMMISSIONER SCHMIDTLEIN: That's the fertilizer that people use? Okay. And so has that affected it? Has there been tightening of the --

MR. MAZZELLA, SR.: I think as Elio said, yes, there's been a tightening of the usage, not as much by regulation. Yes, there's been some regulation regarding having fences around the plants that handle it and so on and so forth. But a lot of the stuff has been self-imposed. A lot of barge lines will not transport it anymore. And a lot of the insurance companies -- for example, if we have a warehouse that also -- that we lease a warehouse where there's also ammonium nitrate that's leased there, a lot of times the insurance companies will not allow us to do it.

MR. MAZZELLA, JR.: Even if it's not our ammonium nitrate. Even if it's just on the same site, insurance companies don't want to --

COMMISSIONER SCHMIDTLEIN: Right. Interesting.
I apologize if this was already discussed. Do European farmers use granular ammonium sulfate?

MR. MAZZELLA, JR.: Yes.

COMMISSIONER SCHMIDTLEIN: Are they producing it themselves in Europe and --

MR. MAZZELLA, JR.: Yes.

COMMISSIONER SCHMIDTLEIN: Okay.

MR. MAZZELLA, JR.: We'll compete with them in the Brazil market, they'll come to this market, you know, but they -- they're just a -- we look at them as a legitimate competitor who's just as market driven and looks at their costs the same way we do.

COMMISSIONER SCHMIDTLEIN: Right. Have the Chinese been, as far as you know, been sending product to Europe?

MR. MAZZELLA, JR.: Not that we've seen yet.

Logistically, the European ports or the European farmer, everything's just a little bit smaller there. So when the Chinese are coming here, they're coming in 25- to 50,000 ton vessels. To go to Europe, you have to go in a 5- to 10,000 ton vessel. It's a lot more difficult to come from China, to get to Europe.

MR. MAZZELLA, SR.: Another thing, imports into Europe, or exports into Europe, however you want to phrase it, very, very difficult. They're a controlled market. A
lot of them, they have duties on their material, like we, for example, have a 6.6% duty to send any of our phosphates over there, so they have duties and it's a pretty well-protected market.

COMMISSIONER SCHMIDTLEIN: Okay. The last question I wanted to ask was sort of a clarification of our earlier discussion about the connection between raw material costs and the price of your product. And we talked a little bit about that there's sort of a disconnect in the sense of falling, raw material costs don't always translate into a need for producers to reduce their prices.

And so I just wanted to be sure I understood you that -- are you saying, even in the absence of Chinese imports, that in your view, are affecting the prices here, would you not be able to pass on increases in cost to customers?

MR. MAZZELLA, JR.: I don't think you'll ever be able to pass on one-to-one. But in 2014 when we saw the price of ammonia skyrocketing? You know, Rentech was pushing us, saying hey, our raw material cost is going up. You have to push this up. It would've been easier to do that if it wasn't the -- with the Chinese imports, we were collapsing.

And they kept pushing us, saying, hey, our ammonia price is going up $50, you know, you have to
somehow, you have to raise the ammonium sulfate price.
We're reporting back to them, if you want to produce more,
we actually have to lower. So while it's something that
you're going to try to use as a sales tactic to try to help
to offset that cost, it's never a for sure thing. You know,
unfortunately they're completely independent markets.

COMMISSIONER SCHMIDTLEIN: Had either of you
tried to -- you know, given the increase in demand here,
were you trying to increase prices during the POI at all?
And couldn't?

MR. HAMILTON: For the most part during the POI,
the overriding factor in the market was the Chinese increase
in imports, and that was driving price down. So we have
tried to increase price. In general, the seasonal nature of
fertilizer means that price is higher in the Spring. In the
Fall, typically we will reduce price in order to incentivize
the building of inventories by our customers.

And so generally there's a point in time where
you'll reduce price and you'll start to increase price again
as you move towards Spring. And as I think it was a part of
one of the testimonies, I think from the opening remarks is
that in 2015-16 was the first time in the period of
investigation that we saw prices actually lower in the
Spring than in the Fall. So even though we tried to raise
price, we weren't able to do so.
MR. MAZZELLA, JR.: I will say, since the preliminary duties, we've seen a much more normal market now. We are raising prices. We've see what we call our Winter Fill program right now, where we're selling people tons for Q1 and then we'll spread out shipments. And we put on the book, and then we raise the price. And that's the kind of traditional market dynamics you would have. And so for the first time in three years, we're actually getting back to what we would consider normalcy.

