THE UNITED STATES

INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF: AMMONIUM SULFATE FROM CHINA

) Investigation Nos.: 701-TA-562 AND 731-TA-1329

) PRELIMINARY

Main Hearing Room (Room 101)

U.S. International Trade

Commission

500 E Street, SW

Washington, DC

Wednesday, June 15, 2016

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

On behalf of the International Trade Commission:

Commissioners:

Staff:

Bill Bishop, Supervisory Hearings and Information Officer

Sharon Bellamy, Program Support Specialist

Sonia Parveen, Intern

Michael Anderson, Director of Investigations

Fred Ruggles, Investigator

Emily Burke, Economist

David Goldfine, Attorney/Advisor
APPEARANCES:

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

Mike Hamilton, Business Director of Ammonium Sulfate, Honeywell Resins & Chemicals, LLC
Sedesh Doobay, General Counsel, Resins & Chemical and ISC, Honeywell International Inc.
Roy Houseman, Legislative Representative, United Steelworkers

Bonnie B. Byers, Senior International Trade Consultant, King & Spalding LLP

Stephen J. Orava and Stephen P. Vaughn - Of Counsel
Closing Remarks:

Petitioner (Stephen P. Vaughn and Bonnie B. Byers, King & Spalding LLP)
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PROCEEDINGS

(9:30 a.m.)

MR. BISHOP: Will the room please come to order?


Among our staff here, and I apologize. A couple of our staff members were not feeling well today, but today we have our investigator, Fred Ruggles to my right and our Attorney Advisor Mr. David Goldfine to my left, and Emily Burke, our Economist. I know that our Financial Analyst and the others that couldn't make it today may be submitting questions for you directly afterwards.

I understand that the parties are aware of their time allocations, and I would remind speakers not to refer to -- in your remarks to refer to business proprietary information. We also ask each time that you state your name clearly and your affiliation for the benefit of the court reporter and for the record.

All witnesses must be sworn in before
presenting testimony, and any questions regarding time allocations should be addressed with the Secretary. Are there any questions?

(No response.)

MR. ANDERSON: Mr. Secretary, are there any preliminary matters?

MR. BISHOP: Mr. Chairman, I would note that all witnesses for today's conference have been sworn in. There are no other preliminary matters.

MR. ANDERSON: Very well. Thank you, Mr. Secretary. Let's proceed with Mr. Orava.

MR. BISHOP: Opening remarks on behalf of Petitioner will be given by Stephen J. Orava, King and Spalding.

OPENING REMARKS OF STEPHEN J. ORAVA

MR. ORAVA: Thanks very much, and good morning. First, I'd just like to thank the staff for all your hard work. I know it's a busy time and I also I wish the folks that are not here, that they get well soon. So we do really appreciate all your hard work.

Steve Orava for the Petitioner. This case is about rapidly increasing imports of ammonium sulfate from China. As demonstrated in the petition, imports from China are being dumped at high margins and are benefitting from a substantial number 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, this 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 costs. U.S. producers therefore have a strong operational and economic incentive to meet lower import prices in order to avoid losing sales and under-utilizing capacity.

Third, U.S. demand for ammonium sulfate has been increasing over the Period of Investigation. Nonetheless, U.S. producers have been denied the benefit from increasing demand, as subject imports have undersold
U.S. producer prices and captured market share. Applying
the statutory factors in the context of these conditions of
competition, there is certainly a reasonable indication that
the domestic industry is materially injured by reason of
subject imports.

First, the volume of subject imports and the
increase in the volume of imports are significant. During
the first quarter of this year, imports from China equaled
67 percent of imports from all countries, and almost 18
percent of U.S. consumption. Subject imports increased 682
percent from 2013 to 2015, and 60 percent from interim 2015
to interim 2016. They increased their share of the U.S.
market from two percent in 2013 to 12 percent in 2015, and
then to 18 percent in the first quarter of 2016.

Second, imports from China had negative price
effects. Based on published industry data and confidential
information from several domestic producers, subject imports
have consistently undersold the domestic like product by
significant margins. The increase in 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 an additional six percentage points in interim 2016. 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 have 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, preliminary determination in this investigation. Thank you.
MR. ANDERSON: Thank you very much for your opening statement and welcome to the panel and please proceed.

STATEMENT OF STEPHEN VAUGHN

MR. VAUGHN: Good morning. I'm Stephen Vaughn on behalf of Petitioner here to begin with an overview of the main issues before you today. Here are the key points in these investigations. First, from 2013 to 2015, the volume of imports of ammonium sulfate from China rose by an astounding 682.4 percent.

Second, from '13 through the first quarter of '16, Chinese imports took roughly one-sixth 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 the industry, suffered enormous losses on a scale of close to a quarter of a billion dollars and left the business entirely.

Fifth, despite years of strong demand, there can be no question the 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 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, in this country ammonium sulfate is used primarily to help farmers avoid the serious problem of sulfur depletion.

In short, it is a very important product and it should be a very valuable product. Ammonium sulfate may be produced in a plant devoted to that purpose, or it may be produced as a co-product along with other chemicals. You will hear 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. We will begin with volume. As you can see here, 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 last
year. This surge continued during the first quarter of this
year. Through the first three months of '16, imports from
China were up more 60 percent compared to the same period in
'15.

While demand has been strong, subject imports
have risen much faster than demand. Since '13, imports from
China have increased their share of the U.S. market by
almost 16 percentage points. In other words, they have
taken almost one-sixth of the market. As Chinese producers
gain market share, U.S. producers are losing. From '13
through Q1 '16, the domestic industry lost 13.3 percentage
points of market share. We estimate that in the first
quarter of this year alone, this lost market share cost
domestic producers over 110,000 tons of sales and over $25
million in revenues.

As you can see here, all of the 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, took a
significant amount of 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 in third country markets.

Now, let's look at price effects. As we've already mentioned, subject imports are generally fungible with the domestic like product, meaning the competition occurs on the basis of price. As import volumes grew, they suppressed domestic efforts to obtain more favorable pricing and then exerted downward pressure on those same prices.

Unless domestic producers obtain trade relief, they will find it impossible to obtain true market pricing for ammonium sulfate. We've shown you the surge of the Chinese imports. Now here you can see what is happening to their prices. These are the average unit values reported by the ITC dataweb for U.S. imports of ammonium sulfate, and therefore 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 in ammonium sulfate. The situation has gotten much worse in recent months. As you can see here, the price of ammonium sulfate normally rises between early September and late May. This pattern makes sense, given that demand for ammonium sulfate is strongest in the spring, when fertilizer is most likely to be applied.
But look at what has happened this year. Prices for ammonium sulfate have actually declined since last fall. In other words, you could have bought ammonium sulfate more cheaply this spring, 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 '13 through the first quarter of '16, 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. The 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 the 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 actually quite favorable for U.S. producers. This fact is highly significant, because it makes the difficulties faced by the domestic industry impossible to explain absent the impact of unfair trade.

For example, consider what happened to an
ammonium sulfate facility in Pasadena, Texas. You will hear more testimony about this facility from witnesses for PCI Nitrogen, the current owners. But take a look at this chart. In November '12, before Chinese imports played a significant role in the market, the plant was sold by Rentech Nitrogen for almost $160 million. In other words, that was the market value of the plant according to a sophisticated investor.

After the sale, Rentech spent tens of millions of dollars more on improvements and demand increased. In other words, the Pasadena facility is now a better plant in a stronger market. Yet this spring when Rentech sold the plant after months of seeking new ownership, the market value of the plant was less than $14 million.

It is difficult to imagine more vivid evidence of the 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 bought these petitions. 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. There is no question that subject imports have caused material injury, but they also threaten further injury unless relief is granted. Here you can see that back in 2013, Chinese capacity to make ammonium sulfate was already more than twice total U.S. production and capacity was projected to grow by four million tons over the next four years.

In fact, there is no question that Chinese capacity and production are growing, and that imports from China will continue to grow in the absence of trade relief. Other evidence confirms the threat we face. Domestic producers are extremely vulnerable. Imports from China have already shown the ability to rapidly take market share, and Chinese producers have strong incentives to increase exports further.

In light of these facts, it is absolutely critical that the Commission make affirmative determinations here. Failure to do so would likely have disastrous consequences for the industry and its workers. Thank you for your time. We will now hear from Mr. Mazzella from PCI
STATEMENT OF ELIO MAZZELLA, SR.

MR. MAZZELLA SR.: I too want to thank the ITC staff for their hard work and due diligence during this investigation. I am the president of PCI Nitrogen, which produces ammonium sulfate at the facility in Pasadena, Texas. I am joined today by my son, Elio Mazzella, who's the Vice President, along with Jim Costello, our CEO, Scott Lange, our Senior Vice President of Operations and Shawn Hill, Senior Vice President of Accounting and Finance at PCI.

