

R-32 from China

Inv. No. 731-TA-1472 (Prelim.)

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On Behalf of

Arkema

**International
Economic
Research
LLC**

Dr. Seth T. Kaplan
skaplan@ier-llc.com
(202) 403-9439



Overview

Conditions of Competition

Injury

Threat

Economic Analysis

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Conditions of Competition

- Domestic and subject R-32 are highly substitutable and interchangeable commodity-like products
- Demand for R-32 is highly inelastic making the domestic industry especially susceptible to injury
- China is the dominant global supplier of R-32
- Unfair R-32 imports face no barriers to entering the U.S. market
- The increase in R-32 demand resulting from the blends order was largely offset by new entrants importing unfairly traded subject merchandise

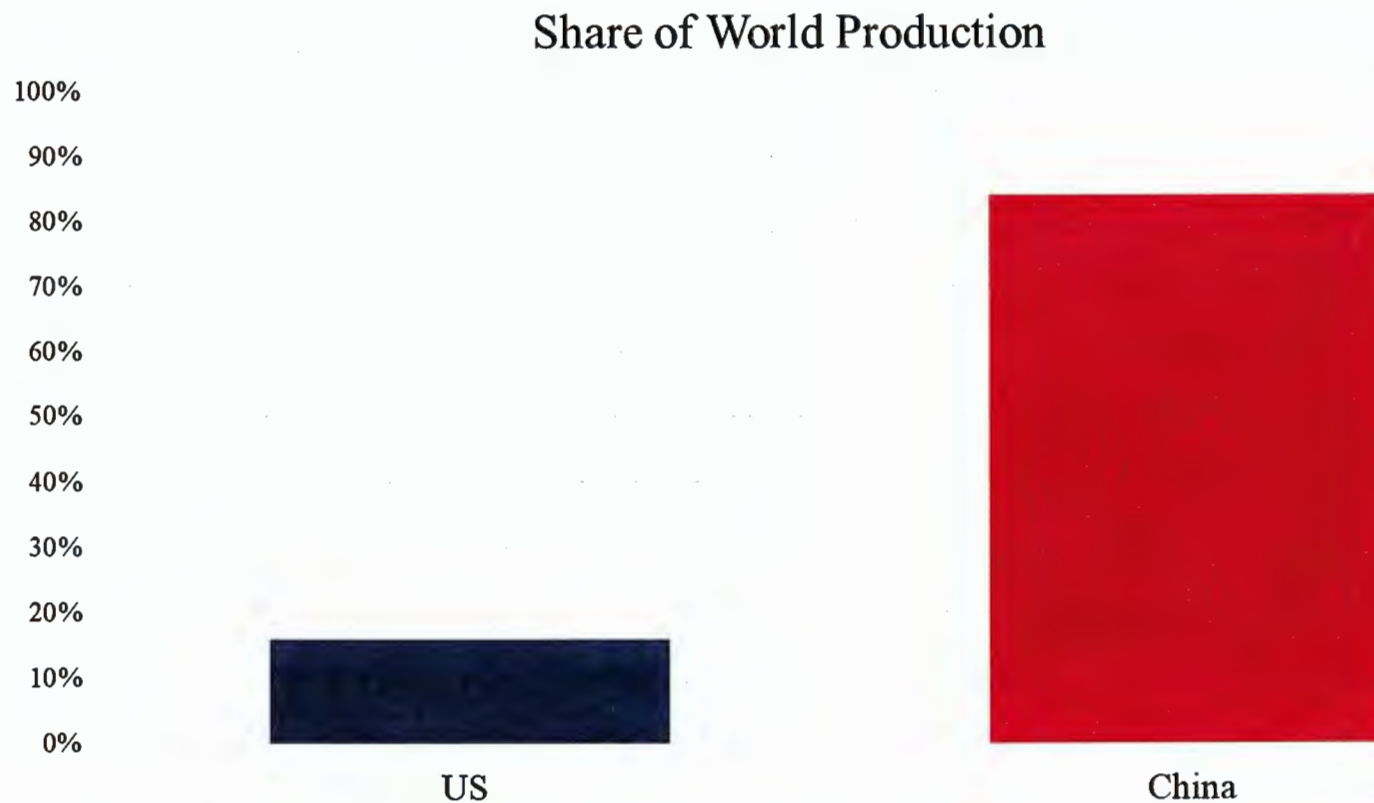
Domestic and Subject Imported R-32 are Highly Substitutable