MR. ORAVA: There is some information on the record that does indicate that price announcements were tried, put out in the market and they were unable to hold those price announcements for increases.

COMMISSIONER SCHMIDTLEIN: Okay, if you --

MR. MAZZELLA, JR.: We'll flag that for you.

COMMISSIONER SCHMIDTLEIN: -- if you'd like to flag that in the post hearing, that'd be helpful. Okay.

MR. MAZZELLA, SR.: Can I just get in there one second. It's an interesting point. We're talking about raw material costs here. We're producers of ammonia, natural gas, we have our own sulfuric acid facilities and so on. China is not a producer of ammonia to any extent, so they have to buy their ammonia. They have to buy all their raw materials, import it into the country and yet, they're still able to beat our pricing substantially, even though they're
importers of the raw materials.

MR. MAZZELLA, JR.: Yeah, in that plant the Price X factory in China today is about $70 a ton. Our cost just to buy our ammonia, we haven't bought sulfur and we haven't hired an employee yet or turned down a plant, is about $70 a ton, just the ammonia. So again, with the Chinese marketing, with their production, it just defies typical economics. And we look at these numbers and we say, you know, for the past three years, well, they have to raise their price. They have to. And somehow they keep operating at negative cash flow. How does that continue to happen?

COMMISSIONER SCHMIDTLEIN: All right, thank you. I don't have any further questions.

CHAIRMAN WILLIAMSON: Thank you. Mr. Houseman, this is interesting, and I think it's one of the first ones I've sent where most of the plants that producers are unionized and I was just wondering -- any reason why that is? Is that because of the nature of chemical industry?

MR. HOUSEMAN: Yeah, I mean historically, OCAW, in the organizing that was done at the time, you know -- and it's interesting actually, as you pointed out as well, having multiple affiliate unions -- at the Hopewell facility, for example, it's a tradition that's -- the facility's been around for a long time and so you've had different affiliates that came in, and it's kind of a joint
venture, which is interesting.

It's not, as you see at steel facilities where it's typically wall-to-wall, one company or another. And then I find one thing I guess another comment, too, that I find interesting is -- you know, you guys have seen James Sanderson here from the steel industry, Georgetown mill, my plant as well. One of the first things that workers oftentimes hear is when a plant is threatened with, you know, a situation like it is at PCI Nitrogen where you have a company that's looking to sell the plant or close it, those workers at those facilities are looking for another buyer and are hoping that someone will come in and save the day.

And the Mazzella family here, they came in and they did that. And they provided over 100 jobs there at that facility, the opportunity for a second opportunity. And there's a lot of plants that you guys end up dealing with in these trade cases that they don't get that same opportunity. And so that's why I'm really hopeful for this case. Thanks.

CHAIRMAN WILLIAMSON: Thank you. Is there much innovation that sort of goes on in the plant, at the plant level? Are the workers, are they having to be constantly sort of trained and upgraded to stay competitive? Is that a factor here at all?
MR. MAZZELLA, SR.: Well, yes it was, especially with the Agrifos situation. It's a totally new process that was developed. When they closed the phosphate operation down, you had the plant there with nothing to do, and the management at that time, and under some of our suggestions and so on since we were the exclusive distributor for Agrifos at the time, we all got together and talked and you know, one of the products that they came up with was, well, we can produce ammonium sulfate.

And we looked at that, we thought about the marketing, the sales, and what do we want to do? Make ammonium sulfate? Yes. Okay, what grade of ammonium sulfate? And sizing and everything came into it. And this is where the plant personnel came in, very, very strongly and who knew the plant intimately, from its years of production of phosphates and granulating there anyway, screening material, and they came up with this system which is a patented system that was developed, so innovation, yes. From our point of view, very good innovation.

CHAIRMAN WILLIAMSON: Good. Thank you for that.

MR. HAMILTON: As Roy noted, our plant has been in operation for an extremely long time. We've built a nitrogen fertilizer plant in Hopewell in 1928 and we started caprolactam and ammonium sulfate production there in 1954. So, the facility is not in any way a new facility, but I
think, you know, from our engineers, our technology people, down to people who are working on the plant floor every day. I mean we have a pretty strong culture of constant innovation. So even -- you know, whether or not you call it big scale innovation like you've described, or just looking, I don't know, how to make products better, how to make quality better, how to reduce costs, how to be more efficient, I mean is something that we expect out of all of us every day. So I believe yeah, we have a very strong culture of that.