We are here today to tell you about our facility in Pasadena, Texas, and how the facility is being harmed by unfair trade from China, and why the situation is likely to get worse unless we're able to obtain some form of trade relief from the Commission. I've been in this fertilizer business for over 40 years, both as a producer and a marketer. In 1985 I helped found IOC, Interceanic Corporation. Since that time IOC has become an international leader in bulk chemicals, fertilizer sales and distribution.

We have sold and sell fertilizer all over the world, and we've often imported fertilizer into the U.S. market. We believe that fair competition leads to a more efficient and competitive market, and without question markets work better when there is hard work and innovation.
given to it. We've never brought a trade case of this kind before. However, I will explain the events of the last few years that have left us with no choice.

Over the years, we at IOC have sometimes served as the exclusive selling agent for companies that produce fertilizer. One such relationship involved Agrifos Fertilizer, which previously owned the Pasadena facility. The facility originally was a producer of phosphate fertilizer, but due to environmental restrictions and problems, Agrifos needed to find another way to utilize this plant and facility.

Sometime around 2010, the folks at Agrifos came to us with an idea. What if the plant were to convert from a phosphate operation and produce ammonium sulfate? Not as a co-product, but a product that would be purposely produced and was for the primary manufacturing process. The ammonium sulfate would be in granular form, which would make it easier to spread and blend for the large farms in the U.S. Corn Belt area.

We liked this idea and we told them, it sounds great. Farmers were becoming increasingly aware of the importance of replacing the sulfur that was being depleted in their soil, and ammonium sulfate is the most efficient way to replenish that. Accordingly, we were confident that we could market large amounts of ammonium sulfate from the
Pasadena facility with this new process.

Agrifos went ahead with its plan, and by 2011
the Pasadena facility had begun producing the ammonium
sulfate. From the very beginning it was successful and
well-accepted. The plant was making hundreds of thousands
of tons of granular ammonium sulfate, and we were having
very little difficulty moving the material and selling the
product at favorable prices into the U.S. marketplace.

Soon, other major corporations showed interest
in the Pasadena facility. In November 2012, Agrifos
received an offer for the plant and sold it Rentech Nitrogen
for roughly $160 million. Rentech is a significant player
in the nitrogen business with other plants in the United
States. Furthermore, Rentech was so very enthusiastic about
the business that they immediately set out to expand the
production capacity at the Pasadena facility.

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
since we were so closely involved. In 2013, Rentech spent
over $7.7 million on a project to increase capacity by over
20 percent, bringing the capacity up to approximately
700,000 tons. Rentech spent millions more on infrastructure
improvements. They built a new cogeneration plant designed
to reduce energy cost, and other projects designed to
support what was expected to be a growing business and a
long term supplier to the marketplace.

Rentech was absolutely right that demand for
ammonium sulfate was growing. Just as forecasted, more and
more farmers were using this quality product. But something
else none of us could have ever predicted was also affecting
the market. Suddenly in 2013, we started hearing about
offers from China into the marketplace, imports that were
entering the market at extremely low prices.

That shouldn't be possible. I've been in this
business, as I mentioned, for decades and it makes no sense
how Chinese producers can make ammonium sulfate, process it
into a granular form, ship it a large distance over oceans
on vessels and undersell ammonium sulfate made here in
Pasadena, Texas, which is right on the Gulf Coast and
minutes away from the Port of Houston and very close to the
Port of New Orleans, which serves much of the United States.

Rising Chinese imports were troubling for
Rentech because it had significant fixed costs and needed to
operate this facility at high levels of capacity
utilization. In an effort to maintain sales volume and
compete with the Chinese import pricing, Rentech prices fell
significantly during 2014 to meet competition from this new
Chinese product.

Sales volume grew some, but not enough.
Rentech had hoped to produce 700,000 tons of ammonium sulfate per year, but it soon became apparent that this would not be possible in this marketplace. By September of 2014, Rentech was forced to change its plans to effectively reduce its production to about 500,000 tons, reducing 200,000 tons of capacity, far below the maximum and well below its projected forecast.

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

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

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

Finally, we at IOC bought the facility through PCI from Rentech. PCI is an affiliate of Interoceanic Corporation. Total compensation was about $13.2 million, okay, and we closed it in March of this year. That was a reduction in price from what Rentech paid by about $142 million in a very short period of time.

So let me summarize the history of this facility. Less than four years ago, the Pasadena facility was purchased for $160 million. The facility today is significantly better and more efficient than it was in the past, in large part due to the upgrades and improvements made and paid for by Rentech during their ownership.

Demand for ammonium sulfate has grown, and despite these facts over the same period of time the facility lost more than 90 percent of its value. Despite these facts, I'm sorry, and 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 its expansion and the facility would be turning a healthy profit today.

Instead, Rentech lost a fortune and the future of this facility is definitely at risk. To be clear, we
believe in this plant, we believe in the people who work there and in this product. That's why we took over the facility ourselves. We believe that there is a healthy demand for ammonium sulfate and in a truly competitive market no one can provide better customer service, product at very competitive prices.

But we absolutely must have some form of trade relief and help to ensure that pricing in this market will reflect the market forces rather than the unfair trade that we're experiencing. We urge you to grant this relief and let us get back to work to do our job. Thank you very much for your time.

STATEMENT OF MIKE HAMILTON

MR. HAMILTON: Good morning. My name is Mike Hamilton and I am a business director for Honeywell with responsibility for the ammonium sulfate product line. I also want to thank you for your time this morning and we appreciate your hard work on this matter.

I've been with Honeywell for 26 years, have been in the ammonium sulfate business for ten years and have been in my current position for the last four. I'm responsible for all aspects of our ammonium sulfate business including both sales and operational matters. It's a large business. We're 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, right now this business is under attack from an ever-increasing surge of unfairly traded imports from China and that's why we support PCI nitrogen's petition seeking 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's 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 4.5 tons of ammonium sulfate for every one ton of caprolactam. 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 a fair market return on the assets at our Hopewell facility unless we obtain a profitable price on both of these products.

As business director, I work only on ammonium sulfate. We have a dedicated sales and marketing team that
works only on ammonium sulfate. We have had agronomies
located in the United States and Latin America for at least
a quarter of a century. In fact,
we are a pioneer
in the U.S. fertilizer industry, and have been active in this
market for decades. We are always looking for ways to grow
demand for this product because that demand has been and
continues to be critical for the long-term health of our
Hopewell operations.

We have spent millions of dollars to educate the
agricultural industry about the benefits of using this
product. Traditionally farmers had paid attention to three
primary nutrients in 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, sulfur
is now often described as the fourth major nutrient.

Historically farmers did not have to worry so
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 yields which also translates into higher needs for sulfur.

Taking corn as an example, yields 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 composed of 21 percent nitrogen and 24 percent sulfur, two vital amino acid components, protein building blocks. Nitrogen and sulfur are also essential for chlorophyll formation key to the photosynthetic process. These two nutrients work hand in hand and by applying them together nitrogen use efficiency is often optimized.

Thanks to the efforts of our sales, marketing, and agronomics team and numerous studies that we have supported in collaboration with universities like Virginia Tech, the University of Illinois and Penn State, American farmers have a much better sense of the benefits of ammonium sulfate and demand for this product has grown.

No company is better positioned to serve this demand than we are. Most of the ammonium sulfate 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 machine over the types of large farms that you see in
states like Iowa.

We also market what is known in the industry as standard ammonium sulfate. Standard grade ammonium sulfate has an average particle size under two millimeters and looks more like sugar. It has the same nutrient qualities as the granular product, but tends to be more used 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 serves 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 and we would like to make even more.

In short, we worked hard to grow demand for ammonium sulfate and we were in a very strong position to benefit from increased demand. Since 2013, according to the Fertilizer Institute data, U.S. demand for ammonium sulfate has been growing about 9 percent a year. But in 2013 almost 50,000 tons of Chinese imports entered this market at prices far below prevailing prices in the market triggering the first wave of pressure from our customers to lower 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 more imports from China will follow.

 Accordingly, after the first wave of imports, we began doing everything we could strategically over the past two to three years to both maintain volume and profitability as imports continued to flood the market and adversely impact our sales.

 We continued our successful work to grow the market by being a leader in agronomic education. We've even developed an App that growers can put on their iPhones to calculate the yield and economic benefit to them of using ammonium sulfate. We have also made significant commercial and go-to-market changes. These efforts through 2015 have helped Honeywell ammonium sulfate at least stay somewhat profitable, although clearly not where we would have been without the import pressure.

