

# UNITED STATES INTERNATIONAL TRADE COMMISSION

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In the Matter of: )  
POLYVINYL ALCOHOL FROM TAIWAN ) Investigation No.:  
731-TA-1088 (Preliminary)

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In the Matter of: )  
 ) Investigation No.:  
 POLYVINYL ALCOHOL FROM TAIWAN ) 731-TA-1088 (Preliminary)

Tuesday,  
 September 28, 2004

Room No. 101  
 U.S. International  
 Trade Commission  
 500 E Street, S.W.  
 Washington, D.C.

The hearing commenced, pursuant to Notice, at  
 9:34 a.m., before the Staff of the United States  
 International Trade Commission, ROBERT CARPENTER, Director  
 of investigations, presiding.

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P R O C E E D I N G S

(9:34 a.m.)

1  
2  
3 MR. CARPENTER: Good morning and welcome to the  
4 United States International Trade Commission's conference in  
5 connection with the preliminary phase of antidumping  
6 investigation No. 731-TA-1088 concerning imports of  
7 polyvinyl alcohol from Taiwan. My name is Robert Carpenter,  
8 I am the Commission's Director of Investigations and I will  
9 preside at this conference.

10 Among those present from the Commission staff are  
11 from my far right George Deyman, the supervisory  
12 investigator; Megan Spellacy, the investigator, on my left  
13 Marc Bernstein, the attorney/advisor; Gerry Benedick, the  
14 economist; Mary Pedersen, the auditor, and Larry Johnson,  
15 the industry analyst.

16 I understand that parties are aware of the time  
17 allocations. I would remind speakers not to refer in your  
18 remarks to business proprietary information and to speak  
19 directly into the microphones. We also ask that you state  
20 your name and affiliation for the record before beginning  
21 your presentation.

22 Are there any questions?

23 (No response.)

24 If not, Mr. Samolis, would you please come forward  
25 for your opening statement.

1           Did he leave the room? Okay, here he comes.

2       Welcome, Mr. Samolis.

3           MR. SAMOLIS: Good morning. My name is Frank  
4       Samolis with the law firm of Patton Boggs, appearing today  
5       on behalf of the petitioner Celanese Chemicals,  
6       headquartered in Dallas, Texas. I am accompanied by my  
7       partners Ted Planzos and David Weiler as well as our  
8       associate Leah Liston. Also present is our co-counsel Mr.  
9       Philippe Bruno with the firm of Greenberg Traurig.

10           We are here because Taiwan has exploited to the  
11       detriment of the domestic industry the 2003 antidumping  
12       orders issued against Japan, China and Korea. Dumped PVA  
13       imports from Taiwan have caused material injury to the  
14       domestic injury and essentially denied Celanese the relief  
15       it should have obtained from the 2003 antidumping duty  
16       orders.

17           As imports from the countries subject to the 2003  
18       orders declined PVA from Taiwan rushed into the U.S. market  
19       to fill the void. Ironically, DuPont, one of the parties  
20       that sought the imposition of the 2003 antidumping orders  
21       now benefits from the dumped Taiwanese imports.

22           In essence, we are here to complete what should  
23       have been completed in 2002 and close the loophole that was  
24       created when Taiwan was not included in an earlier  
25       antidumping proceeding, a loophole that Chang Chun has fully

1 exploited to the detriment of the domestic industry. I will  
2 come back to that point at the end of that testimony but  
3 first let me briefly identify the basic issues which are  
4 pertinent to this case.

5 PVA is a dry, white to cream colored, water-  
6 soluble synthetic polymer classified under HPS3905.30. The  
7 scope of the requested investigation is the same as that of  
8 the recently concluded 2002 antidumping investigation with  
9 which the Commission is very familiar. Despite the  
10 variations in grade and application, the Commission has  
11 twice concluded that the PVA constitutes a single like  
12 product. Given that there have been no fundamental changes  
13 in the uses of PVA, its channels of distribution or its  
14 production methods, the Commission should again conclude  
15 that PVA constitutes a single like product.

16 There are three domestic producers of PVA: Sony,  
17 DuPont and Solutia. However, although Solutia's production  
18 process includes a PVA stage, to the best of our knowledge  
19 Solutia does not produce any PVA for use in the merchant  
20 market, accordingly Solutia should not be included as part  
21 of the domestic industry. In addition, while DuPont does  
22 sell PVA in domestic merchant markets, it has become a major  
23 importer and distributor of dumped PVA from Taiwan. The  
24 data indicate that DuPont imported substantial volumes of  
25 Taiwanese PVA in 2003 and even larger amounts in 2004.

1           Given the facts of this case, the Commission  
2           should exercise its discretion under 19 U.S.C. 1673 to  
3           exclude DuPont from the definition of the domestic industry.  
4           Simply put, DuPont does not, nor can it without substantial  
5           capital expenditures, produce partially hydrolyzed PVA and  
6           thus it greatly benefits from the Taiwanese imports which it  
7           relies on to fulfill demand for that product.

8           Based on these facts, the Commission should  
9           determine that DuPont obtains substantial benefits from the  
10          subject imports which constitutes appropriate circumstances  
11          warranting DuPont's exclusion from the domestic industry.

12          Finally, there is no question that a reasonable  
13          indication of injury to the domestic industry exists in this  
14          case. At this point let me simply state that since 2001 the  
15          condition of the domestic industry has deteriorated  
16          significantly, with the pace of that deterioration  
17          accelerating over the past two years. For example, imports  
18          from Taiwan soared in 2003, increasing by 67 percent from  
19          2002 and capturing over 14 percent of the U.S. market, a  
20          dramatic increase over its 8 percent share in 2002.

21          In addition, the latest import data show that in  
22          the first half of 2004 the subject imports have risen by 20  
23          percent from the same period in 2003. Equally important,  
24          the price per pound of the Taiwanese imports has decreased  
25          significantly despite the existence of the 2003 antidumping



1 orders on PVA imports from other countries and the rising  
2 costs of raw materials and energy. Dumped PVA imports have  
3 caused material injury to the domestic industry and  
4 essentially denied Celanese the relief it should have  
5 obtained in the 2003 antidumping duty orders. The injury is  
6 clearly demonstrated in the financial data submitted to the  
7 Commission.

8 As imports from the countries subject to the 2003  
9 orders declined, PVA from Taiwan rushed into the U.S. market  
10 to fill the void.

11 That concludes my overview of our petition. You  
12 will next hear from Daniel Klett of Capital Trade who will  
13 talk about the overall indicia of injury to the industry.  
14 Following Mr. Klett you will hear from Mr. Bill Massa who  
15 will address the broad issues of the PVA business and the  
16 continued injury to the domestic industry from dumped  
17 imports from Taiwan. After Mr. Massa, Scott Neuhardt will  
18 provide specific information on lost sales and the impact of  
19 dumped Taiwanese products on the pricing and marketing of  
20 PVA.

21 Thank you for your time and attention. I will now  
22 ask Dan Klett to address the Commission.

23 MR. CARPENTER: Thank you, Mr. Samolis. Before we  
24 do that I think you're talking about a direct presentation  
25 from your panel.

1 MR. SAMOLIS: Right.

2 MR. CARPENTER: We would like the respondents to  
3 come forward and give a brief five minute opening statement.  
4 So I would ask that Mr. Campbell and Mr. Snyder come forward  
5 at this time. And as soon as they are finished you can  
6 bring your entire panel up. Thank you.

7 MR. CAMPBELL: Good morning. I'm Jay Campbell.  
8 I'm with the law firm of White and Case. I appear here  
9 today with my colleagues Kelly Slater and Jay Lee on behalf  
10 of Chang Chun PetroChemical, the lone respondent in this  
11 investigation.

12 Chang Chun has been a long-time supplier of PVA to  
13 the U.S. market and has had a positive impact on the market.  
14 But, fortunately, you won't have to hear this from me. Mr.  
15 Richard Chen and Jen Chee Yee of Chang Chun have traveled  
16 halfway around the world to be here today. Mr. Chen will  
17 provide you with an overview of Chang Chun's PVA business  
18 and the positive role it has played in the U.S. market.

19 Also here on behalf of Chang Chun today is Seth  
20 Kaplan, and economic with Charles River and Associates.  
21 Seth will explain why the Commission should render a  
22 negative determination in this preliminary phase.

23 In short, Taiwanese imports have neither injured  
24 the domestic industry nor threatened the domestic industry.  
25 Importantly, a majority of the U.S. producers agree. Thank

1 you.

2 MR. SNYDER: Good morning. My name is Jeff  
3 Snyder. I am here from Crowell and Moring with my  
4 colleagues Matthew Jaffe and Alexander Schaefer. We are  
5 here today on behalf of DuPont in opposition to the  
6 petition. Contrary to the story that Celanese tells in this  
7 petition and is telling here today, imports from Taiwan are  
8 not a cause of injury. We are here today to explain what is  
9 going on in the market and to identify some of the important  
10 factors for your consideration.

11 At the outset, however, I need to make two points.  
12 First, DuPont objects to the appearance of Patton Boggs in  
13 this proceeding. We expected the ITC to not get into the  
14 business of policing law firm conflicts of interest but we  
15 want the Commission to be aware of the issues.

16 Second, DuPont objects to the improper disclosure  
17 of attorney/client information in this case. Both Celanese  
18 and Patton Boggs have obligations to DuPont and both have  
19 violated these obligations.

20 Apart from those issues which are unfortunate  
21 tactics in this proceeding we will provide testimony from  
22 DuPont about the U.S. PVA market, imports from Taiwan and  
23 how Celanese has performed in the market. We look forward  
24 to your questions and to a discussion of the issues. Thank  
25 you.

1 MR. CARPENTER: Thank you, gentlemen.

2 At this point, Mr. Samolis, if you would bring up  
3 your entire panel.

4 MR. SAMOLIS: Let me introduce Bill Massa from  
5 Celanese who will be our first witness. He will be followed  
6 by Scott Neuheardt and then by Dan Klett from Capital Trade.  
7 Those will be our three witnesses who will be testifying in  
8 this proceeding.

9 MR. MASSA: Good morning. My name is Bill Massa.  
10 I am currently vice president, general manager of polyvinyl  
11 alcohol for Celanese Chemicals. I have been with Celanese  
12 for two years and previously served as vice president  
13 Strategic Activities Group which was responsible for mergers  
14 and acquisitions and business strategy.