CHAIRMAN WILLIAMSON: Good. Thank you. You've touched on it briefly, thinking about competition between domestic and U.S. producers. And I guess logistics does play a role. I wonder if you could expand on that and to what extent do producers serve different markets? That includes not just different agricultural markets, but I guess there are other nonagricultural uses for the product?

MR. MAZZELLA, JR.: I think as you mentioned logistics, I would say that is definitely the driving force. So at Pasadena, we're on the Union Pacific, and the Burlington Northern Railroad. If you're east of the Mississippi River, you're either on the Norfolk Southern or the CSX Railroad.

So for us to rail something from the plant and go from one of our railroads onto one of the eastern railroads
is very expensive, and it's very inhibitive to do it. So I would say that's really one of the driving forces. So how do we combat that? We go on barge. And then we'll barge up to, say, Cincinnati and go to our warehouse and put it onto a truck. But again, you know, a producer who's in that region is just going to inherently have an advantage.

So, you know, I think, you know, the competition in the U.S. market is just like any other commodity or product. You know, the customer, I think like my father alluded to, is looking at their delivered price, so they don't really mind if it comes to them via barge, rail or truck. They just, you know, they're saying, hey, here's the price I want, and we have to look at that, and if it's east of the Mississippi and they want a price, then we're looking at the opposite.

We're looking at it as, what does it mean back to us at the plant? And if it's inhibitive for us to go on two railroads, then we give them the best price we can, but typically you'll lose the business to, you know, to AdvanSix in this case.

MR. HAMILTON: I think it is because of the nature of transportation and storage and ease of getting product, it is natural that, and particularly in an area right around the plant, you're more than likely going to have a very large market share there.
I mean it's just natural, so we serve a pretty significant truck market in the Mid-Atlantic, Virginia, North Carolina, Delaware, Maryland, and in general, we don't have a lot of competition, but we're running 24 hours a day, and as I've told people, we're like a Walgreen's, so if you want to buy a truck of ammonium sulfate at 3:00 a.m. on Christmas Day, you could drive a truck into the plant and we'll load the truck up and, you know, it's very convenient for our customers.

And like our competitors, I mean we also operate warehouses through the Midwest so we can provide that convenience. It's further away from our plant, so it's going to be more competitive, but we also try to provide that convenience from our remote warehouses as well.

CHAIRMAN WILLIAMSON: Okay. Do you generally use -- when you ship by rail, do you use boxcars or specialized equipment?

MR. MAZZOLLA JR.: Hopper cars, yeah. Dry hopper cars. So the same cars that would maybe carry grain or something like that. So it's just the open top. We dump it in there, and at the end customers -- at the bottom it dumps out onto a conveyor system for the customer.

CHAIRMAN WILLIAMSON: Oh okay.

MR. MAZZOLLA SR.: Boxcars are usually used for bag material, and our industry, I don't think it's one
percent of the material and no fertilizer is shipped by bag
anymore in the United States.

CHAIRMAN WILLIAMSON: Okay. So it's the supply
for the hopper cars?

MR. MAZZOLLA SR.: Yeah.

MR. HAMILTON: Yeah. Mike Hamilton, Avan Six.

To touch on it, I believe you also asked about other uses.
So a huge proportion, probably 99 percent plus of ammonium
sulfate that gets consumed in the U.S. is a fertilizer. But
we do sell some ammonium sulfate and do some other end uses.
So for example, the wallboard industry uses ammonium
sulfate, I think it's part of the curing process when
they're making gypsum wallboard. It helps make that curing
process a little faster.

It's used in a couple of cases as a fire
retardant. So we do have some small amount of sales into
other industries. Some of that would be sold in bag. We
don't bag ourselves. We actually have, you know, we
actually have a toller who bags for us just because they're
better than we are.

We typically deal in bulk. But you know, the
nature of those industries in general is that the sulfate
tends to be a very small part of their cost make-up.
They're using it as an additive in something that's largely
driven by other factors.
So you know, they're going to be looking for the best price possible like any buyer of any raw material. But the economics tend to be different. Transportation tends to be a little different. They're not going to want to store large piles. They're probably going to buy in bags.