 The ever-larger wave of imports that arrived over the winter, however, continues to create even more significant market pressure and we believe over the next few months we will be forced to lower prices as much as $50 per ton in order to continue to maintain volumes. This is a tactic that we just cannot continue to implement 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 our 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 mills. And so year after year we have watched the volume of Chinese imports increase from 47,000 tons in 2013 to 229,000 tons in 2014, to almost 370,000 tons last year, all at dumped and subsidized prices. We've been badly hurt as a result. Our total profits for the last two years combined are lower than the profits we made in 2013 even though consumption has grown. Through the first quarter of this year consumption is still strong, but our profits are on pace to be even lower than they were in 2014 and 2015. It seems like every day my sales people report new efforts of Chinese ammonium sulfate, new customers switching to the Chinese product and new sales being lost. And 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 sulfate into granular form. And since most granular ammonium sulfate is used here, it's 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. It is critical that we get help very soon. The fall is the start of a new fertilizer season and the wave of imports that will surely start moving to the United States by late summer will wreck even more damage on the U.S. industry. Although China is focused primarily on exporting granular product to the United States, we've started to see imports of standard grade as well.

Just last month 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's 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 have 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 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 the chance to compete in a market that is not distorted by subsidies and other unfair tactics. You do that and we will do the rest.

Thank you very much.

STATEMENT OF ELIO MAZZELLA, JR.

MR. MAZZELLA, JR.: Good morning. My name is Elio Mazzella, Junior. I am Senior Vice President for PCI Nitrogen as well as Executive Director at Interoceanic Corporation.

As part of my responsibility at IOC, I work closely with the people at Rentech on the sales of ammonium sulfate made by their facility in Pasadena, Texas. I was actively involved in the decision to have PCI 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 that you need to understand about the industry. Fixed costs associated with
producing ammonium sulfate are very significant. Our plant is designed to operate 24 hours a day, seven days a week, with only limited down time for maintenance. The plant includes a cogeneration unit that is supposed to produce electricity for our factory with excess generation being sold into the local market. Again, that unit must operate at a high level of capacity utilization to justify the costs.

I know from my years of experience in the business that companies making ammonium sulfate by other methods face similar pressures to use all of their capacity. It is so important to maintain high levels of capacity utilization as 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 are caused by unfair import competition can cause severe damage while cutting production can be disastrous given the fixed costs at issue here. Under these circumstances the fact that imports from China have already grown so rapidly and taken so many sales from U.S. producers with no regard to pricing is extremely troubling.

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

These customers are extremely familiar with market conditions and with prices available from other parties. When we negotiate with our customers, we know that they will seize upon any opportunity to pressure us to lower our own price to meet competition.

In recent years we have repeatedly been told the very low Chinese offers. Offers that we are generally required by our customers to meet or lose the business. 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. We need sophisticated farmers with mechanized equipment for use of our granular ammonium sulfate.

A major export market such as Brazil have also been adversely affected by exports from China. In fact, the prices we obtained for our exports are usually even lower than the prices we can get here.

Pricing for the U.S. market can be affected by the location of your customer. Traditionally producers
think of the price of their ammonium sulfate in terms of the price that 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 meant 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, as time has gone on, we know of imports from China now going all the way up the Mississippi River as far as Minnesota. PCI has over ten warehouse facilities throughout the Midwest in order to service the majority of U.S. customers when product is needed. We have been forced time and again to lower our prices to compete with the Chinese. Imports enter the USA at such low prices as to allow them to reach all parts of the Midwest and northern plains. We believe that in the absence of trade relief these imports will accelerate their spread throughout the country.

There is no question that the surge in imports from China is a result of their unfair trading practices. Because of those practices Chinese producers are offering ammonium sulfate to importers at extremely low prices.
Those prices allow the importer to bring the product to this market, undersell the domestic-like product and still come out ahead. Naturally, these facts encourages the importers to buy even more Chinese ammonium sulfate.

Domestic producers like PCI, 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 and continue underselling us. We literally cannot afford to reduce our prices as much as they can.

Finally, we need relief now. We can't afford to wait any longer. Imports from China throughout the first few months of 2016 are running well ahead of last year's pace while prices are significantly lower now than they were last fall. If these trends continue pricing in the next growing season which starts in a few months will be at calamitous levels.

Speaking on behalf of PCI I can assure you that we need things to get better fast. Only trade relief can restore true market competition and we ask you to grant such relief.

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 Service Workers International Union, better known as the USW.

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

The USW represents workers at PCI's ammonium sulfate facility at Pasadena, Texas, and at Honeywell Resin and Chemical Ammonia Sulfate facility in Hopewell, Virginia.

In addition to the USW at these facilities, the International Brotherhood of Electrical Workers, otherwise known as the IBW, also represent 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 UFCW, the International Association of Machinists and Aerospace Workers, the IAM; the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry, UA; and the International Association of Heat and Frost Insulators and Asbestos Workers.

In all, there are about 520 union workers at both
sites alone. In addition to these two facilities, USW also represents workers who make ammonium sulfate at J.R. Simplot in Lathrop, California, and at Pocatello, Idaho. These two locations combined employ around 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 and 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 the PCI facility invested tens of millions of dollars to increase their capacity at the facility in Texas in response to steady increase in ammonium sulfate demand.

However, just as they made 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 facilities at the time, decided they wanted out of the business. They searched for a new owner. The market had deteriorated so significantly as a result of imports from China that it took nearly a year to find a buyer, PCI Nitrogen. Even then, Rentech had to sell at a price well below the price it 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.

The USW, and indeed all unions represented at the American sulfate facilities, are very concerned about the impact that the flood of low-priced imports from China will have on this 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 is as simple as that.

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

Keep in mind that the Pasadena facility was designed to produce only ammonium sulfate and is not capable
of producing other products. If PCI cannot run that
facility profitably because of the imports from China, it
will certainly have to close the 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 the duties can be imposed to offset
the injury the sector is experiencing, and save good-paying
jobs in the ammonium sulfate industry.

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

STATEMENT OF BONNIE B. BYERS

MS. BYERS: Good morning. My name is Bonnie
Byers. I am a consultant with King & Spalding appearing
here on behalf of the Petitioner.

As you have heard today from other witnesses,
there is compelling evidence of present material injury. I
want to discuss the evidence that exists with respect to
threat of material injury.

Applying the statutory criteria, the threat of
injury from 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 thus far in 2016 are on track to reach over 600,000 tons. Thus, imports from China are not only increasing rapidly, that pace of that increase is accelerating. U.S. market shares also demonstrate an accelerating market penetration, with Chinese imports increasing their market share, in the first quarter of 2016 by nearly 6 percentage points to about 18 percent of the U.S. market.

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 U.S. 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 by over 15 percent from 2013 to 2015. Average unit values also declined from the first quarter of 2015 to the first 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 very near future.
Third, China's capacity to produce ammonium sulfate is significant and it is growing. China is now by far the largest producer of ammonium sulfate in the world, accounting for about 38 percent of total global production. Because ammonium sulfate production is so capital intensive, producers have a strong economic incentive to export their excess capacity to lower their fixed per-unit cost of production.

Capacity in China has grown significantly in recent years, and it now substantially exceeds demand in China which has remained relatively flat in recent years. For example, in 2014--the last year for which complete data is available--China produced over 6 million metric tons of ammonium sulfate, but only consumed about 1.8 million metric tons. The rest, over 4 million metric tons, went into the export market.

In 2015, China exports grew to 5.28 million metric tons. China now exports about 56 percent more of the ammonium sulfate it produces than it consumes in China. This is staggering when you consider that only 10 years ago China produced only about 2 million metric tons per year.

Fourth, significant new capacity is slated to come online in China within the next year, most of which will be focused on the export market because China already produces far more ammonium sulfate than it actually
consumes.

Today, China's capacity to produce ammonium sulfate is about 12.5 million metric tons, according to their fertilizer association. We will provide additional information regarding specific capacity expansion products in our post-conference brief.

Fifth, many Chinese producers are highly export oriented and have invested in capacity designed specifically for the export market. Chinese ammonium sulfate compactor Wu Ju Feng, for example, exports nearly all of 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 anti-dumping duties in Mexico since last year. Absent relief in the U.S. market, those exports are very likely to be redirected here. 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.

By the way, Wuzhoufeng is the largest exporter of ammonium sulfate from China to the United States, and they didn't even bother to file a questionnaire response. We think that this makes it very difficult for everyone, including the Commission, to develop all of the facts in
this case.

We believe the Commission should make an adverse inference, given the failure of the largest Chinese exporter to participate in the preliminary phase of this investigation.

Sixth, the United States is an extremely attractive market for Chinese exporters. There are no ordinary duties on ammonium sulfate. Demand for ammonium sulfate in the U.S. is significant and it's growing. And Chinese producers are now investing in new production and new 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 United States by Gavilon, according to public ship manifest data.

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

Eighth, we believe that the importer questionnaires contain some very important information regarding inventories that we will be addressing in our
post-conference brief.

Ninth, as noted in the Petition, ammonium sulfate producers in China benefit from significant and highly distorted countervailable subsidies that are likely to increase both production and export of ammonium sulfate.