- R-32 or Difluoromethane has the chemical formula CH_2F_2 , and is registered as CAS No. 75-10-5
- There is high substitutability between the products based on adherence to a standard

Inelastic Demand

- There are no substitutes for R-32 in its end uses
- R-32 is a small cost share in its ultimate end use applications

China is the Dominant Global Supplier of R-32

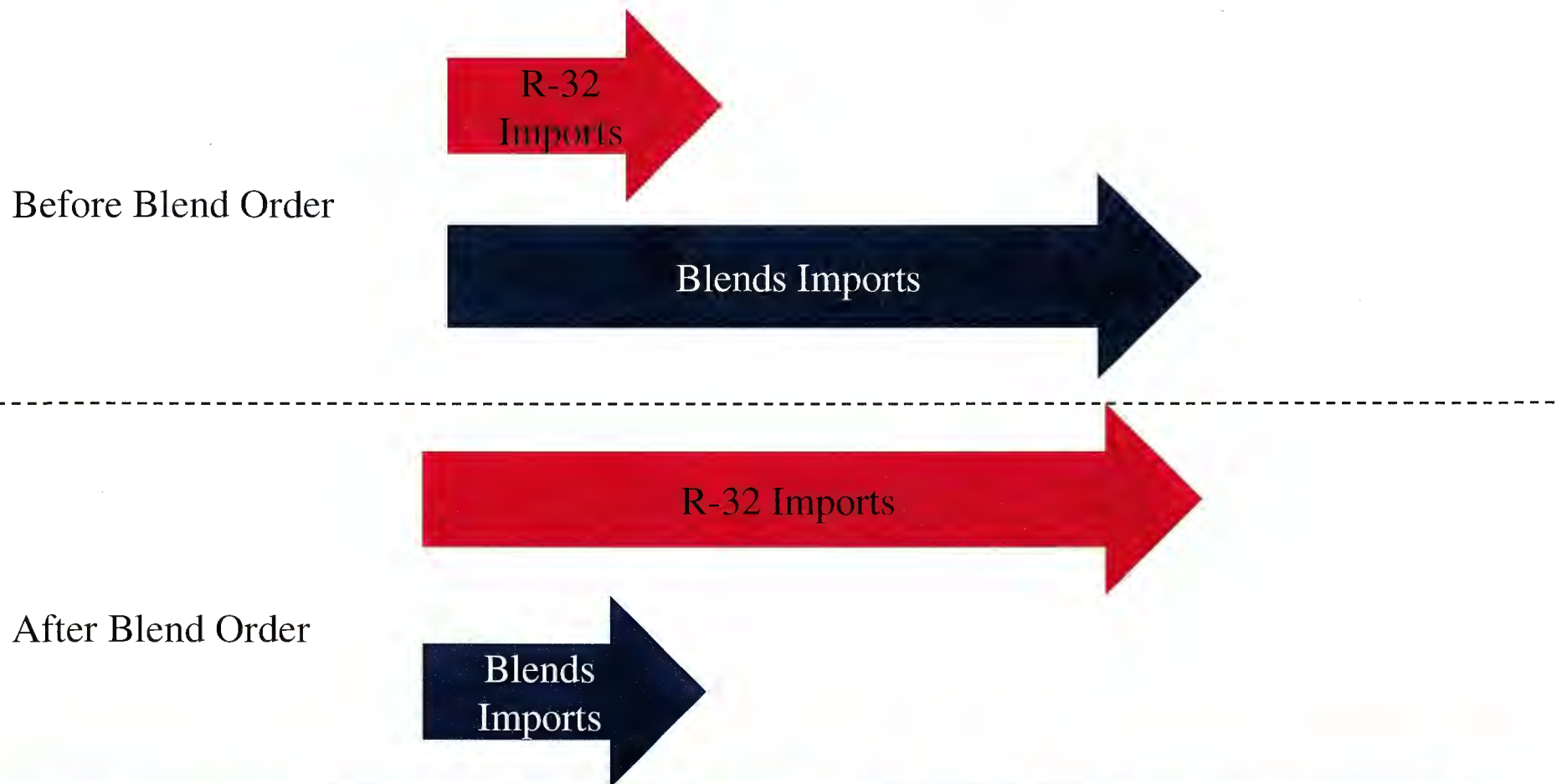


Source: IHS Market Report. Petition Exhibit I-2

Unfair R-32 Imports Face No Barriers to Entry into the U.S. Market

- No barriers to sale
- No barriers to distribution

Increase in U.S. R-32 Demand due to Blends Order was Offset by Unfairly Traded Imports