15 Celanese is a global chemical company. It's  
16 business involves processing chemical raw material and  
17 natural products into value-added chemicals and chemical-  
18 based products. Celanese is organized into four major  
19 segments: Chemical Products, Acetate Products, Technical  
20 Polymers Ticona and Performance Products. The PVA segment  
21 of our company is part of our broader Chemicals Products  
22 Division which accounts for about 66 percent of total  
23 chemical sales.

24 Celanese entered the polyvinyl alcohol business in  
25 September of 2000 with the acquisition of an air products

1 business. PVA business is very capital intensive. It's a  
2 high fixed cost business. And such an industry can only  
3 remain healthy if it achieves high levels of capacity  
4 utilization because of the high proportion of fixed costs.

5 Our PVA business is extremely sensitive to the  
6 impact of dumped imports because they force us to meet price  
7 levels that do not allow us to cover our costs of producing  
8 material. In September 2002 DuPont and Celanese brought  
9 antidumping actions against imports of PVA from Korea,  
10 China, Japan, Germany and Singapore. For the record, in  
11 Celanese's view evidence of Taiwan's dumping was clear and  
12 unambiguous at the time and, consequently, we felt it was  
13 absolutely necessary to include Taiwan in the prior  
14 investigation. The confidential version of our petition  
15 explains why Taiwan was ultimately not included in the 2002  
16 petition.

17 Given the import-induced injury that existed at  
18 that time, Celanese concluded that it had no choice but to  
19 remain an active participant in an investigation that did  
20 not include Taiwan in the hopes of achieving some relief.  
21 Unfortunately, the increased volume of low-priced imports  
22 from Taiwan has denied us the relief we should have obtained  
23 in 2003. The lost revenue and margins that we document in  
24 our petition establish that the increase in imports from  
25 Taiwan has captured more than the market share previously

1 held by the unfairly priced Japanese, Chinese and Korean  
2 imports.

3 Imports from Taiwan have surged in the wake of the  
4 imposition of the 2003 orders with imports from Taiwan  
5 raising from 14.1 million to 23.5 million, or 67 percent in  
6 2003, even as U.S. demand remained flat. Not only does our  
7 company have to face the unfair competition from Taiwanese  
8 imports but the situation is exacerbated further by the cost  
9 of natural gas and other raw materials which have been  
10 extraordinarily high in recent years. The aggressive  
11 pricing of the Taiwanese imports have consistently prevented  
12 us from raising prices sufficiently to offset these  
13 significant cost increases.

14 For example, between 2002 and 2003 increases in  
15 the costs of PVA raw materials contributed to substantial  
16 per pound increase in the unit costs of the goods we sell  
17 while our average price did not increase anywhere near this  
18 amount. This price/cost squeeze resulted in a multimillion  
19 dollar decline in our profitability.

20 Whether we chose to lower our prices to compete  
21 with dumped import prices or to hold prices simply to forego  
22 sales the result is continued injury to our business  
23 operations as will be more specifically described by Scott  
24 Neuheardt. These adverse effects are particularly  
25 infuriating to Celanese following the antidumping

1 investigation in 2002 that resulted in the elimination of  
2 dumping by other foreign suppliers. Those antidumping  
3 orders in 2003 did not produce the intended relief, instead  
4 they simply opened the market to aggressive pricing by Chang  
5 Chun, allowing it to expand market share at our expense.

6 As a result of this aggressive pricing of dumped  
7 imports and expanded market share at the expense of Celanese  
8 we have experienced plummeting profitability. Celanese has  
9 been prevented from increasing its prices in 2003 and 2004  
10 to fully offset our increased costs. During this period our  
11 costs increased significantly. We announced price increases  
12 of 32 cents per pound just to offset these rising costs and  
13 achieved a small fraction of that in the marketplace.  
14 Consequently, Celanese has suffered and will continue to  
15 suffer significant reductions in our growth and operating  
16 profits due to the price suppression caused by Taiwanese  
17 imports.

18 Every month I must report to management on the  
19 profitability of PVA business. Because PVA is one business  
20 among many we compete for capital within Celanese. The poor  
21 operating profit currently being experienced by this  
22 business has resulted in certain investments not being made.  
23 For example, earlier this year we proposed a multimillion  
24 dollar energy saving project which had a 3-year payback. It  
25 was deferred because of concerns in the viability of this

1 business.

2 Without the imposition of antidumping duties to  
3 stabilize the domestic market there will be continued  
4 adverse effects on Celanese's PVA business that will impact  
5 our employment levels, investment commitment and ultimately  
6 shareholder value. As natural gas prices and other raw  
7 material costs continue to escalate and while at the same  
8 time dumped imports are further eroding margins in the U.S.  
9 market, Celanese cannot indefinitely endure the adverse  
10 effects of this untenable situation. U.S. producers must be  
11 permitted to sell their products at prices that at least  
12 cover their costs.

13 We respectfully request the ITC to make an  
14 affirmative finding of injury and allow us to obtain the  
15 relief afforded by the U.S. antidumping laws. Thank you.

16 MR. SAMOLIS: Our next witness will be Mr. Scott  
17 Neuheardt from Celanese Chemicals.

18 MR. NEUHEARDT: Good morning. My name is Scott  
19 Neuheardt. I am the commercial director for the Polyvinyl  
20 Alcohol Division of Celanese. In this position I have seen  
21 firsthand the dramatic impact dumped imports have had on the  
22 U.S. PVA market. As Bill explained, the injuries being  
23 suffered by Celanese due to the imports of dumped Chang Chun  
24 PVA is significant, substantial and direct. If Chang Chun's  
25 dumping is not stopped it will jeopardize Celanese's PVA



1 operations.

2 I would like to focus the staff's attention on the  
3 injury and in particular the price suppression being caused  
4 by dumped PVA from Taiwan. Celanese is the largest producer  
5 of PVA in the United States and produces a full range of PVA  
6 products from partially to fully hydrolyzed PVA. We produce  
7 PVA in two plants, one in Pasadena, Texas and one in Calvert  
8 City, Kentucky.

9 PVA is used in a wide range of industrial  
10 applications from the production of polyvinyl butyryl, or  
11 PVB, to adhesives and textiles. PVA comes in a wide range  
12 of grade defined by various parameters, including hydrolysis  
13 levels and viscosity. Although various grades of PVA have  
14 slightly different characteristics and uses, all PVAs share  
15 the same essential physical and performance criteria or  
16 characteristics. Moreover, comparable grades of domestic  
17 and imported PVA are largely interchangeable.

18 PVA is produced from vinyl acetate monomer, VAM.  
19 VAM along with natural gas are the two key cost components  
20 in the production of PVA. Fully and partially hydrolyzed  
21 PVA are produced on the same equipment but with slightly  
22 different manufacturing processes. Fully hydrolyzed PVA is  
23 produced by permitting saponification reactions to run to  
24 completion while partially hydrolyzed PVA is produced by  
25 interrupting this reaction.

1           Let me now turn to the impact of dumped imports of  
2 PVA by Chang Chun and describe to you what I have observed  
3 in the nearly two years I have been in the Celanese PVA  
4 business.

5           I joined the Celanese PVA business in November  
6 2002, about two months after the last antidumping case was  
7 filed. During my first weeks with the company I reviewed  
8 the projections for the PVA business for 2003, which called  
9 for significant growth in both volume of sales and price  
10 recovery in the wake of the antidumping case, assuming of  
11 course that Celanese would receive a favorable ruling in  
12 that case.

13           While we were concerned about Chang Chun and its  
14 plans, we did not consider that Chang Chun would  
15 dramatically increase its imports, as it has, nor did we  
16 anticipate that Chang Chun would hold the prices at  
17 depressed levels and in fact lower them further. And as you  
18 know, DuPont and Celanese ultimately prevailed in the case,  
19 in that case, and antidumping duties were imposed on PVA  
20 from Japan, China and Korea. Unfortunately, the projections  
21 of our plan did not materialize because of rampant dumping  
22 by Chang Chun.

23           During the first quarter of 2003 natural gas and  
24 VAM prices began to rise in the United States and globally,  
25 including Taiwan. In response to these rising costs of PVA

1 imports, Celanese followed DuPont's 5 cent a pound price  
2 increase in February of 2003 and then attempted a further 20  
3 cent a pound price increase in March of 2003 which Celanese  
4 announced it would follow. These price increases were  
5 implemented to offset the increasing costs of production.

6 Our attempts to increase prices during the second  
7 and third quarters of 2003 were unsuccessful for the most  
8 part. While a few small or medium size customers accepted a  
9 small portion of the price increase, most companies refused  
10 to pay the increase and simply switched or threatened to  
11 switch to dumped PVA, including both fully and partially  
12 hydrolyzed grades from Taiwan.

13 For example, when we increased prices at our  
14 second largest customer they simply replaced 80 percent of  
15 Celanese PVA with dumped partially hydrolyzed PVA from  
16 DuPont -- or from Taiwan that was being aggressively  
17 imported and marketed by DuPont. Similarly, our efforts to  
18 obtain even a portion of this price increase at another  
19 large customer resulted in no price increase and a loss of  
20 business to Chang Chun's fully hydrolyzed PVA that was being  
21 imported and sold by DuPont.

22 In fact, DuPont aggressively courted many of  
23 Celanese's large PVA customers with dumped imports from  
24 Chang Chun, including customers purchasing partially  
25 hydrolyzed PVA as well as fully hydrolyzed product not

1 produced by DuPont. These sales were not lost to PVA  
2 domestically produced by DuPont but rather to Chang Chun  
3 produced fully hydrolyzed PVA that is of a particular  
4 viscosity that DuPont either cannot or does not produce.

5 Celanese responded ultimately by lowering prices  
6 dramatically to retain some of our volume at a more critical  
7 account. To protect our sales from dumped imports and to  
8 protect our volume we have entered into long-term contracts  
9 with price protections for many important customers. As a  
10 result of dumping from Taiwan, we have been forced to lower  
11 our prices and enter into these contracts so that we do not  
12 lose volume.

13 In 2004 the prices of VAM and natural gas have  
14 continued to climb, both in the United States and Taiwan.  
15 VAM prices in the U.S. have reached over \$830 a ton, or a 47  
16 percent increase since the beginning of 2002. According to  
17 published reports, VAM prices in Taiwan have approached  
18 \$1,000 a ton, well over a 70 percent increase since the  
19 beginning of 2002.

