Before the
U.S. International Trade Commission

Chlorinated Isocyanurates from Spain and China
Inv. Nos. 731-TA-1082 and 731-TA-1083 (Second Review)
USITC Hearing – September 13, 2016

Testimony of Michael I. Morgan

Good morning. My name is Michael I. Morgan, and I'm the Business Manager, for Chlorinated Isocyanurates and Sodium Chlorite for Occidental Chemical. I started with Oxy in August of 2013, as an account manager and subsequently was promoted to my current position. Our manufacturing facilities in Luling, Louisiana and Sauget, Illinois provide 167 U.S. jobs.

As the Business Manager for Chlorinated Isocyanurates, I have complete responsibility for the Isos business. My responsibilities include: negotiating any and all sales contracts, both term agreements and spot sales covering price and volume, interfacing with customers to solve day to day issues and subsequently developing a production and inventory schedule as well as quarterly and annual financial outlooks.

My job responsibilities also include management of other products beyond the scope of this case, namely sodium chlorite and resorcinol.

Although we do sell a small volume of chlorinated isos to the industrial market, pool chemicals make up the vast majority of our overall business.

Within the pool segment, 70 to 80% of our volume is sold under some type of supply agreement. These agreements may have a definitive term or an "evergreen" provision which allows them to roll over from year to year. Our contracts may have a fixed price for an initial contract period, and a quantity term that specifies the minimum and maximum allowable volume. Typically, price and volume are only fixed for a year at a time. Thereafter, terms are renegotiated before the beginning of the following "pool year" or as contracts permit. The pool year is defined as running from October first through September thirtieth of the following year.

Contract negotiations generally start in mid to late April and are usually concluded by August first for the subsequent pool year, although each of our supply agreements are different. Negotiations are conducted via email, phone, and in person meetings. Typically, I nominate an initial price and quantity to the customer via email.

Negotiating the volume term is typically an easy process. Price, however, is the issue which, in some cases, could take several months to settle. Often, I will have to make two to three in person visits to the customer throughout the negotiation process depending on the customer and how far apart we are on our initial price nominations.

Obtaining market intelligence on competing prices is an essential piece to this process. As mentioned earlier, approximately 70-80% of our business is contracted which means we have 20-30% of our volume available for spot sales. It is this participation in the spot market which allows us to ascertain what the competitive landscape looks like. We also rely on a few strong relationships with key distributors, who sell our product to a number of small, regional pool chemical companies. These distributors will come back to us with marketing intelligence and information concerning import prices at specific accounts. I then take this information and compare it to what I have found out myself by participating in the spot market to develop my sense of the overall competitive landscape. It is imperative that we price our product so that our customers can compete with those who are importing material.

Typically I will try to start our customer negotiations at a premium to the price offered by importers from China or Spain. At Oxy, we believe we produce a superior product and we've had our customers tell us so. Nevertheless, virtually all of our customer accounts are aware of import prices and have to compete against those prices in the marketplace. As such, we are forced to reduce our prices to the levels set by Chinese and Spanish imports.

At the end of the day, when the consumer is taking care of his or her pool, the producing point of the chemicals being used is inconsequential. They just care about the price they have to pay.

Based on my experience, there is usually not a wide disparity in import pricing. There is a standard stock number the Chinese or Spanish will use across the board no matter the volume, they don't seem to care. The price is the price no matter how much you are buying.

I am aware that the published import statistics show a decline in imports from China in 2015 and 2016. However, volume is only one piece of the pie.

Earlier this year, the Chinese were aggressively pricing their imports at the Atlantic City pool show in January on the heels of the 9th antidumping ruling going final and the "zero duty" rates being upheld. Heading into the 2016 Pool Season, the going rate for imported granular bulk trichlor was \$0.91-\$0.93 cents per pound in October of last year. In January, at the AC Pool Show, the Chinese lowered their price nominations to \$0.88-\$0.89 cents. By April the price was down to \$0.87. Over the last two months, I've heard reports of trichlor being offered at sub \$0.86 per pound.

We saw the same phenomenon with respect to imports from Spain. At the end of November of 2013, the Commerce Department found that Ercros was not dumping. This determination was too late however, to have much impact on the 2014 pool year. In 2015 and 2016, there were substantial imports of chlorinated Isos from Spain. These imports captured a significant amount of business at one of our customer accounts. To maintain sales at this account, we were forced to forgo any price increase, but we still lost sales volume.

Nevertheless, the antidumping orders or threat thereof, help maintain market price levels and allow the American Isos Producer to compete. The orders prevent a flood of imports from China and Spain. The Chinese exports dominate the market in Canada and Mexico. Prices in those markets are significantly lower than those in the U.S. market. Without the antidumping orders, prices in this market will quickly fall to the same levels.

If the antidumping duty orders are revoked, all of our contract customers will come back to us and try to reopen their contracts. In years past, when we were competing with dumped imports from China or Spain, we would often be forced to make price adjustments, even in the middle of a contract year. At the time, we had to make these adjustments to support our customers. Otherwise, their business would have suffered at the end user and we would lose share to imported, dumped, material. Also, if we were unwilling to revisit pricing, even while under contract, the odds of us being able to secure an extension or a new contract with the customer in question would be greatly reduced.

Without the antidumping duty orders, imports from China and Spain would flood the market and prices would collapse. We share a portion of our largest account with imports from Ercros in Spain. If the antidumping order was terminated, I feel certain that Ercros would immediately lower its prices in order to capture a greater share of this account.

We have completed the requested ITC questionnaire and shared financial data with the Commission. As the data shows, we've experienced some improvement, particularly since the Commission's affirmative injury determination in the 2014 countervailing duty case. At the same time, our profitability and sales prices remain depressed relative to cost of goods sold. If imports from China or Spain increase as a result of a negative determination in this case, we will lose sales as soon as next year. Over the course of 2017, market prices will certainly drift lower. As a result, our profit margins will continue to dwindle, our capacity utilization will decline, and our business will again be operating in the red.

For these reasons, we ask the Commission to preserve fair trade in the U.S. market. Thank you.