When you bag a fertilizer, the reason why fertilizer tends not to be bagged, all of the sudden a large cost, a large portion of the cost of the fertilizer itself ends up being the bag and, you know, the labor and everything it takes to put it in the bag so --

CHAIRMAN WILLIAMSON: Okay.

MR. MAZZOLLA SR.: An interesting point also, going back to the Chinese. A lot of their material is shipped to their ports in bags, okay, almost all their fertilizers. So that material has to get to the port in China, and you have people literally with the knives cutting the bags open to load the material on vessel by bulk, making it a bulk shipment.

So when you look at that, you say how can that again be possible where I have bagged the material, I have shipped it to the port, I have stored it in the port. I've got this material sitting in bags and I've got to open up 25,000 tons worth of bags, hundred ton bags, I mean hundred pound bags, and put them in a vessel?

So you know, that's another thing that when you
look at it and you say how can all this be a situation that's legitimate.

CHAIRMAN WILLIAMSON: Okay, thank you. I was just wondering, has the transportation logistics changed over the Period of Investigation?

MR. MAZZOLLA JR.: No. I think, you know, in the U.S. we have a very -- the U.S. ag industry is very mature in how it's set up logistically. So you know, up and down the Mississippi River, Ohio River, Arkansas River and Illinois River there's warehouses every 100 miles or so that store fertilizer, and on the other side they store grain to load back out. The same thing, the rail customers.

I mean these are very established customers. A lot of the coops we sell to I always laugh, because they'll send in like a credit application and it was founded in 1905. So I mean, you know, the U.S. industry and the rail, it's very mature and very well established.

CHAIRMAN WILLIAMSON: Part of our agriculture infrastructure I hate to call it. Good, thank you. Vice Chairman Johanson.

VICE CHAIRMAN JOHANSON: Thank you, Chairman Williamson. I have a question for counsel. You all have made the argument that the Commission should apply adverse inferences because of the highly limited foreign industry questionnaire coverage.
However, if the available information in the record on the foreign industry, which goes well beyond the single foreign producers questionnaire response ends up supporting your case, why should the Commission entertain taking adverse inferences?

MR. ORAVA: Steve Orava, King and Spalding. It's a complicated question in the context of what you decide is on the record is you should infer in the Petitioner's favor, versus that which you cannot rely on because you can't verify it or corroborate it with other evidence. I mean it's our position, and we referenced it in the prehearing brief as well that, you know, the use of adverse inferences in a case like this, you know, there's a lot of things that the Commission should do in order to make those inferences.

It should infer that the Chinese producers had strong incentives to run their facilities at full capacity. It should infer that they had significant volumes of unused capacity. It should infer that all of that capacity is dedicated to producing ammonium sulfate, that they have limited ability to increase sales to export markets, that they plan to significant increase shipments to the U.S. of dumped and subsidized products.

You know, they're highly export oriented. They're putting in compaction. As sworn testimony has indicated, they're putting in compaction and other capacity...
specifically dedicated to ensure that they can flood the
U.S. market with those products. You can infer that they
have high inventories that are ready to come to the U.S.
market, and there's other things you can infer as well.

For example, there's been no other factors placed
on the record that might be an additional cause of material
injury to the domestic industry. You know, we believe you
should infer that that is in fact the case, and that the
only cause that's relevant for your consideration is the
subject imports.

MR. BAY: Benjamin Bay from King and Spalding.
Also a key factor using adverse inference is the fact that
Congress intended, as is written in the SAA, that a party
should not be able a more favorable result by failing to
cooperate, that if it had not cooperated fully. We touched
upon this in our brief when we talked about the gamesmanship
of the non-responding subject producers.

Although the record in this case clearly shows
that there is injury, by making that additional leap, the
additional move to put forth an adverse inference really is
following the will of Congress, to make sure that in future
cases, Chinese producers are not participating in this level
of gamesmanship.

VICE CHAIRMAN JOHANSON: All right, thank you Mr.
Orava and Mr. Bay. Now I have a question for the
manufacturers. Do quality and size limit the
interchangeability of subject importers from China and
domestically produced ammonium sulfate?

MR. MAZZOLLA JR.: I think first and foremost
it's the chemical analysis, as we said, and so the sizing.
I mean granular ammonium sulfate is basically more or less
you have 90 percent of it is what they call between two
millimeter and four millimeter, just on the size. So the
Chinese when they're producing and compacting in China,
they're purposely making it for that specific purpose.

