**Polyvinyl Alcohol from Taiwan**
**Inv. No. 731-TA-1088 (Final)**
**Testimony of**
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**Sekisui Specialty Chemicals America, LLC**

Commissioners, I am grateful for the opportunity to address you today on behalf of the 178 employees of Sekisui Specialty Chemicals America. My name is Cory Sikora, and I currently serve as SSCA's Global Business Development Manager. Since 2001, I have worked an aggregate of over 9 years in SSCA's PVA business in a variety of roles, including Inside Sales, Field Sales, Market Development, Marketing, and Business Analysis. Over that time, I have been responsible for direct customer relationships and sales to both small and large customers, efforts to expand PVA demand into new applications, price and contract management, and sales strategy within the US region. Because of these roles, I've seen and felt, first hand, the impact of CCP's material coming into the US, and the dramatic impact that these dumped imports have had on our business.

As my colleague Scott Neuheardt has described, the past several years have been challenging ones for SSCA. Because of the interchangeable nature of CCP's material with our own and the pricing level that Taiwan is promoting their product at, customers look to Taiwanese product as leverage to reduce our prices or to replace us as supplier outright, even when we are trying to raise prices to cover increases in our cost base. Customers are generally very direct about their need to continually lower their costs, and they view the pricing of CCP product as an attractive way to keep our prices down or further lower their costs. A recent negotiation with a key paper customer is a prime example of the impact that CCP's aggressive pricing had on our business relationship – over a three month negotiation period, we had to reduce our price by 20% in order to keep our business in the face of aggressively priced material from Taiwan.

What I would like to focus on in my brief remarks, however, has to do with the history and effect of Celanese's declaration of force majeure back in 2007. At that time, Celanese had an integrated production chain beginning with acetic acid. Acetic acid is the key feedstock used to make VAM, which is in turn the key raw material for PVA. In May of 2007, the Celanese acetic acid unit in Clear Lake, TX experienced an unprecedented event in the form of a mechanical failure of the acid reactor. Because the acetic acid unit had only a single reactor, this failure led to the shutdown of the unit for a approximately 3 months. The Clear Lake acid unit's capacity is about 11% of the world's supply, so the shutdown of this unit had a significant impact in the production of VAM and ultimately led to a shortage of VAM globally. As a result, Celanese declared force majeure on acetic acid and VAM. With VAM as a key feedstock for PVA, a force majeure declaration on PVA was subsequently announced as well. Although VAM production was significantly impacted by the reduced acid availability, the impact to PVA production was somewhat mitigated by the fact that one of **our** PVA units produces acetic acid as a by-product – this by-product acid was recycled back into VAM production (to make more VAM for PVA again) which meant **we** could continue to operate at higher rates than other downstream VAM industries. Overall, although the problem originated with acetic acid and moved into VAM, **we** were able to maintain a higher level of production – this was critical to our efforts to continue to serve our customer base at as high a level as possible.

A further complication in the industry was that, as was widely reported in the industry press at the time, all four U.S. producers of VAM—DuPont, Dow, Lyondell, and Celanese—declared Force Majeure on VAM in 2007. Additionally, VAM supply problems were not restricted to the U.S. For example, BP declared Force Majeure on a major facility in England during 2007 and Dairen Chemical, which is CCP's affiliated VAM supplier, cut back production of VAM in Taiwan in September 2007, at the height of the global VAM supply crunch, which impacted production of PVA in Taiwan. So, although there has been a lot of sentiment in the market about the force majeure of PVA, the key issues related not to PVA production itself, but to upstream materials, were not limited to the United States and, in fact, also involved Taiwan. I'd also like to highlight that today, our operations are no longer part of Celanese and solely dependent on internal transfer for raw material – we have several other VAM suppliers qualified which gives us much better ability to manage raw material disruptions in future.

In any event, the total domestic impact of our force majeure on our shipments to our domestic customers was relatively small. The US is a critically important market for us, and during force majeure we worked to make the impact to our domestic customer base as minimal as possible. As we had detailed during the Sunset review, our overall production in 2007 declined minimally compared to 2006. In addition, in order to continue to serve our customer base, we drew down our inventories by over 11,000,000 lbs during that same period to help maintain supply. As well, because of the importance we place on the US market, we gave significant priority to our US customers for product availability and temporarily reduced export spot sales to redirect product to the US market. Although the force majeure announcement on PVA was 50%, matching the upstream VAM force majeure announcement. Our US customers generally received significantly higher shipment levels and overall our deficit to US customers was less than 3%. In addition, we made extra efforts to ship customers smaller orders or partial shipments as product was available, agreeing to absorb higher freight costs in order to keep supply levels up and avoid shutting down any customers. To my knowledge, I do not recall causing a shutdown of even one of our customers due to a lack of material. Despite these efforts, we recognize that the force majeure was not an easy time for our customers or us as their supplier, but in the end I feel we worked diligently to supply to both our contract and non-contract customers. As an example, in the Sunset review, it was noted by one customer that we had placed them on 20% allocation and were not able to supply 80% of contracted volumes. However, we demonstrated that we did in fact supply this customer in 2007 at higher than its contracted volumes – essentially this customer received more product in 2007 than we were contracted to supply, even though force majeure had been in effect.

We at SSCA understand why customers were worried about their ability to obtain product during the force majeure period. And we understand why customers might seek a secondary source of supply. However, it's been my experience through my roles in the PVA business, which included working directly with the customers in sales, that it's the price and not availability of an alternative supplier that is really the driving force behind CCP's success in the domestic market. For the last two and half years, SSCA has been a reliable supplier in the US market and we've worked diligently to rebuild our reputation as such through our actions with our customer base, yet CCP's price continues to be the key discussion point in our sales discussions with customers. For example, in 2008, after force majeure was no longer in effect, there were several cases where we had to reduce price to accounts sold through our distributor Brenntag in response to competing offers to CCP material. Similarly, during a negotiation on a price increase in 2010, we were forced to lower the price by 6.5% in response to a competitive offer from Taiwan.

As I stated, we have worked very hard since force majeure to show our customers our commitment to them and to maintain their trust as their supplier. We have consistently supplied our customers forecasted demand. For the technical reasons we provide in our brief, we do ask our customers for demand forecasts so that we can plan production campaigns accordingly, but we also maintain significant inventory levels that permit us to meet some degree of unexpected demand. In a couple of cases that we detail in our prehearing brief, we've not been able to meet the full volume of *unexpected* demand, but we have generally, in fact, come quite close, and we try and work with the customers to find alternative solutions to meet their needs if we cannot satisfy their un-forecasted demand immediately

Again, even with this record of high performance, we at SSCA recognize the desire of some of our customers to have multiple sources for their material. We have no objection to this although we like to build strong relationships with our customers and hope to have them share as much business with us as possible. Healthy competition in the market is a good thing for both us and our customers – it drives us to work hard to improve, and continuous improvement is one of the keystones of SSCA's policy of "Improving Customer Service through our Outstanding Quality, Cost, and Delivery." However, we don't believe that the desire for an alternative supplier is the primary driving force for their selection of CCP material. When we price at or below the pricing our customers tell us CCP is offering, we win the business. We win it because the competition is in my experience, about price. But the fact is that CCP's dumping makes it almost impossible for us to compete and still be viable; in most cases when we're head-to-head with CCP, we simply cannot price low enough to win what our customers ultimately view as a price-based competition. Imposition of an antidumping order on CCP would not deprive U.S. customers of an alternative source of supply or inhibit healthy competition; it would simply ensure that there is a fair basis for competition and that we can have an honest opportunity to win our customer's business.