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

Moreover, the domestic industry is already facing increases in their raw material prices since the first quarter of this year, and these prices are forecasted to increase further during the remainder of this year.

This increases the vulnerability of the U.S. producers.

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

MR. ANDERSON: Thank you very much to the panel and the witnesses. We really appreciate you coming here to the ITC today, and for your helpful information in helping us understand the industry.

I would like to turn the time over to staff now to ask a few questions, and we will start with our investigator, Fred Ruggles.

MR. RUGGLES: Fred Ruggles, Office of
Investigations. Thanks again for your testimony.

I'll start with a few housekeeping things for me.

I'm going to use official stats, saying that I want to make sure we get the production, the U.S. production, from the Fertilizer Institute, what they have and what you can get from China, and what you can get from worldwide. Okay, so the worldwide production of ammonium sulfate would be good, if we could.

And at this point, Mexico is the only place that has a tariff on Chinese ammonium sulfate. Are there any other countries that have, not necessarily on China but on anybody else?

MS. BYERS: We're not aware of any other cases out there, no. Sorry. That was Bonnie Byers from King & Spalding.

MR. RUGGLES: The Mexican tariff, is that a prelim or a final?

MS. BYERS: Bonnie Byers with King & Spalding.

That's a final determination.

MR. RUGGLES: Alright--

MS. BYERS: It went final in September. I believe in the Petition we provided you with the notification to the WTO from Mexico with the final duty.

MR. RUGGLES: Okay, thank you. I'm sure you did.

MR. ORAVA: Steve Orava for Petitioner. Just a
note that that final determination is on appeal before a NAFTA panel.

MR. RUGGLES: You've seen what we've gotten in so far, not much from the Chinese, not much from the importers, either. Is there any hope that you guys can put some pressure on any of the importers to get them to contribute at all?

MS. BYERS: Bonnie Byers with King & Spalding. I think you've probably gotten what you're going to get at this point. You know, they don't--it's not in their interest, probably, to participate. So I'm not hopeful that anything we say would make any difference.

MR. RUGGLES: I can always try. I hate to say this, but I'm actually at a loss as to what to ask you at this point additional. I am still going through some of the questionnaires that came in. We've, as you've seen, been going back and forth on a lot of them.

I guess the biggest question I have is: PCI makes just the ammonium sulfate. Everybody else seems to do it as a co-product, correct?

MR. MAZZELLA, SR.: Yes.

MR. RUGGLES: So you're the only ones that do it strictly as ammonium sulfate?

MR. MAZZELLA, SR.: Yes, as long as it is purposely produced, as we call it.
MR. RUGGLES: Okay, are there any other producers around the world that do it as strictly?

MR. MAZZELLA, JR.: There's the ability up in Canada by a company--Oh, sorry, Elio Mazzella, Jr., PCI. There's one producer up in Canada I know of. There's one in Australia, and there's one other in China, as well.

MR. RUGGLES: Okay.

MR. HAMILTON: This is Mike Hamilton of Honeywell. I'm also aware of I think a producer in Egypt, and a producer in Brazil that produce. And I believe, yeah, I believe there is also a producer in Mexico. In Mexico there's co-producers and there is an on-purpose producer. I'm guessing there are others, as well, but those are the ones that I'm aware of.

MR. RUGGLES: So would you say this is something that's been in the last decade up and coming, as just single ammonium sulfate producers? Or has it been going on for decades?

MR. HAMILTON: Synthetic on-purpose producers? I'm not aware of the age. I'm not sure if any of the other Petitioners are aware of the age of these producers.

MR. MAZZELLA, Jr.: I'd say as sulfur, requirement for sulfur from farmers has spiked up more. And the more advanced farming techniques in the West, that's what brought on the agrifos going to this, purposely made. Before that,
no, it wasn't--there might be a few spots that had done it, but it's not the normal.

MR. RUGGLES: I think at this time, sorry, but I think at this time I'm going to beg off for any other questions until I get a few more things behind me. Obviously I'll be knocking on your door, but thank you for your testimony.

MR. ANDERSON: Thank you, Mr. Ruggles. And now our attorney, David Goldfine.

MR. GOLDFINE: Good morning. Thank you all for appearing here today.

I just have a few questions. This is more for the attorneys. For the domestic like-product, I see in the Petition you are arguing for a single domestic like-product. In your post-conference submissions, to the extent you want to amplify or supplement any discussions of those factors, just to put that on the record, that may be helpful and I would appreciate that.

And I just have a question on two of the factors, the Customer and Producer Perceptions Factor. I was--just so I understand what's in the Petition, do customers and producers perceive all forms of ammonium sulfate as similar, or not?

MR. VAUGHN: David--this is Stephen Vaughn--let me start, and then other people can jump in if they want. We
will obviously address the factors more in the post-hearing.

I think in terms of customer and producer perception, basically as was described the two forms, the granular and the standard, are often made on the same facilities, and often made by the same equipment and the same people.

The main difference between them is how the product gets distributed and actually applied to the field itself. In other words, chemically they're the same. And in terms of nutrient value they're the same. What the granular product allows you to do is it works better in mechanized farming because it can be blended with other fertilizers and then distributed sort of through machines over a broader range of area.

But, you know, in terms of sort of all of the other different ways in which they work together, or in which the fertilizers are used for, there's a distinct overlap.

So we would suggest that, if anything, the Commission should think about these two products is very similar to the way you've looked at many, many other industries where you have one clear like-product, and within that product you may have different items that may serve different applications, and yet they're all part of the same like-product.
MR. GOLDFINE: Okay. I appreciate that. Yeah, again my focus there was really on the perceptions, the customer/producer perceptions. And I know you've gone into that in the Petition, and to the extent you want to supplement that.

And then on price, you state in the Petition that prices for granular or grade typically command a price premium, if the granular product is the preferred method of application.

Roughly, what is that price premium?

MR. MAZZELLA, JR.: It fluctuates, but I would say around $30 or so.

MR. GOLDFINE: What about a percentage basis comparison?

MR. MAZZELLA, JR.: I'll let Mike--

MR. HAMILTON: Yeah, I would say that the price--Mike Hamilton, Honeywell--I would say that the price delta has been somewhere on the order of $70 to $100 a ton. So if granular is selling at $250 a ton, standard might sell at $150 a ton. That does vary by region, world region, and other factors, but I think that's a reasonable range. So on a percentage basis, granular would be 66 percent higher based on those numbers that I just--yeah, and we have seen that difference narrowing some, particularly, you know, in the U.S. with some of the imports.
MR. GOLDFINE: Okay. Thank you. And this may be for the post-conference, but to the extent you're going to-- I don't see--if you're going to be arguing for--if there are any unrelated parties' issues in this investigation, please identify those.

MR. VAUGHN: Stephen Vaughn. We're not aware of any related parties at this time, but we will cover that in the post-conference brief.

MR. GOLDFINE: Okay. Thank you. That's all I have. Thanks.

MR. ANDERSON: Okay, thank you. And now we'll turn it over to Emily, our economist, for questions.

MS. BURKE: Good morning. Most of my questions have to do with the product differences between the different grades and the granular sizes.

So my first question is: Are there any different grades beyond granular and standard?

MR. MAZZELLA, SR.: There is a little bit of a coarse grade, which is in between the standard and the granular, but that is so very minimal--I guess Mike could probably answer that better than I can, since they produce a little bit of the coarse. But the two grades most common in the industry is standard and granular grade.

MR. HAMILTON: And we also sell a very small amount of the solution grade, as well, but it's pretty small,
almost insignificant.

MS. BURKE: Okay, because--I'm asking because I've seen references to low grade, the compacted grade, genuine granular grade, and large crystal. And so I'm trying to understand how all those fall within the two grades that you are defining.

MR. HAMILTON: I would say a lot of that is just terminology. So granular can be made by several different techniques. We produce granular in crystallizers because of the nature of the product in the caprolactam ammonium sulfate processes that's in solution, and because you need to dry--you have to boil off water. So typically in a caprolactam sulfate plant it would be made as a crystal product. But the crystal can either be standard or granular. It just happens to be a crystal. But you'll see different--you'll see different terminology, you know, in the industry as to what's called "crystal" and what's called "granular." But all of our sulfate is a crystal regardless of whether it's standard or granular.

So granular can also be made by compaction as much of the material that's being made in China, which is like, basically sort of like making a snowball. You take small particles and, under heat and pressure, squeeze them together. Or it could be made by granulation, which is what the Pasadena plant does.
But the main difference is going to be the particle size, and the particle size distribution. For granular grade, the particle size needs to be roughly 2-1/2 millimeters, and it needs to have relatively narrow particle size distribution so it can blend well with other fertilizer nutrients that have similar size.