So before 2013, before we saw imports, they were
already ramping up, but they didn't have the right size for
the U.S. market. So at that point they were selling more to
Southeast Asia. They were selling into Mexico. They were
selling into west coast Latin America, and then when they
kept increasing, they said all right, we want to get the
right size to sell to the U.S. market, and that's what led
to their increase in the compaction at their ports.

MR. HAMILTON: Yeah, Mike Hamilton, Avan Six. I
mean clearly our customers especially in the United States,
where there's a high level of technology, they do value --
they do value the size, they value the distribution of
sizes. It's not like every particle is the exact same size.
So there's going to be a size distribution. They value how
well the particle's going to hold up. So is it friable and
does the particle start to come off and you get dust,
because all of those are going to reduce the efficiency of
the fertilizer application.

So in order to commercialize the product into the
U.S. market, Chinese exporters were going to have to be able
to make a product that met those quality characteristics. I
think when they first bought some product in, they probably
had a couple of quality issues as they were first
commercializing it, and as any competitor's going to do, we
would use that in every way possible as a competitive
advantage.

But I can tell you, over the past, you know, over
the course of the POI, I mean they've rapidly solved those
quality problems and you know, as to date, I mean they're
able to compete, you know, just as well as we can in the
same markets.

MR. ORAVA: Steve Orava with King Spalding.

There was a statement in the prehearing report about the
U.S. product not being able to replace ammonium nitrate
because of granule size and absorption speed, but that the
Chinese product could. We talked about that. Not only is
it inaccurate, it's hard to even understand. I'm not sure
if one of the other witnesses would like to comment on that.
But it's simply not a true statement as far as these folks
have been telling me.
MR. MAZZOLLA JR.: Yes, on Steve's point there. So you know, it was in a prehearing brief where somebody made that comment. That just kind of had us with our jaw dropped saying what are they, what does that even mean? But I will say since the prelim duties are in, I mean one of the major importers was selling a lot of product right now for that exact purpose.

So you know, they're taking our product and blending it with urea and so no, it is completely, completely interchangeable, and that's one of the things. You know, talking to that specific customer early on, it was just price. I mean that's all it came down to.

MR. MAZZOLLA SR.: Originally when the imports started coming in 2013, we were getting reports, and this is when we knew it was getting a little bit serious, that the sellers, the importers, the sellers were telling the customers they were selling white granular, and intimating that it was a PCI material, to get an entree into the marketplace.

So yes, to go back to your original comment. Yeah, there's a question regarding quality and so on. But when it got into the market at these cheap prices, they used us as a pinboard to talk about the sale of the product by using our name.

VICE CHAIRMAN JOHANSON: Thanks for your
responses. What explains the increasing U.S. demand during the Period of Investigation, that most producers, importers and purchasers have identified? You all had mentioned a few minutes ago the decreasing level of sulfur in the air and how that might have contributed to increased use of this product.

I was wondering, it is my understanding that corn production has increased fairly significantly in the United States, and that there is in some cases less crop rotation between corn and soybeans because of ethanol prices. I was wondering if you've seen increased -- if that has impacted the level of use of this product?

MR. MAZZOLLA JR.: I would say the two main driving factors, without a doubt on the increase in demand is number one the -- basically the Clean Air Act. So there's less sulfur in the air getting on soil. That's number one. Number two is going to be the reduction in ammonium nitrate consumption. Three, as I was talking earlier, you know, the ag market here is very mature.

You know, the increase in corn acres starting, you know, due to ethanol is probably in 2005-2006. So you know, that's kind of been in play for a bit here. As a producer of a fertilizer that contains nitrogen we prefer corn. So I think as Mike was referring to, soybeans does not consume nitrogen. So with that, you know, we're happy
when they're consuming corn.

But I think, you know, the corn market has been planting for the last several years, you know, between 90 to 92 million acres. It's not a huge swing. But overall, the real driving factors to me is just less sulfur coming from the air and two, the reduced ammonium nitrate consumption.

MR. HAMILTON: Yeah, Mike Hamilton, Avan Six. Just to add to that, I think for the most part that's correct. I mean the ammonium nitrate, the change in ammonium nitrate consumption I do think had a significant impact. The explosion in West Texas I believe was 2011 or 2012, and as noted before, just due to the value chain being concerned about liability, less and less players in the value chain are willing to handle ammonium nitrate. They're not going to take the liability risk.