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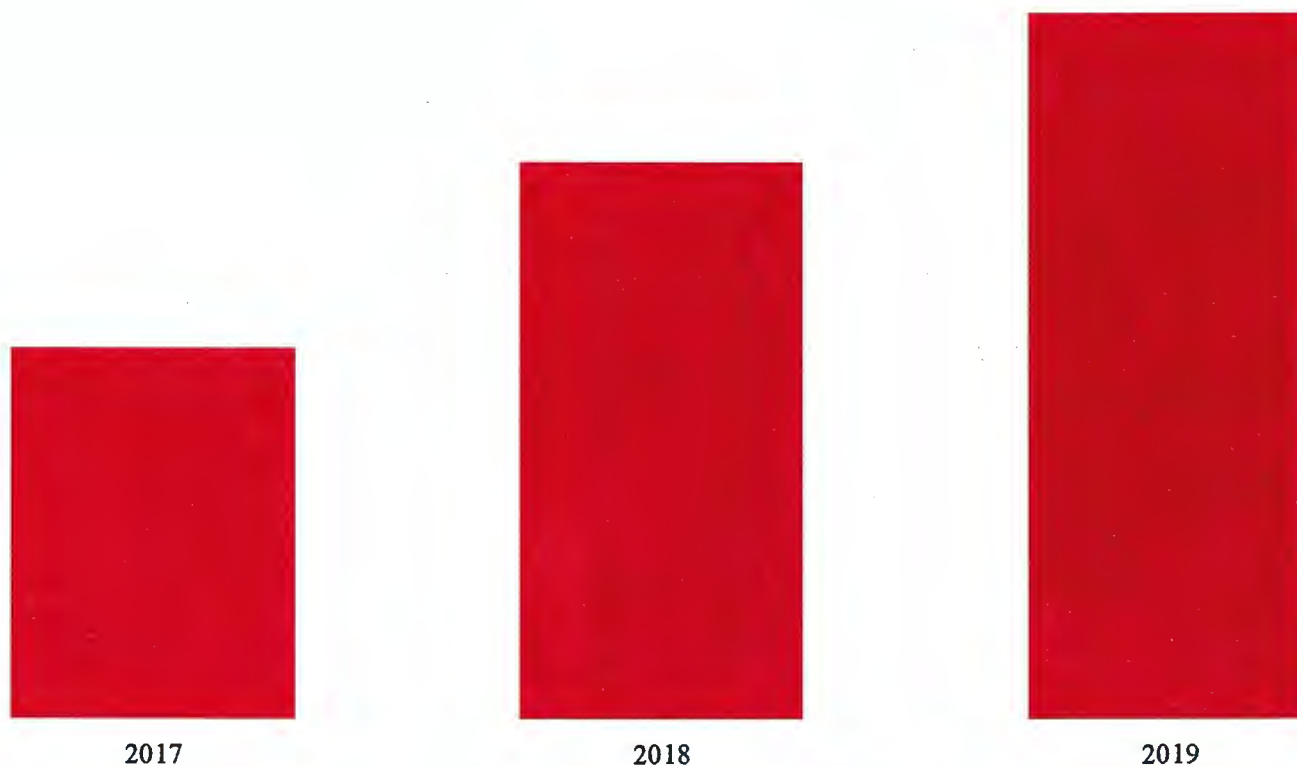