MS. BURKE: Okay. Do different end users, so for example industrial users, or agricultural users, require specific grades or sizes? I mean, we've gone over the granular and the standard, but maybe if we could get into industrial end users?

MR. HAMILTON: Mike Hamilton, Honeywell. We, I mean we sell a small amount of product to industrial users. I think it depends upon what the end use is. But what we find in general is a lot of the industrial end users actually sometimes prefer smaller grade, just because sometimes they're dissolving it, or doing something like that. And so the product dissolves more easily. So they don't necessarily, you know, require granular grade. I think that's a little bit more specific to agriculture. But that is by far and large the biggest end use.

MS. BURKE: Okay. And do the three production processes outlined in the Petition, do they produce every type of grade that we've gone over in both of the granular sizes that we've discussed?
MR. MAZZELLA, SR.: We produce strictly granular grade, 100 percent. If there are any standard, or refined as we call it, we recirculate it through the system again to produce the granular grade. But we don't market or sell any standard grade whatsoever.

MS. BURKE: Okay. And you mentioned in the Petition an acceptable size during the sifting process. So can you define what that means? And does acceptability vary by application or end use?

MR. MAZZELLA, SR.: Let's look at the granular grade, which you're talking mostly about, and has been mentioned a few times to the panel that, you know, the United States--there's a limited amount of markets that use granular grade. And those are the sophisticated markets. Many of your Third World markets don't have the mechanisms to apply the material like we do here in the U.S., especially for row crops, mostly corn and wheat and so on and so forth.

When we talk about sophistication, you know if you look at a market today, prior to the--our materials are both blended, but we take various fertilizers of a homogeneous size and literally put it into a cement mixer type situation and blend it. And you've got a fairly well distributed product with your phosphates, nitrogen, and potash and any other elements involved.
So when it gets into the spreading machines and they're able to spread it, it's almost like you having the spreader to do your lawn. You know, the more sizing that's average is going to get a better spreading pattern.

Also, the heavier your material, which is the granular, which is bigger and is going to spread further, which helps the farmer who is doing 1,000 acres, 1,500 tons. Also, the bulk blender, because of the other major nutrients being of a granular size, it blends better.

Prior to the bulk blending and going back years ago, if you went into a Home Depot and bought a bag of fertilizer you would see one granular that contained all the nutrients in this one granular, and that was called an ammoniation granulation process.

Today, because of the sophistication here in the United States and Brazil and some of the more advanced countries, you may have a farm of 1,000 acres but 500 acres may, after soil testing and so on and so forth, may require additional nutrients, or less nutrients, or more nutrients of some kind.

So what you're looking at is at a farmer who turns around and has 1,000 acres, and he decides to plant corn, or soybean, or wheat, he often is going to the universities, he's going to his direct applicator, he's going to his retail and they're doing soil sampling to
specify the exact requirements for his property for the
plant he's growing.

And that's how unique it has become. It's just
no longer buying the fertilizer and taking it and throwing
it out. It's a very, very specific. And the spreading of
it means a lot so you don't get streaking. If the material
is all of the same size, it will spread easier. And so it's
going to get all the nutrients.

If it's of different sizing, it may not spread as
evenly and you'll get streaking, you'll get more fertilizer
in one area than the other, and so on.

MS. BURKE: Okay, so then I guess going off of
that, do your purchasers pay more for less distribution in
their particle size? Meaning, if they were to get a
shipment that had 50 percent of a granule sizes of 2 to 3
millimeters compared to a shipment that had 90 percent
falling into that size range, would they pay more for the
shipment that they knew had a higher distribution of the
particle size?

MR. MAZZELLA, JR.: It's typical that they're
buying on a one grade. So if they're buying, you know, when
we sell our product we're saying 90 percent of it is going
to be over 250 SGN, the 2-1/2 millimeters. So when you ship
it from China, or you ship it in a barge, you're not mixing
it together where you're going to say only 50 percent of it
is this. Normally when you buy something you have the same
chemical analysis the whole time of a certain size, and
that's for all fertilizers.

MR. HAMILTON: And typically there's--Mike
Hamilton, Honeywell--typically, yeah, there's a
specification range for fertilizers. And when we sell into
the distribution chain, it's expected that we meet the
specification.

If we don't meet the specification in a certain
shipment and the distributor or the retailer feels like they
have a product that doesn't meet the spec, then we'll get
asked to pay some sort of quality credit for not meeting the
specification, like any other product you sell.

And in fact, you talked about the farmers, we've
had a couple of occasions in the past decade that I can
remember where the retailer went and applied our product
and, for whatever reason, there was a quality deficiency.
The farmer actually got streaking of corn. They can
demonstrate yield differences in different parts of their
field, then we've actually paid a quality credit to the
grower himself for the yield loss.

So I think that demonstrates how critical it is
for the granular grade and the distribution to be even so
they get the even fertility for their crops.

MR. VAUGHN: This is Stephen Vaughn. I just
wanted to go back and sort of complete the record with
respect to I think one of your first questions, which was
about whether or not people make both the granular and the
standard. And I think the record is that many, if not most,
of the domestic producers do make both granular and
standard.

And so it tends to be kind of made in both
facilities, or in the same facility by the same producers.

MS. BURKE: Okay. And do any farms, producers,
retailers, farmers, have patents associated with the
ammonium sulfate and the products that go into it?

MR. MAZZELLA, JR.: In our production system, we
do, but not at the--I can't think of any at the end users or
distributors.

MS. BURKE: And would any purchaser switch from
granular to standard form if the price was low enough?

MR. MAZZELLA, SR.: Yes, if the price is low
enough you'll see some switching back and forth.

MS. BURKE: Okay--

MR. HAMILTON: Mike Hamilton, Honeywell. I mean I
believe typically in the U.S. where they use granular, I
mean because the speed at which they need the application,
the importance of getting the application, in general most
of the growers need, they need their applicators to apply
granular product. So I'm not sure there's really a price
incentive there, because what they're--what's important is
to get the fertilizer down on time and spread evenly.

I think what you find is that there are regions
and crops where, because of, for example, one of them is
coffee in Brazil. Coffee trees are already planted.
They're on hills, typically, in Brazil. So you can't get
big-scale equipment through those applications. So they,
even though they may use a blend, they're not spreading over
large distances. So in general they're going to get the
application they need. And so they don't need a granular
product.

So in those cases, they can use a standard
product, you know, because it's lower priced they'll use
standard because they can, but because they don't need granular.
But where they need it, I think in general they're not going
to pay for standard. It's probably not 100 percent.
There's always an exception, but I think that's generally
the rule.

MS. BURKE: Okay. And could you just give me an
estimate of how much U.S.-produced ammonium sulfate comes
from the three processes that you outlined in your Petition--
-so, synthetic, coke oven process, the caprolactam process?

MR. MAZZELLA, JR.: We're synthetic, and we would
represent--you know, our capacity is 700,000 tons. We
produce about 500- to 540 now.
MS. BYERS: I believe we had some figures on this in the Petition, but let us get the actual numbers for you and provide it in the post-hearing. And this was Bonnie Byers, again, from King & Spalding.

MR. BURKE: And do you also have just an estimated percentage of sales of the different grades in the United States?

MR. VAUGHN: Stephen Vaughn for King & Spalding. When you say "different grades," what do you mean? Do you mean what percentage of the market is standard, versus what percentage of the market is granular?

MS. BURKE: Sure. Yeah.

MR. VAUGHN: Okay.

MR. MAZZELLA, JR.: I would want to get back to you in the post-hearing.

MS. BURKE: Okay. I think--oh, does the nitrogen sulfur content in the product affect its price? So it has a higher content, would that be priced higher, or lower, or-- because I know you mentioned I believe it was 21 percent and 24 percent, but it sounded like that wasn't--

MR. HAMILTON: Mike Hamilton, Honeywell. I mean the ratio of nitrogen to sulfur, there's probably a slight variation depending upon, you know, some impurities and additives. For the most part, the nitrogen-sulfur content in sulfate is fixed. I mean, pure ammonium sulfate is 21
percent nitrogen, 24 percent sulfur, and that doesn't vary.

MS. BURKE: Okay.

MR. VAUGHN: Stephen Vaughn. And this goes back to both--some of the questions you've been asking, and also, David, to your question about the customer perception and the producer perception. I mean ammonium sulfate is regarded as a distinct fertilizer, a distinct chemical with its own market and its own distribution, and its own sales, whichever form that it's in. It's always thought of as ammonium sulfate and sold as ammonium sulfate and used as ammonium sulfate.

So--and part of that has to do with the fact that, you know, if you get ammonium sulfate you know you're going to get that nutritional value. And that's what the end users are ultimately looking for.

MS. BURKE: Okay, and I have one last question.

Do the different production processes cost more? So does the synthetic process cost more than maybe the coke oven process? And how does that affect the price of the product on the market?