So I mean we've used that as a promotional vehicle for our product, and so we definitely, you know, we definitely increased some sales because of that. I don't believe the sulfur deposition in the last four or five years has necessarily changed a whole lot. But I think what has continued to change over the past say five to ten years is an awareness by growers of the need for sulfur.

So the change may have occurred earlier, but we've continued to promote the fact that you still need more sulfur and you're still going to get the economic benefit of
that investment in sulfur.

VICE CHAIRMAN JOHANSON: I'm curious. You had mentioned the decreased use of ammonium nitrate due to concerns about it being combustible. Isn't ammonium sulfate combustible as well?

MR. HAMILTON: Mike Hamilton, Avan Six. No, it's not.

VICE CHAIRMAN JOHANSON: Okay. So that does indeed give you an advantage?

MR. HAMILTON: It does. It's actually used in some cases as a fire retardant. So no, it's not -- it doesn't have any of the concerns as ammonium nitrate.

VICE CHAIRMAN JOHANSON: All right. Thank you for your responses. My time has expired.

CHAIRMAN WILLIAMSON: Thank you. Let's see, Commissioner Broadbent.

COMMISSIONER BROADBENT: Yeah, no. I just want to thank the witnesses. I don't have any further questions.

CHAIRMAN WILLIAMSON: Commissioner Schmidtlein, do you have questions?

COMMISSIONER SCHMIDTLEIN: No.

CHAIRMAN WILLIAMSON: Okay. I have no further questions. Vice Chairman Johanson.

VICE CHAIRMAN JOHANSON: I have just one more question. I understand that Brazil has been a sizeable
market and still is, at least for Chinese producers. How
have market conditions affected exports to Brazil? The
Brazil economy is in the tank right now.

MR. HAMILTON: Mike Hamilton, Avan Six. I mean
we have maintained a pretty good position in Brazil. I mean
part of that goes back to the standard versus granular
difference in products. We do make standard product. The
standard product does not have as big a market in the United
States. So we have developed a pretty significant market in
Brazil for our standard product.

A lot of it goes on coffee. You can imagine
coffee trees being planted on the hills, and those trees are
there year after year. You don't have the ability to use
the same kind of application equipment that you'd use as
your, you know, getting ready to plant corn on flat row crop
ground in the U.S. So standard product works there pretty
well, and sulfur is needed for coffee. So we maintain
a strong position in standard. Granular, it's probably been
a little tougher because of the Chinese influence in Brazil.
But you know, we continue to maintain a footprint there as
well. You mentioned the fact that the Brazil economy has
been rocky, and that has definitely been an issue in Brazil.

But agriculture is a strong and very growing part
of the Brazil economy. So whereas as lot of the parts of
the economy have really struggled, agriculture's fared
reasonably well. In addition, even though the currency in Brazil has fallen significantly over the past several years, Brazil is very large export-oriented producer of a lot of agricultural goods.

If you go down a list of key agricultural goods like coffee and sugar and orange juice, etcetera, they tend to be either the number one or number two exporter in the world of those.

So because they're exporting, you know, they can get around the issue of the currency exchange, because even though they may be importing the fertilizer and they have to pay more Brazilian currency for it, they're exporting it. So the devaluation of the currency actually helps them in that.

So agriculture has actually fared very well.

VICE CHAIRMAN JOHANSON: Thank you, Mr. Hamilton. I have just one more question for Mr. Houseman. I had mentioned earlier the large number of chemical plants in the Houston area. How easily transferable are the skills in the ammonium sulfate industry to workers? Because I'm thinking if they were to lose their jobs, how hard is it find comparable jobs in that region of the country, and also in Virginia as well. I'm not as familiar with production in Virginia.

MR. HOUSEMAN: I'd actually defer to folks who
work at the facilities.  

MR. MAZZOLLA JR.: I'll say I mean one big thing is on interchangeability, I'm not 100 percent certain. But I'm sure, you know, it's a lot of engineers, you know, a lot of those skilled guys maybe. But it's the matter of are there other jobs there today.

You know, the Houston ship channel is obviously very energy intensive, you know. It was booming when oil was $140 a barrel. You know, with oil where it is today, you know, the Houston market is pretty depressed. I will say, you know, one of the things, Rentech had this plant on the market for over a year, and you know, one neighbor is Kinder-Morgan for them; another neighbor is Exxon Mobil.