20 In June 2004 we announced another price increase  
21 of 7 cents a pound and have been working with our customers  
22 to implement it. Due to the rampant dumping of PVA by Chang  
23 Chun we have been unable to secure sufficient price  
24 increases to cover the increasing costs of production driven  
25 by VAM and natural gas.

1           There are several key points I want to emphasize.  
2       First, Chang Chun is dumping both fully and partially  
3       hydrolyzed PVA.

4           Second, a number of our competitors, including  
5       Perry and DuPont, frequently do not differentiate their  
6       pricing for fully and partially hydrolyzed materials which  
7       further suppressed prices for all PVA.

8           Celanese has been dealing with dumped imports from  
9       a variety of countries, including Taiwan, since the  
10      termination of the first round of the antidumping duty  
11      orders in 2001. Celanese took multiple actions in response  
12      to the dumping from Taiwan and others, held the line on  
13      pricing only to find that we lost significant business,  
14      dropped prices and obtained long-term contracts to protect  
15      volume only to find that revenue losses were intolerable and  
16      unsustainable. Celanese must now come to the Commission  
17      only a little over a year after the most recent orders were  
18      entered and ask the Commission to finish leveling the  
19      playing field for the U.S. PVA market.

20           Thank you. And I will turn it over to Dan Klett.

21           MR. KLETT: Good morning. My name is Daniel  
22      Klett. I'm an economist with Capital Trade, Incorporated,  
23      testifying this morning on behalf of Celanese Chemicals Ltd.

24           You have heard that the potential benefits to  
25      Celanese of the AD orders on PVA imports imposed last year

1 have been undermined by the significant increase in PVA  
2 import volume from Taiwan. A review of the publicly  
3 available data supports Celanese's position and an  
4 affirmative finding of adverse effects from Taiwanese  
5 imports.

6 The key facts supporting this conclusion are:

7 One, total PVA import volume remains high. Import  
8 volume from Taiwan is higher in 2004 than the subject import  
9 volume in the PVA investigation concluded just over a year  
10 ago, and this volume was found by the Commission to be  
11 significant and having an adverse effect on the U.S.  
12 industry.

13 Two, PVA imports from Taiwan are even more similar  
14 with respect to interchangeability with U.S. produced PVA  
15 than with subject imports in the prior investigation.

16 Three, the significant volume increase from Taiwan  
17 since the AD orders were imposed in 2003 is associated with  
18 a 13 percent price decrease for these imports since that  
19 time, and at that time prices were already depressed.  
20 Import prices from Taiwan in the second quarter of this year  
21 were lower than the lowest price of subject imports during  
22 the previous investigation.

23 Four the combination of higher volumes and lower  
24 prices for PVA imports from Taiwan has resulted in prices  
25 continuing to be depressed for Celanese's PVA sales.

1 Celanese's prices are now even lower than the depressed  
2 levels found by the Commission in the prior investigation.

3 Fifth, the adverse effects of depressed prices  
4 have been exacerbated by increasing raw material costs. As  
5 a result, Celanese's prices also are suppressed and it is  
6 incurring greater financial losses now than during the prior  
7 investigation.

8 The effects of these conditions, both past and  
9 prospective, have been described by Mr. Massa and Mr.  
10 Neuheardt. What is clear is that these conditions can in  
11 large part be attributed to competition from unfairly traded  
12 imports from Taiwan.

13 There are six slides that I will be referring to  
14 in the rest of my presentation. Slide one shows that before  
15 the AD orders were imposed imports from Taiwan accounted for  
16 41 percent of total PVA import volume, and after the AD  
17 orders, 65 percent. Significantly, the average monthly  
18 import volume into the United States from countries subject  
19 to the AD orders totalled about 1.5 million pounds prior to  
20 when the AD orders were imposed.

21 The average monthly import volume from Taiwan  
22 since that time is 2.4 million pounds. The net effect is  
23 that total PVA imports from all sources driven by imports  
24 from Taiwan has increased since imposition of the AD orders.  
25 And effectively, any potential positive volume effects to

1 Celanese that should have resulted from the AD orders has  
2 been completely offset by the increase in PVA imports from  
3 Taiwan.

4 Actual market share information is confidential.  
5 However, given that aggregate PVA market demand is  
6 relatively flat, these volume increases for PVA imports from  
7 Taiwan must translate to significant market share increase  
8 for these imports as well.

9 Slide two shows PVA import volume from Taiwan,  
10 when PVA import from Taiwan increased and why. The bars on  
11 the graph represent import volume from Taiwan by quarter.  
12 The blue or square reference point line represents average  
13 import values from Taiwan, and the orange line the average  
14 value of imports from China and Korea.

15 During the 2001 to third quarter of 2003 period  
16 PVA prices for imports from Taiwan fell along with the  
17 import prices from countries subject to the previous  
18 investigation. Import volumes from Taiwan remained at about  
19 4 million pounds per quarter. Taiwan did not gain volume  
20 despite a reduction in prices because it was competing with  
21 these other sources of supply.

22 PVA imports from Taiwan began to increase with the  
23 preliminary dumping findings by Commerce in March 2003. The  
24 increase in import volumes from Taiwan accelerated after the  
25 AD orders were imposed. The volume increases were caused by



1 a substantial decrease in import prices from Taiwan, as you  
2 can see by the blue line. And prices from Taiwan fell by  
3 over 85 cents per pound in 2001 to below 60 cents per pound  
4 in the second quarter of this year. And these data are  
5 based on average import unit values on a CIF duty paid  
6 basis.

7 Next I want to compare certain facts in this  
8 investigation to the prior PVA investigation. As shown in  
9 slide three, PVA imports from Taiwan are even more  
10 comparable to U.S. produced PVA than were subject PVA  
11 imports in the last investigation. These data are from  
12 purchaser questionnaires in the last investigation and are  
13 taken from the staff report from the investigation last  
14 year.

15 In that investigation the Commission found price  
16 to be an important factor explaining subject import volume  
17 purchases. Given the close comparability of U.S. and Taiwan  
18 PVA with respect to these factors, price also must be an  
19 important factor explaining the significant volume increase  
20 in PVA imports from Taiwan.

21 In the prior investigation subject imports totaled  
22 21.7 million pounds in 2002, the last calendar year of the  
23 petitioner. And the Commission found this volume to be  
24 significant with respect to adverse effect to the U.S.  
25 industry.

1           As shown in slide four, the average import volume  
2           for subject PVA imports from China, Japan and Korea in the  
3           prior investigation was 1.5 million pounds. By comparison,  
4           PVA imports from Taiwan have entered the United States in an  
5           average monthly volume of 2.4 million pounds since the AD  
6           orders were imposed, and annualized volume of over 28  
7           million pounds.

8           Aggregate demand increases cannot explain this  
9           volume increase. The annual import volume of 22 million  
10          pounds was significant in that investigation to demonstrate  
11          adverse volume effects. And over 28 million pounds from  
12          Taiwan is even more significant.

13          The next slide five shows the U.S. PVA prices have  
14          been both depressed and suppressed. This slide shows  
15          industry's and Chang Chun's average PVA prices and raw  
16          material costs before and after the AD orders were imposed.  
17          In the prior investigation the Commission found prices to be  
18          at depressed levels. As you can see, since that time U.S.  
19          prices are even lower so thus continue to be depressed.

20          Slide five also includes an index of PVA raw  
21          material costs which have increased since the AD orders were  
22          imposed. Major raw materials costs for VAM, natural gas,  
23          which is higher as you can see in the last bars on the  
24          slide. I want to note that these natural gas prices do not  
25          represent a short-term spike, they are expected to continue

1 to remain high. The EIA in a September forecast has  
2 indicated that for 2005 natural gas prices are expected to  
3 remain over \$6 per thousand cubic feet in 2005.

4 This is a cost increase that Celanese must be able  
5 to pass through to price in order to be profitable in the  
6 future. Thus, prices are both depressed and suppressed with  
7 the result that operating profits have declined  
8 significantly for Celanese's PVA operations. Given the fact  
9 that, one, PVA from Taiwan is a close substitute for U.S.  
10 produced PVA; two, that PVA import volume from Taiwan has  
11 increased by 70 percent and; three, that PVA import prices  
12 from Taiwan have decreased by roughly 12 percent there can  
13 be no other conclusion but that PVA imports from Taiwan play  
14 a major factor causing U.S. PVA prices to be both depressed  
15 and suppressed.

16 The last issue I want to address is threat. As I  
17 have discussed above, PVA imports from Taiwan have increased  
18 rapidly. As you can see from slide six, the United States  
19 is an import export market for Taiwan and its importance to  
20 Chang Chun has increased both in absolute terms and relative  
21 to other export markets.

22 I just received the July 2004 data for PVA exports  
23 from Taiwan statistics with exports to the United States in  
24 that month at 2.2 million pounds, the highest level of any  
25 month this year since January.

1 Another key threat issue is vulnerability which  
2 Mr. Massa has addressed this issue. And Mr. Massa has  
3 addressed this issue in his testimony.

4 Thank you for your attention.

5 MR. SAMOLIS: That concludes our case. We are  
6 happy to answer any questions the Commission staff may have.

7 MR. CARPENTER: Thank you very much, gentlemen,  
8 for your presentation.

9 I wonder if I could just start by asking Mr. Klett  
10 a couple clarification questions about your slides. First  
11 of all, for the record we will accept Mr. Klett's slides as  
12 Exhibit Number 1 on behalf of the petitioners.

13 (The documents referred to  
14 were marked for identification  
15 as Petitioner's Exhibit 1.)

16 In the first slide when you talk about imports  
17 subject to the order and imports not subject to the order  
18 what is your cutoff period? What is the last month of  
19 imports that were not subject to the order?

20 MR. KLETT: Yeah, the time period for these two  
21 blocks are through September 2003, represent the first pie.

22 MR. CARPENTER: Okay.

23 MR. KLETT: And October 2003 through June 2004 is  
24 the time period for the second pie.

25 MR. CARPENTER: Okay. In the fifth slide you

1 spelled that out clearly.

2 MR. KLETT: Yes. I think I do have the time  
3 demarcations specified in the fifth slide but they're the  
4 same for this slide, the first slide as well.

5 MR. CARPENTER: Okay, the first slide. And I  
6 think there were others. The fourth slide would be another  
7 one. Is the beginning period always 2001 and then the  
8 ending period is June of 2004?