MR. MAZZELLA, JR.: I think the market is the market. As Steve was saying, you know, ammonium sulfate is its own market. So the price will fluctuate up and down. How the other processes allocate their costs, I'm not sure on how they look at their numbers. I know how we look at
it. We're looking at it with our raw materials and then our fixed costs, which doesn't change regardless of what we produce.

But each caprolactam producer and coke oven producer might look at their costs differently.

MS. BURKE: But one isn't known to be--to cost more, based on, like you're saying, fixed costs and raw materials. Does one, in itself is it more expensive to produce?

MR. MAZZELLA, JR.: I'm honestly not sure on what they would say it would cost to produce, as a caprolactam or coke oven process. I can't answer that.

MR. VAUGHN: Stephen Vaughn. One thing I think, just to be clear for purposes of the record, I don't think there's really any sort of thought or evidence here that the Chinese are using some sort of a different process, or that that is sort of playing into anything that you're seeing here as far as we understand the processes that are being used over there are very comparable to the processes that are being used here.

So I don't think there's any idea or suggestion that they have any sort of cost advantage based on their process. If anything, as I think you heard the testimony, it's surprising--or it is a sign of their unfairness, actually, that they are able to, you know, take all the
freight costs associated with shipping over and still be able to under-sell people sort of in their own market.

`MS. BURKE: Okay. Thank you.

MR. ANDERSON: Thank you, Ms. Burke. Just a couple of follow-up questions. My colleagues have answered many of the questions that I find very helpful.

During the Period of Investigation, there's been several declines or low stable prices for a lot of commodity products, including energy, natural gas, and so forth. Can you either now or in a post-hearing brief address what particular input, raw material inputs go into your production processes, and what those costs and prices have been like during the Period of Investigation?

(Pause.)

If you want to share anything now, that would be invited.

MR. VAUGHN: We'll provide some more information on that in the post-conference brief. I mean one thing--and I don't know if the company witnesses want to comment on this or not--I mean I think what the witnesses will tell you is that the raw material costs are not driving a lot of what you're seeing necessarily in terms of prices; that, you know, it's important for the Commission to understand that our theory of the case here is that the supply and demand for ammonium sulfate is the major driver in the
price of ammonium sulfate.

But we can talk about the raw material costs and
get you more information on that in the post-conference.

MR. ANDERSON: Thank you. That would be very
helpful. Also, there was a period where there were new and
increasing regulations on ammonium sulfate, and I know what
your like-product argument is, but during this POI are you
seeing any impact on your ability to capture or find new
customers that were using ammonium nitrate that may still be
turning to ammonium sulfate because of the restrictions for
security reasons on accessibility to ammonium nitrate?

MR. HAMILTON: Mike Hamilton, Honeywell. As I
noted in my testimony, the TFI data shows that ammonium
sulfate demand increased 9 percent over the past several
years. I mean we believe there are a couple of factors for
that.

I mean one of the factors is we believe that
we've been successful in promoting, continuing to promote
sulfur benefits to growers and, you know, their suppliers to
the retail chain. We believe another one of the factors is
ammonium nitrate.

You know, there was a terrible explosion at a
facility in Texas in 2013, and after that explosion we do
know that there have been parts of the value chain that have
backed away from supplying the product because of liability
concerns and insurance issues. There have been a lot of reasons why, you know, people have decided maybe not to supply ammonium nitrate.

So as you noted, ammonium nitrate is just a nitrogen source. Ammonium sulfate is a nitrogen and sulfur source. One of the reasons why we believe farmers will choose ammonium nitrate is in situations where they're going to apply nitrogen and not necessarily going to incorporate it into the soil, they might be applying it on a crop that's already on the ground like pasture, and if they do that, particularly in more hot and humid conditions, urea, which is basically the other primary dry nitrogen source that's only nitrogen, is volatile.

So they will have yield issues with urea. So on a per-nitrogen cost basis urea is generally cheaper than ammonium nitrate. But the benefit they get may not be as good because of the volatility issue. So that's why they choose ammonium nitrate.

And so what we believe that's happened, as the nitrate has been harder to get because of some of these concerns, that some of this demand has switched over to ammonium sulfate. Ammonium sulfate, like ammonium nitrate, is not volatile, and in fact we've promoted that. I mean, we've done promotions saying if you can't use ammonium nitrate--not exactly, but if you can't use ammonium nitrate,
here's a good option, right? Ammonium sulfate.

So they're getting sulfur, but in addition they're getting nonvolatile nitrogen. And in some cases we believe there's some blending going on. They'll blend ammonium sulfate and urea. So they adjust the cost a little bit of the nitrogen, and plus we also believe that there are some chemical things that happen in the soil when you use sulfate and urea together that help with some of the urea volatility.

So in short, yeah, we believe there has been some benefit, and that's some of the demand increase, switching from ammonium nitrate.

MR. ANDERSON: Thank you. That's a very helpful and deep explanation.

Another question was, I was surprised to hear that the Chinese seem to be entering, or you witnessed some of the surge in the imports, or the increase in the imports, at the granular level.

Our experience, just limited here in some of our cases of investigations and testimony we receive from other industries with commodity like-products, is that the import competition starts at the lower product levels, the lower priced product levels, the less sophisticated, easier to produce product grades or levels.

So maybe it's because granular is the largest
part of the U.S. market, but could you comment on that, either now or in the post-hearing brief, where you saw the competition first? And then I think it was Ms. Byers, you mentioned that they are now starting to enter, or you've seen evidence of, you know, price competition and import competition in the standard. And that seems to be the reverse of what our patterns have been here with other cases.

MR. MAZZELLA, SR.: Well, again, the granular, as we had mentioned is the major part of consumption of fertilizer here in the U.S. Okay? The compaction is a relatively new process. It had been very, very difficult to do in the past, and it has been developed--being developed.

And it is demanding a premium price here in the United States, as I mentioned, because of the sophistication of the U.S. farmer in bulk blending. They had the standard grade, but standard grade was readily available anywhere around the world. Our supply demand here in the United States was fairly stable. And they had markets much more attuned to the standard grade, meaning the Chinese, for their lesser grade standard, rather than the granular.

As they--as I believe, this is my feeling--as they saw the prices here in the United States for the granular, as compared to the standard and the relative cost of what it cost them to compact the standard into granular,
they set their sights on the more sophisticated, 
quote/unquote, markets such as Brazil and the United States. 

And this came on, as I think we've mentioned earlier, this is a new phenomenon. It really started within the last three to four years, and it seems like it's just growing. For example, you've got new production capacity coming on in China, which is on the drawing board right now for an additional 4 million tons. Okay? Which is going to bring them from 8 to 12 million tons. They're at about that 8 million ton level now, and the new drawing board production is 4 million tons, which a lot of it is in construction at this point in time. And my feeling is that the great majority of that could be and will be granular grade.

MR. MAZZELLA, JR.: I think one thing, China's capacity came on so fast from '11, '12, '13, that they kind of had to find any market that they could find. So they looked at, wherever they had to go, they were going to try to find a way to get it there.

So for the U.S., granular grade was such a bigger portion that they tried to figure it out. I know from our side, the plant Agrifos started in 2011, in '11 and '12, you know, there was no talk of anything Chinese ammonium sulfate. And when Rentech had bought the plant in November of 2012, again that was not on anybody's radar that there was
going to be this Chinese big imports.

Midway through 2013, when imports started coming in and started to kind of be a little bit of a dialogue in the customers' minds, I think they imported about 50,000 tons that year that came in from China. It was there, and a lot of people were talking about all these compactors were going to go up, and it's going to be in a very big way, and they're really going to target the U.S. market.

But, you know, more or less a lot of people dismissed it saying, all right, you know, China says that they're not going to do it, but what we saw in 2014 all of a sudden they come in and they triple their imports, basically.

And at that point, the entire U.S. market changed. Where, number one, the Chinese saw via Gavilon that they were able to get into the U.S. market, move several hundred thousand tons, and with their capacity expansion they needed to get that market. And at the same time, they were doing the same thing in Brazil.

By 2015, now, the Chinese are so--you know, their imports have come in and they're such an influence on price that I would say the number one topic we have, we're coming into what's called the "summer fill program" so the growers plant, and then everyone restocks their fertilizers.

`And normally the talk would be about just
supply/demand, you know, what do you think the price is going to be, are inventories tight? The number one conversation now is: How much will China import next year? Right? So they went from 50,000 to a couple hundred thousand, to 400,000, and are now on pace for 600,000 tons. And I think as we see China, when they go from this 7- or 8 million up to 12 million tons, they are going to just keep trying to get additional market share. And to do that in the U.S., they would have to compact more. And so that's why there's a lot of projects on the drawing board in China via some of the other importers, one of them's rumored saying they're going to put up capacity that compacts 400,000 tons a year in China. And that would have a straight target right here and in Brazil. And those are the two markets they would go right after.