So one of the considerations for them was to sell it to one of those guys and put up a tank farm. When you do that, a tank farm, you're just importing and exporting refined goods. It's very few employees. Liquid -- loading and discharging liquid product does not take a huge amount of labor. So when we went down there, it was a big sigh of relief to the employees down there, plus they knew we were the ones looking at it, to consider it -- continue it as ammonium sulfate.

If not, they would have been going into a market, in a very depressed energy market, looking for a job on the Houston ship channel and it would not have been a good time to do that.
MR. MAZZOLLA JR.: Yeah, in addition to that, so there's a major raw material supplier of us down the way on the ship channel as well that we buy, you know, I would say half or a little bit more than half of their production. If we want, you know, we're kind of linked because of that, you know. If we weren't buying their production, the employees at that site would be affected as well. We also buy a lot of sulfur from the local refiners down there.

So you know, if something happens to this plant here, and we saw this playing out while the plant was on the market. You saw all those other producers of the raw materials getting very nervous, going you know, what's going to happen here, and those employees as well would have been kind of then facing the same thing we felt, where they're having to reduce capacity and probably reduce workforce.

MR. HAMILTON: Mike Hamilton, Avan Six. You know, our situation is at Hopewell, we employ over 600 people. We are an integrated manufacturer. So our main organic input to making caprolactam is a chemical call phenol. We actually have a chemical plant in Philadelphia that produces that, and we -- almost the entire output of that plant of phenol is barged to our facility in Hopewell.

And then a significant output of caprolactam we make at Hopewell is trucked a pretty short distance into
Chesterfield County, Virginia, where we make nylon resin. But the Hopewell plant is the center point of this, of this operation. If the Hopewell plant goes away, those two facilities are most likely going to go away too.

There's not a huge chemical plant presence in the eastern Virginia area. I mean the workers we have are very highly skilled. The engineers are very highly skilled. But if, you know, if the plant went away, I think it would be very difficult. I mean engineers could probably move somewhere else in the country and find a job.

I think, you know, the folks that operate the plant would probably have a very difficult time, you know, finding a way to utilize those skills even close to the wages that they are now making working for Avan Six.

MR. HOUSEMAN: Roy Houseman with the Steelworkers. I think that this kind of highlights to us is that, you know, we have a lot of members in the Beaumont area, 13-1 in a lot of the oil refineries. Those are also, you know, tend to be very mature, more sites. They have, you know, a well developed workforce already.

So if there was to be a loss of employment at PCI, the operator at that facility is going to have to be finding openings at those new facilities, even with the expansion that you're talking about. And then as was pointed out, the significant reduction in oil, in crude
prices over the last two-three years has had an impact in
that region.

It has impacted the oil industry to some extent,
and of course the steel industry as well.

VICE CHAIRMAN JOHANSON: All right. Thank you
for your responses. I have no further questions.

CHAIRMAN WILLIAMSON: Thank you. No further
questions from Commissioners. Does staff have any questions
for this panel?

MS. HAINES: Elizabeth Haines. Staff has no
questions.

CHAIRMAN WILLIAMSON: Thank you. Well then it's
time for closing statements, and Petitioners have five
minutes. I want to thank the panel for their testimony. I
appreciate very much your taking the time to come today, and
I'll ask you to step back and then we'll do a closing
statement.

(Pause.)

CLOSING STATEMENT OF PETITIONERS

MS. BYERS: The light's not as good over here. I
have to tell you that. No, no, I'm fine. I want to start
by thanking the staff for all their hard work. This was not
an easy case. You didn't have a lot of help from the
Chinese respondents, and you had to end up doing a lot of
research yourselves on what was going on in China, and I
really commend you for that.

    We have provided some additional information in
regards to the situation in China with respect to capacity,
and very low capacity utilization rates, and we would
encourage you to put that into your final staff report. I
also want to thank the Commissioners that are here for their
very thoughtful questions this morning.

    As we have shown already, all of the statutory
factors with respect to material injury are satisfied in
this case, and rather than recapitulate that evidence now, I
want to draw your attention to just a few key points that
could play a major role in the Commission's determination.