9 MR. KLETT: That's correct.

10 MR. CARPENTER: Okay. Okay, we will begin the  
11 questions with Megan Spellacy from the Office of  
12 Investigations.

13 MS. SPELLACY: Good morning. My first question is  
14 going to be -- and I think it's best for Scott to answer.  
15 Can you again explain to me, I do understand the basic  
16 difference between the partially and fully hydrolyzed PVA as  
17 far as the manufacturing process but what I'm not, I'm still  
18 not yet clear on is the difference in quality of the various  
19 grades. For example, when we are looking a hierarchy of  
20 grades of PVA, if one exists, how many of the different  
21 variety of characteristics are a component of the highest  
22 grades? In other words, we have the viscosity, we have the  
23 particle type, classification. How many different variables  
24 are involved in the highest grade PVA?

25 And ultimately going into obviously

1 interchangeability of these various grades, you mentioned  
2 that they are interchangeable, but could you flesh that out  
3 a little bit?

4 MR. NEUHEARDT: Well, I think from a highest grade  
5 perspective I'm not quite sure what that means. But there  
6 are things as particle size. Some customers would rather  
7 have a finer particle that would dissolve quicker in a piece  
8 of equipment that they have, or they don't want to put as  
9 much energy into getting the material into solution so they  
10 may want a finer powder. But it's more specific to the  
11 application than it is to a grade level if you will.

12 Other things people look for are ash level,  
13 percent volatiles, and those things are fairly standard,  
14 fairly typical throughout various applications. But the  
15 main thing that people focus on to choose which product that  
16 they want to use is the hydrolysis and the viscosity.

17 MS. SPELLACY: So those are the two most important  
18 variables. And the two most -- and again I'm not looking at  
19 it from a pricing perspective. I understand that the  
20 pricing depends on the end use of the product and this looks  
21 like it's going to be more than a commodity base. But as  
22 far as the manufacturing process those are the two  
23 characteristics that are could I say the most time intensive  
24 or are the most difficult to create? Or is that just not  
25 the right term --

1           MR. NEUHEARDT: They're the two, they're the two  
2 specific characteristics that the end use customer will look  
3 at first --

4           MS. SPELLACY: Yes.

5           MR. NEUHEARDT: -- to choose what product that  
6 they want to use to meet their needs.

7           MS. SPELLACY: Okay.

8           MR. NEUHEARDT: I'm not sure I answered your  
9 question, but.

10          MS. SPELLACY: No, that's okay. I mean, again, I  
11 don't think that you answered incorrectly. I think I will  
12 just continue. This is a new product for me. So I  
13 appreciate it. Thank you.

14          Just a couple more questions then. And these are  
15 not necessarily related directly to your testimony but I  
16 have a few additional questions.

17          Now, I understand is Celanese the largest producer  
18 of VAM worldwide? I read it in old, I read it in old  
19 material.

20          MR. MASSA: Yes.

21          MS. SPELLACY: One of the largest --

22          MR. MASSA: Yes, correct.

23          MS. SPELLACY: -- producers of VAM.

24          MR. MASSA: That's correct.

25          MS. SPELLACY: And VAM is obviously an

1 intermediate product or one of the raw materials used in  
2 producing PVA. So my question is what parties that are  
3 related to this case are purchasing VAM from Celanese, if  
4 any? Are you exporting?

5 MR. MASSA: Sure. We export a tremendous amount  
6 of VAM around the world. We as polyvinyl alcohol purchase  
7 VAM from a sister division at market price. There are  
8 other, many other producers around the world that buy VAM  
9 from us. I don't believe -- I'm not certain but I don't  
10 believe either of the other parties are currently purchasing  
11 VAM from us. If that was your question.

12 MS. SPELLACY: Yes. So I mean, again, if you  
13 could just clarify that whether or not any of them are --  
14 these guys can do that later -- but whether or not Taiwan is  
15 purchasing VAM from Celanese.

16 MR. MASSA: Sure. We can testify to that, sure.

17 MS. SPELLACY: If you could expand on that I would  
18 appreciate it.

19 And another question, and this kind of ties into  
20 the definition. In the definition for this case, I  
21 discussed this with some other context before because it  
22 wasn't quite clear in the petition the definition of PVA,  
23 but we have PVA except excluding PVA in fiber form. My  
24 question is who produces PVA in fiber form and so exactly  
25 who are we excluding and what products, for what end use are



1 we excluding by that definition?

2 MR. NEUHEARDT: To the best of my knowledge most  
3 of the fiber produced is in Japan and in Asia. And what we  
4 would be excluding there would be going into asbestos  
5 replacement for construction as well as going into the  
6 textile industry, fibers and textile are what we would be  
7 excluding away from an application standpoint.

8 MS. SPELLACY: Okay. Okay. And this is slightly  
9 related to that question, and this I think will be my final  
10 question. Can you speak to the impact that you expect the  
11 expiration of textile quotas in January 2005 to have on the  
12 PVA market, if any?

13 MR. NEUHEARDT: From talking to our textile  
14 customers they are all extremely concerned about it. It's  
15 very difficult to tell what impact it will ultimately have  
16 on PVOH or PVA. But we are very concerned about it because  
17 they are very concerned about it. And they are concerned  
18 about the health and their ability to stay in business which  
19 if that happens will have a negative impact on PVA.

20 MS. SPELLACY: So has that affected -- well, again  
21 I'm just curious as to what impact that could have on your  
22 future plans, your end user, any type of grades that you're  
23 targeting in the near future.

24 MR. NEUHEARDT: We can elaborate on that in our  
25 post-hearing.

1 MS. SPELLACY: Okay, thank you very much.

2 MR. CARPENTER: Marc Bernstein from the Office of  
3 the General Counsel.

4 MR. BERNSTEIN: Thank you. And I should note for  
5 the record I'm actually sitting in for my colleague Mary  
6 Jean Alves who happens to be in Geneva today attending some  
7 meetings of the World Trade Organization.

8 Let me start off with a question that's intended  
9 principally for the industry witnesses. In the 2003  
10 determination the Commission observed that U.S. apparent  
11 consumption of PVA declined from 2000 to 2002. Can the  
12 industry witnesses give me any general impression of what  
13 demand trends have been since 2002?

14 MR. NEUHEARDT: For the most part they've been  
15 flat. Even with economic recovery the textile business and  
16 other things have not significantly outweighed that. So we  
17 see things as for the most part flat since 2000, 2001.

18 MR. BERNSTEIN: If I may follow up on that, in the  
19 2003 determination the Commission also noticed that -- also  
20 noted that demand varied a good deal within specific  
21 sectors. It identified in that investigation the textile  
22 industry as a segment where demand, there had been a  
23 significant contraction in demand and contrasted that to PVB  
24 grade PVA where demands remain strong. Are there any, in  
25 the last couple of years any particular segments where

1 demand has been particularly strong or particularly weak  
2 given I understand your overall demand has been flat?

3 MR. NEUHEARDT: In the textile arena demand is  
4 still declining and still depressed. The adhesives market  
5 we see very little growth at all, as most of the adhesive  
6 manufacturers are not building or expanding in the United  
7 States. We do see PVB as one of the only growth areas  
8 that's out there. And the paper industry in the U.S. is  
9 flat as well.

10 MR. BERNSTEIN: Okay, thank you.

11 Does anyone on the panel have any observations on  
12 exactly when you believe the 2002 and 2003 investigations  
13 affected subject import volumes from China, Japan, Korea and  
14 Germany?

15 MR. KLETT: Mr. Bernstein, the graphics I put up  
16 clearly indicated what happened with imports from Taiwan.  
17 In terms of the effect and when the prior investigation  
18 affected imports from the other countries, based on my first  
19 slide I believe that there were declines after the DOC  
20 preliminary determinations.

21 But I will have to go back and look at the monthly  
22 or quarterly data for those countries specifically to tell  
23 you, you know, exactly when the decrease can be observed.

24 MR. BERNSTEIN: Okay.

25 MR. KLETT: I don't have that level of specificity

1 with me.

2 MR. BERNSTEIN: Obviously, Mr. Klett, you can give  
3 us a precise empirical explanation of that. I was wondering  
4 if either of the industry witnesses can give me their  
5 impressions of do you recall any particular time when you  
6 noticed in your daily business that perhaps imports from  
7 these countries were being less of a factor because of the  
8 investigation?

9 MR. NEUHEARDT: I mean we watch the import  
10 statistics on a monthly basis and watched them even closer  
11 during the period, and my recollection that we didn't see a  
12 major change until the middle part of the year. And  
13 ultimately what we ended up seeing was the imports and  
14 feeling the imports from the subject importers of that case  
15 going down and then the Taiwanese coming up immediately or  
16 at the same time as the others went down.

17 MR. BERNSTEIN: When you said the year you were  
18 referring to 2003?

19 MR. NEUHEARDT: 2003, correct.

20 MR. BERNSTEIN: Thank you. Let me ask, I'll turn  
21 to Mr. Klett's graph two. One thing I noticed on the graph  
22 is that for the first two quarters after the imposition of  
23 the antidumping duty orders the China/Korea unit value  
24 appears to still be lower than the Taiwan unit value. Could  
25 anyone provide an explanation for that? That seems a bit

1 counterintuitive that particularly immediately after the  
2 order that the unit value seems to have gone down.

3 MR. KLETT: I think you have to look at the unit  
4 values also in relation to the volumes. I mean the volumes  
5 from Korea and China went down significantly so it's a  
6 fairly thin volume of imports that these unit values are  
7 associated with.

8 There is potentially some product mix issues. I  
9 don't have a clear explanation of why they continued to be  
10 low, you know, just from looking at the import statistics.

11 MR. BERNSTEIN: Well, if you look at that further  
12 and you find you can develop an explanation in your post-  
13 conference submission that may be helpful to us.

14 MR. KLETT: I will do that.

15 MR. BERNSTEIN: Okay. Mr. Neuheardt, I have a few  
16 questions concerning your testimony. First let me make sure  
17 I understood the testimony correctly.

18 Celanese, you're saying that the sales that  
19 Celanese had lost were only to products that DuPont does not  
20 produce in the United States? Was that your testimony?