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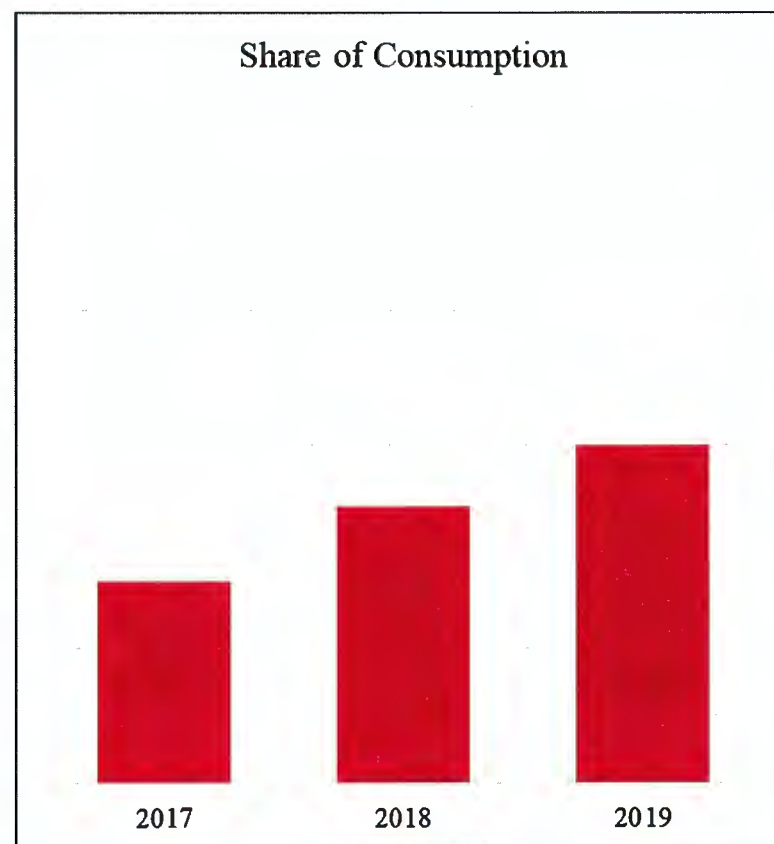
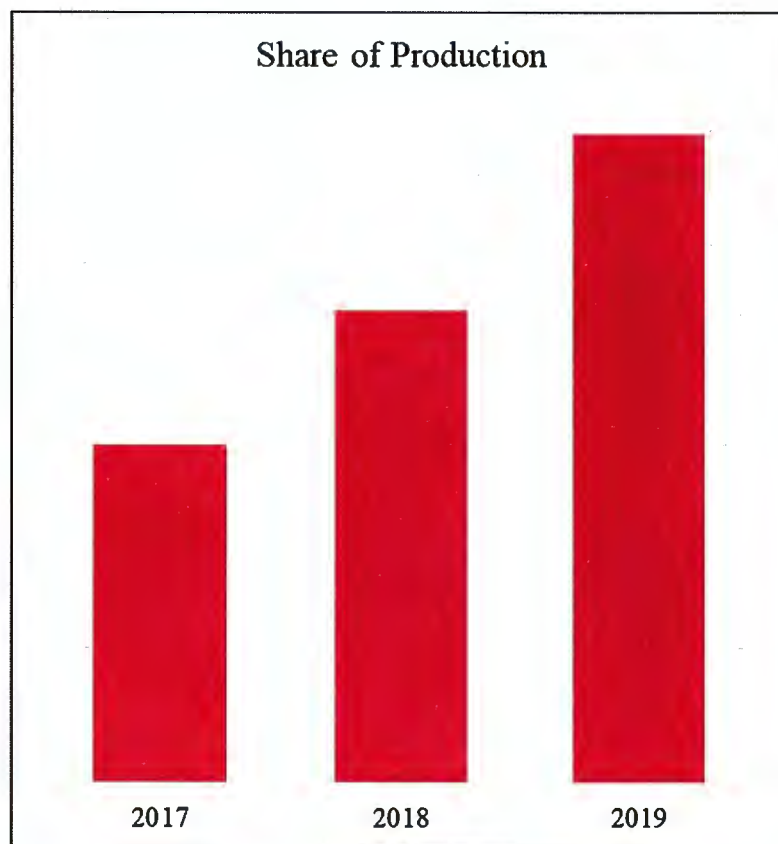
Volume