MR. VAUGHN: And just to add a little--Stephen Vaughn--just to add a little bit more flavor to that in terms of what we have seen in the record, we think more people are getting involved in this process.

In other words, there were sort of limited people bringing the product in at first. Now you hear in some of the testimony that more people are starting to get into it. As the product becomes more acceptable and more customers are willing to use it, it becomes easier to bring in more and more of it. And we think, you know, those are
also factors that mean that the situation is likely to get
much worse in the near future.

MR. HAMILTON: Mike Hamilton, Honeywell. I mean I
think your interpretation of the evolution is actually
correct. So if you look at the Chinese production export
data, we believe that since 2009 all of the incremental
ammonium sulfate production in China has essentially been
exported.

So as the capacity has grown and the exports have
increased, I mean we've seen standard exports into other
regions of the world where we sell standard. So, for
example, in Central America, Latin America, we started
seeing increasing exports of standard grade in those
markets. And we know they also increased standard grade
exports into places like Southeast Asia.

And so in those regions, there's either crops there, or
because of the lack of sophistication, where the standard
grade was appropriate. So I think they actually started by
exporting this incremental sulfate into those regions where
it was a lower grade, but then eventually they evolved to
where they saw the U.S. as a target, as you have the
sophistication, the higher price for granular grade, and
they started figuring out how to make a granular grade. And
so I think we are actually in that later step of evolution.

But as we noted, I think we can put together
estimates in the post-conference regarding standard versus granular in the U.S. But off the top of my head, I'm guessing it's 5-to-1 or 10-to-1 granular to standard. So the U.S. is not a very big standard market because of the sophistication, which is why you didn't see it here initially.

MR. MAZZELLA, JR.: I would say, just one thing to add as well, they're going after any market they can find to move the tons. I think Mike mentioned in his testimony about tons going into Port Manatee in Florida of a different grade.

Also, last year right when the Mexican Government imposed their tariffs on the Chinese product, there was a vessel by a company, Nitron, going to Mexico that then they couldn't bring in there. So then they diverted it to, I think it was the State of Washington, they brought it in, but on the West Coast.

So immediately we saw now, that's a big topic this year. We sell tons into the Pacific Northwest, into Idaho primarily, and how a big topic is, well now much more tons are going to come in to the West Coast?

So the Chinese, as they add this capacity, they just have a very big bull's-eye on the U.S. Number one, the U.S. is probably the easiest place for them to export. They're selling to counterparties who can pay cash. They're
not worried about opening letters of credit to other
countries like India or Indonesia. It's a very
straightforward deal.

So the more tons the Chinese producer can sell to
the U.S., with U.S. foreign currency, it's just a very--I
mean, that's their number one goal. And right now, you
know, from Florida, you know, they've got the Gulf Coast
inundated, and now even the West Coast. Their target is on
here and it's just going to continue to grow.

MR. MAZZELLA, SR.: And as Steve had mentioned
earlier, you know, the importers continue to grow the
amount, the volume of people, as they're finding out. And
as traders we understand that they find the product that
they can get their hands on, they're going to try to sell
it.

There is not a week that goes by that we as
producers get telexes and phone calls by these traders, and
unknown traders, offering us cargoes of material at
ridiculously low prices.

So it's just exponentially getting bigger and
bigger and bigger, as more and more people find out about it
and are looking for commodity. And basically it is a
commodity. It's a fungible good that they can get their
hands on and sell, with no regard to market or anything.

And as Elio just mentioned, you know, when you
come into the United States, you have no import licensing, you have no duties, you know, you have a system that works 12 months out of the year, meaning the river system, or the East and West Coast, it's just a very, very easy market to get into and with no regard to anything except there may be scalping, for lack of a better word, a little bit of a commission or a trade.

MR. MAZZELLA, JR.: Just to add one thing. With the Brazil downturn in their general economy right now, I would expect to see--part of the pace I think we're seeing in Q-1 in 2016 on the imports is, number one, Mexico with their antidumping duties, and also the Brazil economy is so bad that I think a lot of those traders who import into Brazil also are people who would import to the U.S. So I think those tons immediately are getting forced to this market.

MR. ANDERSON: Okay. Thank you. I think you offered a very detailed explanation. And to the extent that, obviously we will be giving great attention to the lost revenue, so lost-revenue information you're going to provide, or have provided, but to the extent you can document what you were just referencing, some of this diversion and so forth, you can document that in post-hearing, that would be very helpful.

Just two more questions. Ms. Byers, you
mentioned inventories, and we look forward to seeing that analysis. But our understanding is there is some cyclical activity to the industry. And you're talking about the Fall being a peak demand season, if you could put your analysis of the inventories in the context of that cyclical activity, if that's the case, so that the Commission has the appropriate framework to look at when we look at the inventories.

MS. BYERS: This is Bonnie Byers with King & Spalding. Yes, we will definitely do that.

I would just mention, if you do a quick comparison of the first quarter of '15 and the first quarter of '16, you will see a big difference there.

MR. ANDERSON: Great. And then last, I would invite you to comment on the pricing. You mentioned in a couple of places in your brief, and also in the slides, this trend in AUVs for Chinese imports. In particular, the sharp decline over the three-year period, but in the interim in 2014 the AUVs increased from 2013 to 2014.

And either or in your post-hearing brief, could you just comment? Was that typical in the industry for all prices, that they went up some in 2014, maybe to demand, increasing demand? Or was that an anomaly that we—or a composition, product composition mix in subject imports? Or what could explain that trend?
MR. MAZZELLA, JR.: A lot of it was the psychology of the Chinese imports coming in. So in '13 we saw them first come in, and it puts a lot of buyers--when you get to that summer fill, so the summer of 2013, you have buyers kind of looking and saying, you know, what are we going to do here? You know, there's this looming threat in Gavilon and all the other importers saying they're going to import a significant amount of tons.

What happens when people see that, growers in the U.S.--you know, there are two application periods for sulfate. One is in the spring, and there's also a minor one in the fall. So when they're buying in the summer fill, there's a chance that these tons are held all the way until the spring.

And if they see that there's a looming threat coming that imports are going to come in, they won't participate in the summer fill. And in that year when those tons started coming in and the market got very disjointed, buyers really delayed their purchases as long as possible, which drove prices down and it really depleted inventories because they didn't want to buy until they saw what was going to happen.

And then they had kind of an accelerated buying period later in that Spring, which drove the prices up. But I think, you know, the trend, I think that was just an
anomaly because we had a year where you're looking at kind of this looming, you know, maybe "cliff" is not the right word, but looming imports that are coming. And in every buyer's mind they're saying, we're not going to buy anything. We're not going to commit until then.

As you drive inventories down and delay buying, in this market it will really just drag prices.

MR. ANDERSON: So that's very helpful. And then just a follow-on, so in 2015 to 2016 in that period, we won't expect to see prices go back up for the same reason? Or what's the difference?

MR. MAZZELLA, JR.: I think what we're seeing right now, now that the Chinese are kind of ingrained here with these imports, now we're seeing a market where we'll come into this fill. We're in a springtime right now where the market is going down in spring. That's not the norm.

And now we're going into the summer fill where we will probably see prices come down again because we're going to be competing head to head on these imports.

So, you know, I think now it's just become part of, like I said, it's the number one topic on the customer's mind now. Before it was: Is it going to happen? Now it's happening. So I think we will start to get into a little bit more normal trends again, which is at drastically lower prices.
MR. ANDERSON: Okay. Thank you for that response.

Any--

MR. HAMILTON: Yes. Mike Hamilton, Honeywell, Yes, I will add to that. I mean I think, as he stated, I think one of the things to understand is these application seasons, as I think it was described yesterday, is like about one-and-a-half applications. So it's a short time in the fall and a short time in the spring where a significant portion of fertilizer application is completed.

So if we go back a couple of years, the way we would operate is basically you would see, because of the peak demand tends to be around that April-May time period, and production supply is generally flat. I mean, you would generally see prices rise just because supply/demand, typically supply/demand. And then generally most products, most producers, will have to adjust their pricing going into the summer because that's a period we call the "Fall fill" or some sort of fill period where a lot of the distribution chain starts to rebuild their inventories in preparation for sort of the upcoming fertilizer cycle.

And so what we've typically seen is that cycle take place. And I think as he noted, I think there was probably a little bit of confidence that was regained initially after the first surge of imports that the world wasn't over yet, and so we were able--and, you know, as
business people our job is to try and go out there and sell
the fertilizer, raise prices, and make money. And so that's
what we did.

And I think some of the demand increasing, some
of this probably because of the ammonium nitrate switch over
probably helped as well. But what we've seen transpire over
the last 6 to 12 months is, in this cycle that confidence of
the value chain on investing at the beginning of the cycle
in inventories on ammonium sulfate has been completely
devastated.