21 MR. NEUHEARDT: What I was referring to is the  
22 lost sales to both partially and fully hydrolyzed materials.  
23 And the sales that I referred to in the testimony were fully  
24 hydrolyzed products that were being imported from Taiwan  
25 that are of a certain viscosity that SDR either does not

1 make or chooses not to make.

2 MR. BERNSTEIN: Okay, thank you.

3 It would seem as if from your testimony that much  
4 of this adverse pricing impact seems to be in areas where  
5 you do not compete with DuPont's domestic production. I  
6 mean is that a correct summary?

7 MR. NEUHEARDT: We still compete with DuPont's  
8 domestic production. However, I referred specifically to  
9 the imported materials.

10 MR. BERNSTEIN: Well, are you having adverse price  
11 effects also in areas where you're competing with DuPont's  
12 domestic production as opposed to these products where  
13 DuPont does not domestically make a competing product?

14 MR. NEUHEARDT: We still see competition. We see  
15 a significantly increased amount of competition in the non-  
16 domestic produced areas.

17 MR. BERNSTEIN: Okay. Could you give me any, for  
18 the public session, any ballpark estimate of how much of  
19 your production is in areas where there is a competing  
20 DuPont domestically produced product as opposed to products  
21 where there is no DuPont competing DuPont product?

22 MR. NEUHEARDT: It's difficult to sort. I'd  
23 rather be accurate.

24 MR. BERNSTEIN: Okay, thank you. If you could  
25 address that in your post-conference submission then.

1           Okay, now let me turn to a few domestic industry  
2 issues. The petition at page 31 - 32 states the domestic  
3 industry should be defined to include only Celanese. The  
4 one reason provided in the opening statement for excluding  
5 Solutia is that it does not produce PVA for the merchant  
6 market. I would ask the attorneys, why is that a basis for  
7 exclusion?

8           MR. SAMOLIS: I would say it's a basis for  
9 exclusion because Solutia does not produce any PVA in the  
10 merchant market. It produces PVA in the sense that it is  
11 part of its overall production process for the production of  
12 PVB. But in the sense of it producing for, offering for  
13 sale PVA in the merchant market it doesn't exist.

14           MR. BERNSTEIN: Well, it's it -- one thing I would  
15 I guess address, request that you look at in a little more  
16 detail in your post-conference submission is that if we in  
17 fact apply the captive production provision as you request  
18 we are instructed under the statutes to focus on the  
19 merchant market but we still must consider total operations.  
20 And if you look at the 2003 opinions you'll see that's what  
21 we did.

22           The 2003 opinions at least when they are focusing  
23 on total operations had to focus on Solutia as well. And  
24 it's not entirely clear to me why this investigation should  
25 be any different in that respect. Do you have any comments?

1           MR. SAMOLIS: No, I think our position is that  
2 consistent with the prior Commission decisions we believe  
3 that Solutia should not be included as part of the domestic  
4 industry because of the fact that it doesn't sell to the  
5 merchant market. We will address that in detail in our  
6 post-conference submission.

7           MR. BERNSTEIN: Yeah, and you may want to look at  
8 little more carefully at the prior Commission determinations  
9 to sort of see to the extent it's possible from the public  
10 determinations how they treated Solutia.

11           The next couple of questions you're probably going  
12 to want to address in more detail in your post-conference  
13 brief. However, if you have some thoughts you can share  
14 with me and the adverse parties now I think I might  
15 appreciate that.

16           The Commission has occasionally expressed a  
17 concern to apply the related parties provision in such a  
18 manner that will not skew the data it uses or render the  
19 data it relies upon with respect to the domestic industry  
20 unrepresentative. Would a domestic PVA industry that  
21 excludes DuPont be a representative industry?

22           MR. SAMOLIS: I think what we can say is that  
23 because DuPont is the immediate beneficiary of what we would  
24 consider to be dumped imports from Taiwan they should not be  
25 included in part of the definition of the domestic industry.



1 We can address in our post-conference submission case law  
2 that supports that proposition. But I think given the  
3 factors that the Commission should consider in determining  
4 whether appropriate circumstances exist to exclude DuPont  
5 from the domestic industry in this case because of the  
6 position of DuPont we believe that there is certainly a  
7 compelling reason to exclude DuPont.

8 MR. BERNSTEIN: Okay. You might also want to in  
9 that discussion respond to the argument that if, as you say,  
10 DuPont purchases their imports from Taiwan, PVA it cannot  
11 produce itself, whether that may not be a bona fide business  
12 reason for importing goods and particularly when its  
13 alternative might be purchasing from its only -- from a  
14 central domestic competitor.

15 MR. SAMOLIS: Right. We will certainly address  
16 that question. But the fact is that DuPont has structured  
17 their business operations in such a way that their ability  
18 to source the full segment of operations of PVA products  
19 across the board is dependent upon imports of PVA to fulfill  
20 a certain segment of that product spectrum.

21 MR. BERNSTEIN: Okay. In the 2003  
22 investigations -- I'm turning to another subject now. This  
23 is a question that may be centrally to the industry  
24 witnesses. -- the Commission observed that the domestic  
25 industry's exporting activities had increased but it also

1 noted that average unit values for export sales had declined  
2 over that period of investigation. Can the industry  
3 witnesses, at least as far as Celanese is concerned,  
4 indicate what's happened to your export activities since  
5 then for PVA both in terms of volume and what the prices  
6 your receiving area?

7 MR. NEUHEARDT: I think we can address that in the  
8 post-hearing brief.

9 MR. BERNSTEIN: Okay, thank you.

10 Did I understand the testimony correctly that for  
11 Celanese you are, you yourself produce the VAM you use as an  
12 input for PVA?

13 MR. NEUHEARDT: That is correct.

14 MR. BERNSTEIN: Okay. As far as the other raw  
15 materials you use for PVA are those things that you also,  
16 Celanese itself also produces, are those things you acquire  
17 from other companies or other sources?

18 MR. MASSA: No, the other main input in cost is  
19 natural gas. And we purchase that just like everyone else.

20 MR. BERNSTEIN: Okay, thank you.

21 One -- couple final questions. A lot of your  
22 presentation this morning has been on the theory that  
23 subject imports have prevented Celanese from benefiting from  
24 the 2003 order. Part of the difficulty in this  
25 investigation is because of the prior investigations and the

1 existence of dumped imports in the markets from other  
2 sources. We don't have the type of baseline that we'd  
3 normally have in some investigations to examine the state of  
4 the industry.

5 This is for anyone on the panel. And, Mr. Klett,  
6 in particular you may want to address this. Is there any  
7 data you suggest the Commission reference to determine to  
8 what Celanese should have benefitted from the 2003 order?

9 MR. KLETT: Well, I'd just like to make a couple  
10 points in terms of the baseline. I think you probably have  
11 a better baseline here than in your normal investigations to  
12 the extent that you have the Commission having found in the  
13 prior investigations that based on import volumes at that  
14 time, based on pricing at that time, based on the condition  
15 of an industry at that time and the comparability of  
16 products that the industry was adversely affected by virtue  
17 of the subject imports.

18 So it seems to me that if since imposition of the  
19 orders that the condition of the industry has not improved  
20 and that import volumes from Taiwan were at or above what  
21 they were in that case, prices are below what they were in  
22 that case, imports from Taiwan are more comparable to U.S.  
23 PVA than subject imports at that time, that the Commission  
24 has to find adverse effect.

25 I think the point is that things should have

1 improved and they did not. What they should have improved  
2 to, I mean I maybe leave that to the Celanese business  
3 people in terms of what -- but I know Mr. Neuheardt  
4 testified that he reviewed projections during the last case  
5 and that there were expectations of improvement when the AD  
6 orders on the other countries were expected to be imposed.

7 MR. BERNSTEIN: The reason I ask this question is  
8 I believe the petition indicates at least for Celanese there  
9 were improvements in some areas, some relative improvements  
10 in financial performance and pricing, but the improvements  
11 were insufficient. And, obviously, don't want to go into  
12 details which would be BPI. This is I guess why I think  
13 there is a particular interest in what a sufficient  
14 improvement would be because I understand your point if  
15 there would be continued deterioration that would provide a  
16 very nice causal link. But if you have not deterioration  
17 but insufficient improvement it raises a question of what  
18 sufficient improvement should be?

19 MR. KLETT: Mr. Bernstein, I think that there has  
20 been continued deterioration in probably the single most  
21 important indicia, and that is operating profits. And that,  
22 you know, you can look at maybe some of the other indicia  
23 and maybe everything isn't down but that one is. And from a  
24 business perspective in terms of benefiting from the order I  
25 think that's where the primary focus should be.

1                   MR. BRUNO:  If I may add, Mr. Bernstein, on what  
2     Dan Klett just said, I mean our position is not that we  
3     should have improved and therefore we're trying to quantify  
4     the improvement that should have come to us as a result of  
5     the orders, what we are saying and what our case is is that  
6     things got worse since the orders have been in place and we  
7     can trace the reason why our situation has gotten worse to  
8     the Taiwanese imports.

9                   And so when you are looking at the baseline I  
10    think it's important to realize that the Commission has  
11    found injury in the last investigation.  So let's take the  
12    situation at that time and see if we've been above or below  
13    that line.  And our position is that we are way below that  
14    line, in other words things have gotten worse.  So we are  
15    not trying to quantify an improvement here but just saying  
16    we have not benefitted from the orders to the extent that  
17    things have gone down since the orders were in place and we  
18    trace the reason for that deterioration to the Taiwanese  
19    imports.

20                  MR. BERNSTEIN:  Okay.  Well, thank you, I  
21    appreciate that.  Because I think our concern as far as  
22    quantification then the fact that we would, to make an  
23    affirmative determination, need to trace the difficulties to  
24    the Taiwanese imports rather than to the imports that have  
25    been in the market generally.  And much of the data for this

1 period of investigation is going to indicate the impact of  
2 the imports generally. And to the extent you can think or  
3 suggest an analytical method that allows us to focus on the  
4 harm caused by the Taiwanese imports I think that would be  
5 helpful to us.

6 As a final matter I will ask counsel, Mr. Snyder  
7 made certain comments in his opening remarks concerning I  
8 guess propriety of Patton Boggs being in this proceeding and  
9 some disclosures, some of the information you disclosed in  
10 your petition. As far as I know there was nothing on the  
11 record submitted by DuPont concerning these things. But if  
12 you have any response at this point to what you have heard  
13 already I think it would be useful if you could put that on  
14 the record.