    You have virtually no cooperation from Chinese
respondents, as we've discussed. Indeed, even not one
witness came here today to answer your questions or to
oppose the petitions at issue. By failing to cooperate, the
Respondents have deprived you and us of critical information
regarding their capacity, their production, their exports,
their plans for new capacity and all of the other evidence
that is within their control.

    It would be seriously outrageous for Chinese
producers to benefit from their own lack of cooperation in
these investigations. We have no doubt that a complete
record with regard to Chinese producers would show that they
have massive volumes of capacity, and that they are heavily
export-oriented, and that they intend to increase exports to
the United States, and that they have deliberately lowered
their prices in order to increase their shipments.

Indeed, the information that you already have on
the record does support this conclusion. The Commission
should thus make appropriate inferences given Respondents' deliberate failure to participate in these investigations.

The Commission is directed to consider the
performance of the domestic industry in the context of the business cycle and conditions of competition distinctive to this industry. In these investigations, conditions were extremely favorable for domestic producers. From 2013 to 2015, U.S. apparent consumption of ammonium sulfate rose significantly. In the first three quarters of 2016, key raw materials costs, including natural gas, ammonia and sulfur declined.

Under such circumstances, the last few years should have been very good ones for domestic producers. The fact that they were not is compelling evidence that dumped and subsidized Chinese imports were distorting the market. Any time the Commission looks at a case brought during a time of strong demand and falling raw material costs, those factors will necessarily mask to some extent the harm done by unfair trade.

But in these investigations, you have dramatic
and unmistakable evidence showing a direct causal link between unfair trade and material injury to the domestic industry. First, you have massive increase in the volume of imports. Over the Period of Investigation, Chinese producers shipped hundreds of thousands of tons into this market. Those tons represent sales that could have been made by domestic plants, and that would have been made by those plants in the absence of unfair trade.

Those lost sales and the accompanying lost revenues that result from them are more than enough to show material injury by reason of unfair trade. Second, you have specific evidence that Chinese imports are interchangeable with domestic like product, and that U.S. plants have no choice but to either reduce their own prices or lose even more business due to unfair trade.

You heard that point made in sworn testimony here today, and the record contains additional evidence on this point as we have highlighted in our prehearing brief. In other words, you don't have to infer that Chinese imports were driving down domestic prices. You have direct evidence on this critical point.

Finally, you have the evidence of what happened to Rentech, and how a plant that was valued at almost $160 million before Chinese imports entered this market lost over 90 percent of its value just within a few years. This
evidence before you, including the testimony from Mr. Hamilton and Roy Houseman shows all the domestic producers were hurt by imports from China.

But for those of us who really care about strong and effective enforcement of trade laws, there is no more dreadful result of unfair trade than the loss of domestic capacity due to dumped and subsidized imports. When a plant closes, it's usually gone forever. The jobs that it could have supported, the new products that it could have made, these are all lost to us.

Ironically, however, evidence of this type of harm is almost impossible to present to the Commission. When a plant loses almost all of its value, it usually just disappears from the record. Once a plant is gone, there is no one left to bring a trade case on its behalf. There's no one left to fill out the Commission's questionnaire. There's no one left to speak for the workers that have been forced to look elsewhere for employment.

And so unfortunately, some of the worse and most painful examples of injury are very difficult to prove. But this time you have the evidence, evidence showing that a plant that makes ammonium sulfate, a plant that was successful before the Chinese came into this market, a plant that competes directly with those imports, lost a huge percentage of its value. Am I over time?
You were trying to get my attention and I wasn't paying -- I'm sorry. I thought we had leftover time from.

(Off mic comments.)

MS. BYERS: Okay. Well, I'll wrap it up. I want to say thank you and we hope that you will confirm an affirmative determination. Thank you.

CHAIRMAN WILLIAMSON: Thank you very much. I want to thank everybody for participating in today's hearing, this closing statement. Post-hearing briefs, statements responsive to questions and requests of the Commission and corrections to the transcript must be filed by January 19th, 2017. The closing of the record and final release of data to parties is February 1st, 2017.

Final comments are due by February 3rd, 2017, and with that, this hearing is adjourned.

(Whereupon, at 11:51 a.m., the hearing was concluded.)
CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Ammonium Sulfate from China

INVESTIGATION NOS.: 701-TA-562 and 731-TA-1329

HEARING DATE: 1-12-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

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: 1-12-17

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: Gregory Johnson

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.

SIGNED: Gaynell Catherine