So whereas we go back even two or three years ago
where we had customers who would likely want to place as
many orders as they could at the beginning of the season
because they were ready to go on the next cycle, and they
were confident that this was a great product, now because of
the impact of the imports, and I think the note that we have
in the testimony where prices have actually fallen over this
season, which is the first time we've seen that at least in
years, and years, and years, that confidence is gone.. I
mean, they're not sure what to do. Our customers really
don't know what to do right now.

MR. MAZZELLA, SR.: Elio Mazzella, Senior. The
thing is also, the importers know when our season is. So
they try to purchase from China and other locations to get
here for the season.
And the customer farmer here gets a totally comfortable feeling that he's going to be able to get his material in the spring at very, very low prices because of the Chinese material which is coming in in the short, condensed period of time, which is the springtime.

They are not going to be bringing it in in, you know, June, July, August, September because it's expensive to put this material on barges and store it. Usually that's $250 to $300 a day per barge, which is a 1,500 ton barge. So if they have to hold on to that for two or three months, they are incurring additional cost. So they're trying to shoot for the season here in the United States.

And they know they can't hold on to it too long. I mean, our season is four months, basically. And so they have to move it. And so as you get deeper into the spring season, which we're seeing this year also, they'll start to reduce the prices even more to make sure that the material is moved and they don't have to store it.

MR. MAZZELLA, JR.: I think seeing the falling market as both alluded to--Elio, Jr., sorry, PCI--but we saw the record imports from China in Q-1. So now these guys brought these tons in and they want to move them this spring, no matter what. And they brought them in at a lower price, and they are going to make sure that they move those tons, regardless. So they kind of just hit the market and,
you know, they basically have a 90-day window from when they got here to make sure that they sell every ton. Because, if not, they will have to hold it all the way until the fall, which gets very expensive.

So you kind of have almost like a fire sale. And they look at, you know, here's the price that the U.S. producers are. Here's what we imported it. So we've got 90 days to sell this stuff and maybe we'll try to start up here, but, you know, as each day goes by they just keep cutting, cutting, cutting, to make sure they have it sold.

MR. MAZZELLA, SR.: And they have that much room in their import pricing to continue to take it down. They'll just keep leapfrogging it down.

MR. ANDERSON: Okay. Thank you very much for that detailed explanation. And just to clarify, the shelf life on ammonium sulfate, you mentioned that there's obviously an economic incentive to clear out your inventories, but as a practical matter what's the shelf life?

MR. MAZZELLA, JR.: For our product, our product can go for a very long time. A year, no problem.

MR. ANDERSON: Yeah. Okay.

MR. MAZZELLA, JR.: For other products, I'm not a hundred percent certain on, but ours can last a long time. MR. MAZZELLA, SR.: And if they have to store it on barges in very humid conditions on the Mississippi River,
it cakes. And then you start to create a problem of quality, caking, breaking down, and not being able to break it up for blending purposes. So their period of time is shorter, whereas our material is in warehouses and very well protected and off the river system. And most of their material is sold directly off the river system for use that season.

MR. ANDERSON: Thank you, very much. That was very helpful. You have answered all my questions and I really appreciate the detailed explanations.

I am going to visually scan my colleagues to see if there are any follow-up questions?

(No response.)

MR. ANDERSON: With that, on behalf of the staff I want to thank you very much for coming today and providing the testimony and the information.

I think now we will turn to the closing arguments.

CLOSING REMARKS OF STEPHEN VAUGHN

MR. VAUGHN: Thank you very much. Stephen Vaughn. We would like to begin by thanking the staff for your efforts on these investigations, including all of your thoughtful questions this morning.

Bonnie Byers and myself will present the closing arguments for Petitioner.
As we have already shown, all of the statutory factors with respect to material injury are satisfied in this case. Rather than recapitulate the evidence now, I want to draw your attention to a few key points that should play a major role in the Commission's determinations.

You have had virtually no co-operation from Chinese respondents. Indeed, 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.

Let me be clear. It would be 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; that they are heavily export-oriented; that they intend to increase shipments further to this market; and that they have deliberately lowered their own dumped and subsidized prices in order to increase shipments.

Given their deliberate failure to participate in these investigations, the Commission should infer each and
every one of these points. To do otherwise would put our client and the other domestic producers at an unfair disadvantage.

The Commission is supposed to analyze the performance of the domestic industry in the context of the business cycle and conditions of competition distinctive to that industry. In these investigations, conditions were extremely favorable to domestic producers.

From '13 to '15, U.S. apparent consumption of ammonium sulfate rose by almost half a million tons. Toward the end of the Period of Investigation, key raw material costs for certain U.S. plants such as nature gas declined significantly. Under these 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 favorable market conditions such as strong demand, those factors will necessarily mask to some extent the harm done unfair trade. But in these investigations, you have dramatic and unmistakable evidence showing a direct causal link between unfair trade and material injury.

First, you have a massive increase in volumes of
unfair trade. Over the Period of Investigation, Chinese
mills producers shipped hundreds of thousands of tons to
this market. Those tons represent sales that could have
been made by the 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 resulted 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 to either reduce their own
prices or lose even more business to unfair trade. You
heard that point made in sworn testimony today, and the
record contains additional evidence on this point as we will
highlight in our post-conference brief. In other words, you
do not 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; that how a plant that was valued at almost $160
million before Chinese imports entered this market lost over
90 percent of that value within a few years.

Let me be clear. The evidence before you,
including the testimony from Mike Hamilton, shows that all
domestic producers were hurt by imports from China. But for
those of us who care about strong and effective enforcement of the 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 is often gone forever. The jobs it could have supported, the new products it may have developed, these are lost to all of us.

Ironically, however, evidence of this type of harm is often 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 trade cases on its behalf. There's no one left to fill out the Commission's questionnaires. There's no one left to speak for workers who have been forced to look elsewhere for employment.

And so, unfortunately, some of the worst and most painful examples of injury are very difficult to prove. But this time you have that evidence. Evidence showing that a plant that makes ammonium sulfate, a plant that was successful before the coming of Chinese imports, a plant that competes directly with those imports in the Gulf region, lost almost all of its value in a period of strong demand.

Unfair trade is the only plausible explanation for these developments. This time, the Commission can act
before this plant and others like it have to shut down for
good. This time, the workers have another chance. This
time, there is still a possibility of restoring true market
competition to this industry.

We urge the Commission to exercise its critical
responsibility to enforce our trade laws and give this
industry and its workers the chance at true market
competition that they deserve.

CLOSING REMARKS OF BONNIE BYERS

MS. BYERS: You've got me convinced. This is
Bonnie Byers for Petitioner.

As Stephen has just pointed out, there is ample
evidence of present material injury. If, for whatever
reason, you don't go there, there is also ample evidence of
threat of material injury.

I think I went through those, but let me just
tick them off for you because nearly every single threat
factor is met in this investigation.

You've got rapidly increasing imports.

You've got Chinese product entering the United
States, a product that will undoubtedly, as we've heard from
our witnesses, attract more buyers to the Chinese product.

You've got capacity in China that's skyrocketed
over the past couple of years. You've got vast amounts of
excess capacity in China. And you've got highly
export-oriented producers in China.

They are bringing on new capacity. You've got under-utilized capacity. And the U.S. is an extremely attractive market, as our witnesses have pointed out today.

You've got an increasing number of importers, making it even easier to find conduits for this product to come into the United States.

And finally, you've got huge countervailable subsidies that are specifically aimed to increase the production and export of this product.

And finally, you have a U.S. industry that is extremely vulnerable, as you've heard from the witnesses here today. Although raw material costs have been blessedly low for these producers over the past several years, those raw material costs are likely to go up. In fact, they've already gone up since the first quarter of this year, which increases their level of vulnerability.

So we hope that you will make a present material injury finding. If not, there's ample evidence of threat of material injury.

Thank you, very much.

MR. ANDERSON: Alright, thank you. And on behalf of the Commission and our staff, I would like to thank all the witnesses today and counsel for appearing before us and helping us gather a better understanding of
the ammonium sulfate industry and the trends and practices in the industry in helping us develop the record in this preliminary investigation.

A few key dates I want to mention before concluding. The deadline for submission of corrections to the transcript and conference briefs is Monday, June 20th. And if briefs contain business proprietary information, a public version is due the next day, Tuesday, June 21st.

The Commission has tentatively scheduled its vote on these investigations for Friday, July 8th. And we will issue our determinations through the Secretary of Commerce on Monday, July 11th. And the opinions of the Commission will be issued on Monday, July 18th.

And with that, I thank you all again for coming, and this conference is adjourned.

(Whereupon, at 11:25 o'clock a.m., Wednesday, June 15, 2016, the conference was adjourned.)
CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Ammonium Sulfate from China

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

HEARING DATE: 6-15-16

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 6-15-16

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