15 MR. SAMOLIS: Sure. We will certainly address  
16 that point in our post-conference submission. We agree with  
17 you that there was nothing specifically put on the record by  
18 DuPont. But in order to respond to those allegations we  
19 will certainly address that directly in our post-conference  
20 submission, some of which will be confidential.

21 MR. BERNSTEIN: Thank you.

22 MR. CARPENTER: Mr. Benedick from the Office of  
23 Economics.

24 MR. BENEDICK: Thank you. Before I start with my  
25 prepared questions I have a question for Mr. Klett and it's

1 on this graph that we have shown on the screen.

2 MR. KLETT: Yes.

3 MR. BENEDICK: You had commented in response to a  
4 question by Mr. Bernstein regarding the prices or the unit  
5 values I should say of the China/Korea product and how they  
6 actually seemed to go down after the order was put in place.  
7 And you commented that there might be some volume or product  
8 mix factors influencing that.

9 What about determining the price or the value of  
10 the product from Taiwan which from the looks like the fourth  
11 quarter of 2004 seems to have gone up consistently, to at  
12 least the third quarter of 2003 and may have held there at a  
13 little bit below the fourth quarter as volumes went up. And  
14 then it went down as, again, the volume increased. If you  
15 have anything to add regarding that trend and the volume and  
16 product mix that would be helpful?

17 MR. KLETT: I will. I will do so. I mean as you  
18 can tell from our petition there had been some  
19 inconsistencies between the import AUVs and the export AUVs  
20 from Taiwan, export statistics. There were some anomalous  
21 things going on with the AUVs for Taiwan in some months.  
22 But I think what is pretty clear when you, when you kind of  
23 back out some of the month to month or quarter to quarter  
24 jumps up and down that for both imports from Taiwan and  
25 imports from the other countries that since early 2001 there

1 have been fairly significant declines, you know,  
2 notwithstanding some month to month or quarter to quarter  
3 variations.

4 But I will try to address that in the post-  
5 hearing, post-conference brief in more detail.

6 MR. BENEDICK: Let me ask you, and not to put too  
7 much weight on the AUVs, the Commission is concerned with  
8 injury in the U.S. market. Is the concern what the AUVs are  
9 or what the selling price is in the U.S. market for these  
10 products?

11 MR. KLETT: I think it's the, typically it's the  
12 selling price. But a lot depends on the level of trade at  
13 which imports compete with the domestic producer. In other  
14 words, if the customer is a user and also an importer then  
15 you would be looking at the import price to that customer.

16 If the importer is a distributor that competes  
17 with the U.S. producer then you would be looking at the  
18 resale price.

19 So it's my understanding that with respect to  
20 DuPont that they are the importer and you'd be looking at  
21 their sales price in competition with Celanese after they  
22 import the product. So these AUVs up here are not at that  
23 level of distribution but I think that they -- I would  
24 expect that DuPont's resales into the U.S. market would at  
25 least in part be affected by what it is paying for imports



1 from Taiwan. So that I think this gives at least a good  
2 reflection with respect to trends.

3 MR. BENEDICK: Well, I'm sure if they could they  
4 would like to increase their profits and not leave money on  
5 the table.

6 What about any other major importers that you know  
7 of, would they fall in the category of DuPont or end users  
8 that import directly? And you don't have to name any  
9 specific companies.

10 MR. KLETT: I don't think we want to name that  
11 right now. But we can address --

12 MR. BENEDICK: I'm not asking for specific names,  
13 I'm asking in general is the importers of the Taiwanese PVA  
14 are they generally distributors that sell or is the majority  
15 end users that import directly?

16 MR. MASSA: Yes, our understanding is it's  
17 distributors.

18 MR. BENEDICK: Okay. So the use of unit value is  
19 really not a direct indicator or indicia of injury in the  
20 domestic industry in this case?

21 MR. KLETT: I'm not quite sure I agree, Mr.  
22 Benedick. I mean I think it is useful with respect to  
23 trends. And I understand your point that, you know, if  
24 DuPont and other distributors or distributors -- and let's  
25 take 2001 as a baseline, if they continue to price at let's

1 say 85 cents to 95 cents in 2001 and they did not drop their  
2 prices and basically took enormous profits going forward  
3 then I agree with you. But I'm not sure that factually that  
4 is what has been happening.

5 MR. BENEDICK: Well, clearly we'll find that true,  
6 the selling price data.

7 MR. KLETT: That's correct. I agree, the selling  
8 price that you ultimately will have to focus on.

9 MR. BENEDICK: Okay, thank you.

10 And then to my prepared questions. I'd like to  
11 start on the demand side first, and this would be directed  
12 to Mr. Klett.

13 Could you characterize total U.S. demand for PVA  
14 as price elastic, inelastic or unitary?

15 MR. KLETT: I would characterize total demand as  
16 relatively price inelastic. And the primary reason for that  
17 is that I believe there are few non-PVA substitutes.

18 You know, we discussed this a little bit yesterday  
19 before the hearing and there are other products that might  
20 substitute at the margin but by and large PVA had  
21 characteristics that other projects such as other starches  
22 or CMC or whatever don't have the same attributes.

23 MR. BENEDICK: Would you in your post-conference  
24 brief identify those demand sectors in the U.S. for PVA  
25 where the non-PVA substitutes may play a role and those that

1 just don't play a role at all? I guess we could look at the  
2 demand sectors as the ones you've identified in the  
3 questionnaire. That would be helpful.

4 MR. KLETT: We will do so.

5 MR. BENEDICK: Thank you.

6 Again Mr. Klett, and then I'd like to direct that  
7 to Mr. Neuheardt and Mr. Massa as appropriate. Mr. Klett,  
8 could you please explain substitutability in use between  
9 fully and partially hydrolyzed PVA, including the discussion  
10 what effect one or two hydrolysis percentage points have on  
11 the characteristics of PVA? And does the sensitivity differ  
12 by end use?

13 MR. KLETT: I will address it generally and then  
14 let the people that really know what they're talking about  
15 speak.

16 It's my understanding that fully and partially  
17 hydrolyzed do have different characteristics that make one  
18 optimal for certain applications and the other optimal for  
19 other applications. And for that reason there's little, at  
20 least from a technical perspective substitutability in terms  
21 of use. But I will defer to Mr. Neuheardt on that.

22 MR. NEUHEARDT: Yes, I think Mr. Klett outlined it  
23 fairly well, that there are specific applications that one  
24 would use fully hydrolyzed for versus partially, depending  
25 on what they were trying to do in a certain application.

1           Your question about one or two degrees worth of  
2 change within a product, in some applications it doesn't  
3 mean a significant amount, in others if they have a very  
4 specific formulation to accomplish a specific goal then it  
5 may mean more. But most of the formulations have enough  
6 play in there to adjust for minor changes within a range.

7           MR. BENEDICK: So one or two percentage points in  
8 many uses you could use the lower or the higher --

9           MR. NEUHEARDT: Yes.

10          MR. BENEDICK: -- if you're an end user?

11          That's good. Thank you very much.

12          Speaking to Mr. Klett, is U.S. demand for PVA  
13 affected by overall U.S. economic activity as well as by  
14 demand in specific sectors? And what is the impact of the  
15 2001 recession and the slow recovery in 2002 on demand for  
16 PVA. And if you want to comment in the post-conference  
17 brief, that would be fine.

18          MR. KLETT: Yes. We'll address that in the post-  
19 conference. It's my understanding that general economic  
20 conditions do have an effect, as well as sector-specific  
21 factors.

22          MR. BENEDICK: Okay. Thank you.

23          Mr. Neuhardt, does U.S. PVA demand in the  
24 principal end use sectors move together or not?

25          MR. NEUHEARDT: Are you referring to different

1 segments growing at different rates?

2 MR. BENEDICK: Yes.

3 MR. NEUHEARDT: Yes. There are variations within  
4 the growth rates of different market segments. However,  
5 unfortunately, in the PVA business, all of them are not  
6 doing well. PVB seems to be the only market that we see, at  
7 least in the U.S., that is growing.

8 MR. BENEDICK: Okay. To what extent are prices  
9 for PVA in one end use sector affected by prices in another  
10 end use sector, or are they?

11 MR. NEUHEARDT: They are isolated in a lot of  
12 cases. There are various prices -- there used to be a range  
13 that was significantly greater, even two years ago, when I  
14 first started in this business, that range prices are  
15 starting to go to the least common denominator, but there  
16 still are differences by segment --

17 MR. BENEDICK: Okay.

18 MR. NEUHEARDT: -- and by application.

19 MR. BENEDICK: Let's see. I have to skip this one  
20 because I think it was addressed mostly by my colleagues  
21 earlier.

22 Mr. Neuhardt, could you explain the nature of  
23 increased U.S. demand for PVH-produced PVB either increase  
24 in end use products using the PVB, substitution of PVA for  
25 some other input to produce PVB, or some other reason?

1           MR. NEUHEARDT:  You're referring to the growth of  
2 the PVB --

3           MR. BENEDICK:  Correct.

4           MR. NEUHEARDT:  -- segment.  From what I  
5 understand, the big drivers of that are the architectural  
6 community and the desire for safer glass in the community  
7 for hurricane resistance and tornado resistance and even  
8 some of the bomb blast opportunities that are out there, and  
9 also in automotive, where some of the newer cars or more  
10 expensive cars have now put PVB inside in rear windows  
11 rather than just having it in the windshield, and that used  
12 to be a very high-end feature for high-end automobiles, and  
13 some of the mid-to-upper-tier models are starting to have  
14 that as a standard option as well.

15           MR. BENEDICK:  Okay.  So it's just an increase in  
16 demand for PVB where PVA is an input.

17           MR. NEUHEARDT:  Yes.

18           MR. BENEDICK:  Okay.  Thank you.

19           I would like to switch to some supply questions  
20 now, and, again, Mr. Neuheardt, is natural gas the major  
21 feedstock to produce VAM?