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Imports are Increasing Absolutely



Imports are Increasing as a Share of Consumption and Production



Underselling

- The record shows price suppression throughout the POI as demonstrated by a cost-price squeeze
- Using a longer series beginning in 2016, the same pattern exists

Injury

Price

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Price Suppression: Cost Price Squeeze

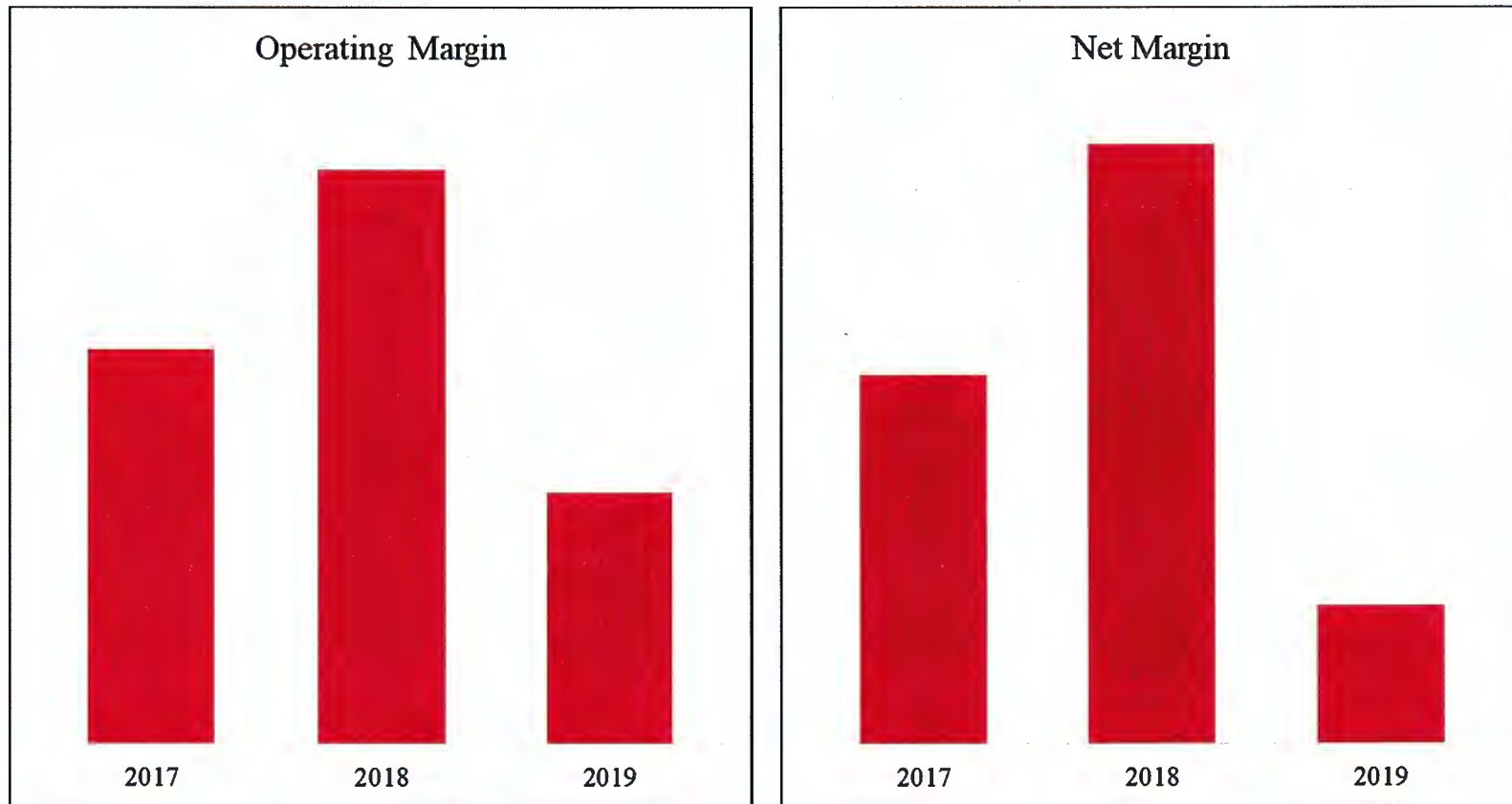
Gross Margin



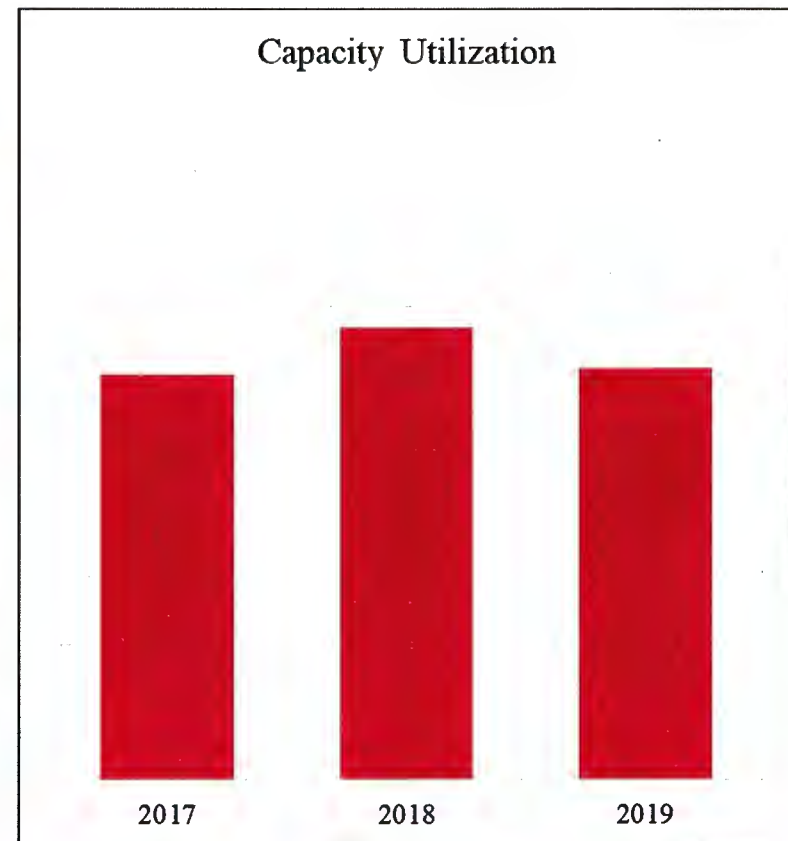
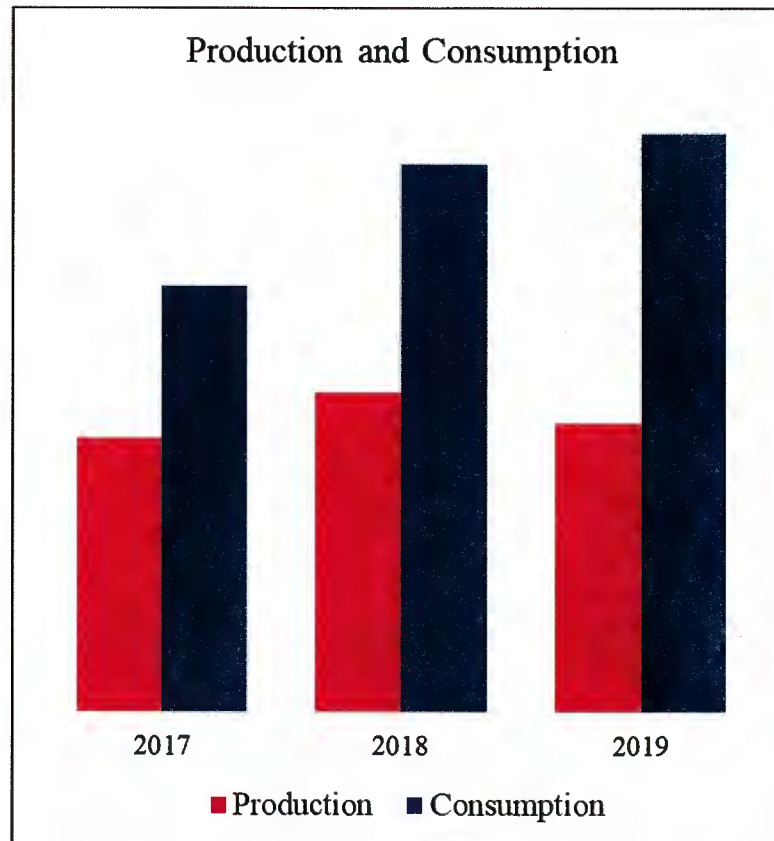
Lost Sales/Lost Revenues