22           MR. NEUHEARDT:  I'll have to defer that question.  
23 We can answer in the post-hearing brief, just to make sure I  
24 say it accurately unless Mr. Massa wants --

25           MR. BENEDICK:  Mr. Massa?

1           MR. MASSA: We'll address it in the post-hearing  
2 brief.

3           MR. BENEDICK: Okay.

4           MR. NEUHEARDT: I'm not as familiar with that part  
5 of the business, unfortunately.

6           MR. MASSA: It happens to be a sister company, but  
7 that's about as far as it goes.

8           MR. BENEDICK: Okay. Well, let me follow up with  
9 that, and then if you could address that in the post-  
10 conference brief, that would be helpful. I'm also  
11 interested to know, do you purchase natural gas or a  
12 derivative of natural gas to produce the VAM? Is natural  
13 gas also purchased by your firm as a fuel in the production  
14 process of PVA, and how important is the price of natural  
15 gas vis-a-vis your total cost to produce PVA?

16           MR. MASSA: I think the answers are yes, yes, and  
17 extremely important, but we can address it in the post  
18 brief.

19           MR. BENEDICK: Okay. Could you supply in the  
20 post-conference brief, then, the share of your total  
21 production costs of PVA accounted for by the cost of natural  
22 gas --

23           MR. MASSA: Surely.

24           MR. BENEDICK: -- during the period of  
25 investigation, or if that's too difficult, for 2003?

1 MR. MASSA: Okay.

2 MR. BENEDICK: Okay. Again, I would like you to  
3 address, Mr. Neuheardt, Mr. Massa, in your post-conference  
4 brief, what is the minimum capacity utilization level that  
5 your firm requires in a 12-month period to achieve  
6 acceptable economies-of-scale benefits in producing PVA?

7 MR. MASSA: We'll address it in the post-  
8 conference brief.

9 MR. BENEDICK: Okay. If it's hard to say in  
10 general, and it's year specific, could you answer that for  
11 2003, then?

12 MR. MASSA: Okay.

13 MR. BENEDICK: Okay. My final question, again for  
14 both gentlemen, and you can do this in a post-conference  
15 brief: To what extent do your selling prices of PVA differ  
16 by type of packaging, 50-pound bags, supersacks, which I  
17 understand are 2,000 pounds; bulk, or some other type of  
18 packaging, and if they are significant, please report in  
19 your post-conference briefs your shipment quantity of PVA by  
20 each of these packaging types? As an example of what  
21 significant would be for a shipment of, let's say, 200,000  
22 pounds, what would be the price by each type of packaging?

23 MR. MASSA: We will address it.

24 MR. BENEDICK: Okay. That's all the questions I  
25 have. Thank you.



1           MR. CARPENTER: Ms. Pedersen, the Commission's  
2 auditor.

3           MS. PEDERSEN: I would like to thank this panel  
4 for their testimony. I just have a few questions. Can you  
5 hear me?

6           My first question deals with -- you mentioned that  
7 you produce VAM, Mr. Massa. Is all of the VAM that's  
8 produced internally within Celanese used in the production  
9 of PVA, or do you also purchase VAM in the open market, and  
10 if that's BPI, just let me know, and you can answer post-  
11 conference.

12          MR. MASSA: We'll address it. It's confidential.

13          MS. PEDERSEN: Okay. Next question, as well, if  
14 you want to answer in a post-conference brief. It sounds  
15 like throughout this period of investigation all of the  
16 pricing that we will see is at suppressed prices due to the  
17 prior investigation and the current investigation. I'm just  
18 curious if you can tell us what range of prices would be  
19 considered appropriate in normal market conditions.

20          MR. MASSA: Sure. It's confidential, but we will  
21 address it.

22          MS. PEDERSEN: Right. Okay. Thank you very much.

23

24           And one last question. I'll address this to Mr.  
25 Klett. As you may be aware, the Commission has been

1 requesting information on current and noncurrent assets in  
2 an attempt to calculate a return on investment in relatively  
3 recent investigations, and in this case, it was in the  
4 producers' questionnaire, Table 3-8. We are defining RLI as  
5 operating income divided by total assets. There are various  
6 ways it can be defined, but that's how we've chosen, and  
7 we're interested in hearing from both parties actually in  
8 post-conference briefs regarding the effectiveness of this  
9 approach and whether or not you have any suggestions for  
10 other ways of calculating RLI or fine tuning our approach in  
11 such a way that the producers can reasonably give us that  
12 information.

13 MR. KLETT: We will address that.

14 MS. PEDERSEN: Thank you. I have no other  
15 questions.

16 MR. CARPENTER: Mr. Johnson, the industry analyst.

17 MR. JOHNSON: Larry Johnson. I have just one  
18 question. In response to Mr. Bernstein's question regarding  
19 the exclusion of Solutia, I seemed to hear someone say that  
20 they produce PVA in the production process of producing PVB.  
21 Are you contending that that is a continuous process, or do  
22 they isolate the PVA such that they could sell it?

23 MR. SAMOLIS: It's a continuous process. There is  
24 a point in the production process of PVB where PVA is  
25 produced, but for purposes of Solutia, there is no marketing

1 of PVA, per se, in the merchant market, and for that reason,  
2 --

3 MR. JOHNSON: So they do not isolate --

4 MR. MASSA: It's not isolated. That's exactly  
5 what I was going to say. It's not isolated separately.

6 MR. JOHNSON: That's all I have.

7 MR. CARPENTER: Mr. Deyman, the supervisory  
8 investigator.

9 MR. DEYMAN: I'm George Deyman, Office of  
10 Investigations. The public version of the petition, on  
11 pages 27, 37, and Exhibit 3-4, indicates concern about the  
12 accuracy of the value data and the official import  
13 statistics. Could you explain your basis for this concern?

14 MR. KLETT: We compared the AUVs in the import  
15 data and the average unit values in the Taiwanese export  
16 data, and although the volumes were pretty close, generally  
17 the FOB data from the U.S. Census import statistics were --  
18 I think it was roughly four or five cents a pound higher  
19 than the average unit value from the Taiwanese export  
20 statistics. The genesis of this concern -- you referred to  
21 Volume 3 -- had more to do with the Department of Commerce  
22 which data were more accurate for purposes of the U.S. price  
23 for the dumping determination.

24 And given that U.S. Census, on an FOB foreign-port  
25 basis, and Taiwanese export data, on an FOB foreign-port

1 basis, you would expect to see the AUVs to be roughly  
2 comparable, and we saw the export AUVs from the Taiwan  
3 statistics were, almost across the board, lower. That was  
4 the reason for the concern. The trends were fairly  
5 comparable, but at any point in time in any month, the  
6 Taiwanese export statistics AUVs were, by and large, lower  
7 than the U.S. AUVs.

8 MR. DEYMAN: Is there a concern about the data  
9 limited to the data for Taiwan, or do you feel that other  
10 countries --

11 MR. KLETT: Well, we only looked at Taiwan, and I  
12 want to emphasize that the data -- we have no concerns with  
13 the volume data as reflected in the U.S. import statistics.  
14 Our concern really had to do with the FOB value reported by  
15 U.S. Census versus the FOB value reported by Taiwan census.

16 MR. DEYMAN: I only bring this up because, of  
17 course, in the staff report we will have to report the  
18 import unit value, so if you have any suggestions of any  
19 alternative measures, you can mention them now or in your  
20 post-conference brief of what basis we should use for the  
21 value data, perhaps questionnaires or some other indicator.

22 MR. KLETT: We will look at that, Mr. Deyman.

23 MR. DEYMAN: I have no further questions. Thank  
24 you.

25 MR. CARPENTER: I have just one or two follow-up

1 questions that relate to the scope of the investigation and  
2 the description of the merchandise that you've included in  
3 the petition, mainly involving the terms "partially  
4 hydrolyzed" and "fully hydrolyzed." As I understand it, the  
5 scope includes any PVA that's in excess of 80 percent  
6 hydrolyzed. But then you break that down into different  
7 categories of super, which is 99 percent and above  
8 hydrolyzed; fully, 98 to 99 percent; intermediate, 90 to 98;  
9 and partially, 80 to 89.

10           And in a footnote, you make the statement that  
11 essentially there is a continuum here, and there is very  
12 little difference, at least in the margins there. What I'm  
13 trying to get at is, and it's been touched on already  
14 briefly, I think, about how this translates into different  
15 uses, and I think, Mr. Neuheardt, you indicated that there  
16 are certain uses that fully hydrolyzed is preferred over  
17 partially and vice versa.

18           I would like to get into -- if this gets into BPI,  
19 stop me, but I'm trying to find out, for Celanese, for the  
20 product that at least you sell into the U.S. market, how  
21 much would fall under these different categories, not exact  
22 numbers. For example, do you produce just partially  
23 hydrolyzed? Do you also produce fully hydrolyzed? If we  
24 could start with that.

25           MR. NEUHEARDT: We produce the full range, from

1 partially on up to super hydrolyzed, so we do have  
2 intermediate grades; we have partially intermediate, fully,  
3 and super.

4 MR. CARPENTER: Okay. Now, in terms of your  
5 competition, both DuPont and the Taiwan manufacturer, as far  
6 as what they are selling into the U.S. market, is it your  
7 understanding that they sell these various different forms  
8 as well into the U.S. market?

9 MR. NEUHEARDT: Yes.

10 MR. CARPENTER: So you don't necessarily see any  
11 market segmentation here where one supplier -- I should  
12 raise that as a question. Do you see any kind of market  
13 segmentation where one particular supplier focuses mainly on  
14 one type of product, whereas another supplier focuses more  
15 on another type of product?

16 MR. NEUHEARDT: We have not seen that.

17 MR. CARPENTER: Okay. Thank you very much.

18 Do my colleagues have any additional questions?  
19 Mr. Benedick?

20 MR. BENEDICK: I have one follow-up for Mr.  
21 Neuheardt and Mr. Massa, and, again, I suppose this has to  
22 do with natural gas, and just append it to the questions on  
23 natural gas that you'll respond to in the post-conference  
24 brief.

25 I'm looking at the Energy Information

1 Administration's United States natural gas industrial price.  
2 They report it monthly. Would the trend in those prices be  
3 indicative of the trend in price of natural gas that you've  
4 had to pay for over the period of investigation?

5 MR. MASSA: We'll address it.

6 MR. BENEDICK: Okay. Thank you.

7 MR. CARPENTER: Thank you once again for your  
8 presentation and your responses to our questions. We  
9 appreciate that.

10 At this point, we'll take about a ten-minute  
11 recess and resume at approximately 11:15 with the  
12 Respondents' presentation. Thank you.

13 (Whereupon, at 11:02 a.m., a brief recess was  
14 taken.)