- Lost sales in contract negotiations
- Lower prices due to meet and release
- Lower prices in contract negotiations

Operating Income and Net Income Decreased



Production Has Increased Less than Proportionally with Demand



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Threat of Material Injury

- **The Chinese R-32 industry is under-utilized**
 - Chinese capacity to produce R-32 increased throughout the POI and continues to grow
 - From Q2 2017 through November 2019 Chinese capacity grew by 81%
- **The Chinese R-32 industry is export-oriented**
 - Chinese exports of R-32 increased during the POI - net exports of Chinese R-32 were more than double Chinese R-32 consumption in 2017
 - The United States is a large export market for Chinese R-32

Threat of Material Injury

Chinese R-32 Will Likely Continue to Enter the U.S. Market at Low Prices

- Low-priced Chinese R-32 will continue to increase demand for subject imports
- According to industry reports, R-32 prices in China dropped 28 percent from Q4 2018 through 2019 and are expected to further decline
- There is an incentive to export to the United States, a large global market

Inventory of Chinese R-32 in the United States is Significant

- According to independent reports, as of May 2018, importers of Chinese R-32 have 3.5 to 4 years of inventory in the United States

Unfairly Priced Subject Imports Will Inhibit R&D and Investment

- Next generation of refrigerants will involve R-32
- Further R&D and investment will be required to reach even lower global warming potential

New and Potential New Blenders Threaten the Market

- There is excess capacity in China
- There are no barriers to entry to the U.S. market

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“But-for”

•Conditions of Competition

- Large Market Share
- High Substitutability
- Inelastic Demand
- Elastic Domestic Supply until Capacity is Reached

Effects

- Significant Negative Volume Effects
- Significant Negative Price Effects
- Significantly Lower Profits and Profit Margins