15 MR. CARPENTER: Could everyone take a seat,  
16 please, and we'll resume the conference?

17 (Pause.)

18 MR. CARPENTER: Welcome, and please begin whenever  
19 you're ready.

20 MR. CAMPBELL: Good morning. Again, I'm Jay  
21 Campbell of White & Case here on behalf of Chang Chun  
22 PetroChemical. Richard Chen is the general manager of  
23 overseas marketing for Chang Chun, and he will begin our  
24 presentation by providing you with an overview of Chun  
25 Chemical's PVA business and the role it plays in the U.S.

1 market.

2 MR. CHEN: Good morning. My name is Richard Chen,  
3 and I am the general manager of overseas marketing at the  
4 Chang Chun PetroChemical Company, Ltd. I would like to  
5 thank the Commission for this opportunity to acquaint you  
6 with Chang Chun and our proud history in the PVA business.  
7 We also appreciate this opportunity to cooperate fully in  
8 these proceedings. We trust that after the Commission  
9 completes its investigation, it will make a negative injury  
10 determination.

11 To begin with, I would like to introduce our  
12 company. Chang Chun was first established back in the late  
13 1940's as an industrial chemical company. We began to  
14 develop our PVA business in 1974. I remember those days  
15 because I have been an employee of Chang Chun for over 30  
16 years. All along, our core philosophy has been to supply  
17 the best range and quantity of products possible in order to  
18 meet our customers' needs. For this reason, we have  
19 developed the capability to produce a full range of PVA  
20 products, operating 10 production lines that can produce a  
21 wide variety of PVA grades.

22 Guided by this principle, Chang Chun has earned a  
23 solid reputation in Asia, Europe, and the United States. Of  
24 course, I understand that in this investigation, Chang  
25 Chun's role in the U.S. market is most at issue. I believe



1 that Chang Chun has only had a positive impact on the U.S.  
2 market.

3 Chang Chun has supplied PVA to the United States  
4 since 1977, and we have strived to be a responsible player  
5 in the market. Our supply of PVA to one of our U.S.  
6 customers, DuPont provides a good example of the positive  
7 impact Chang Chun has on the U.S. market. As the Commission  
8 is aware, DuPont is the U.S. producer of PVA, but its plant  
9 can only produce fully hydrolyzed PVA. Therefore, over the  
10 years, Chang Chun has supplied DuPont with partially  
11 hydrolyzed PVA. By complementing DuPont's product line,  
12 Chang Chun has provided a major service to the U.S.  
13 customers.

14 Increasingly, U.S. customers for all major  
15 applications require suppliers that can provide the full  
16 range of PVA grades. At the same time, these customers do  
17 not want to be forced to rely on a single source for their  
18 PVA needs. This is understandable because they need to  
19 protect themselves from disruptions in supply. Therefore,  
20 it has become commonplace in the industry to have at least  
21 two approved suppliers.

22 By filling out DuPont's product line, Chang Chun  
23 is able to provide U.S. customers with an additional source  
24 of the full range of PVA. This is important because  
25 Celanese is the only other U.S. producer that can supply the

1 full range of PVA.

2 In addition to DuPont, we supply PVA to U.S.  
3 distributors, such as Perry Chemicals.

4 I will now address Chang Chun's experience in the  
5 U.S. market during the period of this investigation, the  
6 years 2001 through early 2004. In 2001, the U.S. economy  
7 entered a downturn, and the demand for PVA declined as a  
8 result. Consistent with the decline in demand, Chang Chun's  
9 shipments to the United States decreased significantly in  
10 2001. This trend continued during 2002, and our shipments  
11 to the United States decreased further.

12 In 2003, the picture changed for two main reasons.  
13 First, the United States imposed antidumping orders on PVA  
14 from China, Japan, and Korea, which reduced the flow of PVA  
15 imports from these countries somewhat. As a result, U.S.  
16 customers turned more to Chang Chun, particularly for  
17 partially hydrolyzed PVA. I believe that the main reason  
18 U.S. customers turned to Chang Chun was to give them a  
19 secondary source of partially hydrolyzed PVA in addition to  
20 Celanese. Second, the U.S. economy began to improve, and  
21 this revived demand of PVA.

22 Regarding price, I am note that Chang Chun is in  
23 the PVA business to make money, and we strive to increase  
24 our prices wherever possible to maximize the profits,  
25 including in the United States market. From year 2001 to

1 early 2004, however, we were not able to increase our prices  
2 on U.S. shipments because of the aggressive strategy of  
3 other PVA suppliers, as well as other market conditions  
4 beyond our control.

5 First, during 2001 and 2002, the world economy was  
6 in a downturn, and the users of PVA demanded lower volumes  
7 as a result. The weakened demand had a negative impact on  
8 our prices. In addition, the 1996 antidumping orders on PVA  
9 from China, Japan, and Taiwan were revoked in the spring of  
10 2001. After the orders were revoked, China, Japan, and  
11 Korea began to lead prices downward, and we were forced to  
12 follow the price decreases in order to stay afloat in the  
13 U.S. market. These general trends continued in the U.S. PVA  
14 market through 2002, and we continued to adjust our prices  
15 as market forces required.

16 Our prices on U.S. shipments remained steady  
17 during 2003 and the first half of 2004, yet during this  
18 time, various forces were at play that should have allowed  
19 us to increase our prices. The world economy had improved,  
20 the raw material costs for PVA had increased, and the United  
21 States issued dumping orders on PVA from China, Japan, and  
22 Korea.

23 In light of this event, we wanted to increase our  
24 prices on all PVA shipments to America, but our U.S.  
25 distributors, such as Perry Chemicals and DuPont, informed

1 us that Celanese was keeping its price low in order to sell  
2 greater volumes. As a result, our U.S. distributors could  
3 not accept price increases from us. Thus, because of the  
4 aggressive strategy of Celanese, Chang Chun was not able to  
5 increase its price during the year 2003 and early 2004.

6 I understand that Celanese is the only U.S.  
7 producer that is complaining about Taiwanese imports. From  
8 my perspective, if Celanese performed poorly over the period  
9 of investigation, it is largely because of -- bet business  
10 decision and not because of the Chinese imports of the PVA.  
11 First, it should be noted that Celanese is a relatively new  
12 player in the PVA market. Celanese acquired the PVA  
13 business of Air Products in the year 2000. As a new player,  
14 Celanese had to behave aggressively, particularly in Asia  
15 where we have more direct contact with the end users of our  
16 products. In China, for example, Celanese has priced  
17 extremely low.

18 Celanese also acts as if it doesn't truly  
19 understand the PVA market. Unlike Chang Chun, Celanese  
20 appears to treat PVA as a commodity product. Celanese  
21 doesn't take the time to learn the customer's needs and  
22 doesn't show loyalty to the customer.

23 Second, we believe that Celanese may have paid too  
24 much for Air Products' PVA business. Air Products'  
25 facilities are old and inefficient. We believe Celanese

1 must be saddled with heavy depreciation costs as a result.

2           Finally, I would like to briefly comment on where  
3 we at Chang Chun think that the growing PVA market is headed  
4 and how we see our PVA business developing going forward.  
5 We see two major forces driving the PVA market. First, the  
6 business is becoming increasingly globalized. As more and  
7 more customers have become multinational in scope, they have  
8 become more savvy about the prices and insist that their PVA  
9 prices are equal across all regions of the world. This  
10 pressure from global customers has caused prices for PVA to  
11 converge.

12           Second, while we believe that worldwide demand for  
13 PVA is steadily growing at a rate of 2 percent per year, the  
14 Asian market for PVA is growing much faster, at a rate  
15 between 5 to 8 percent. For this reason, we believe that  
16 the Asian market, which is already Chang Chun's primary  
17 market, will become even more important to our company. In  
18 light of the current and future global demand trends, we  
19 expect to continue to produce PVA at the levels that our  
20 capacity reasonably allows.

21           Thank you for your time and patience. I hope that  
22 I have left you with a better understanding of Chang Chun  
23 and the positive role we play in the PVA market. Thank you.

24           MR. CAMPBELL: Thank you, Mr. Chen. I turn it  
25 over to Jeff Snyder.

1           MR. SNYDER: Thank you. Again, my name is Jeff  
2 Snyder. I'm here from the law firm of Crowell & Moring,  
3 along with my colleague, Matthew Jaffe. We are here in  
4 opposition to the petition, and we want to express our  
5 support for the views of CCPC. But before we begin, I do  
6 have to provide a little bit more information -- let me  
7 explain -- on some of the issues that I raised this morning.

8           One of the reasons there is nothing in the record  
9 on this issue yet with respect to Patton Boggs is that  
10 Patton Boggs had promised DuPont that it would withdraw from  
11 the case. We were not expecting to see them here today.  
12 The fact that they are here forced me to have to raise this  
13 issue and place it on the record.

14           Accordingly, now we must address it, and we will  
15 provide more information in our post-conference statement.  
16 We have raised this issue with the Department of Commerce,  
17 and we have worked with Patton Boggs to have it fulfill its  
18 commitment to DuPont.

19           In addition, I also have to note that this may be  
20 one of the first cases in which the ITC must deal with  
21 attorney-client privileged information. The petition uses  
22 it. I must also express DuPont's objection to this  
23 unfortunate new tactic in ITC proceedings. It's unfortunate  
24 because it's unnecessary. It's unfortunate that Celanese  
25 and its law firm, both of whom have obligations to DuPont,

1       resorted to this tactic. Nonetheless, we have confidence  
2       that the Commission is prepared to focus on the real issues  
3       in this case.

4               I regret having to address those issues. I would  
5       rather focus on what the case is about. To help you do  
6       that, I would like to introduce Kathy McCord, who is the  
7       global business director for intermediates for DuPont's  
8       packaging and industrial polymers business.

9               MS. McCORD: Hello. My name is Kathy McCord, and  
10       I am the global business director for intermediates for  
11       DuPont's packaging and industrial polymers business. I've  
12       been managing DuPont's PVA business for almost eight years  
13       now, about a third of my entire career with DuPont, so I've  
14       basically grown up with the business, and the health and the  
15       success of this business are extremely important to me.

16              Let me begin, of course, by thanking you and the  
17       staff of the Commission for the opportunity to share our  
18       views about the U.S. PVA industry and the antidumping  
19       petition at hand.

20              I was last here in May of 2003, when I actually  
21       sat across the aisle, so to speak, with my counterparts at  
22       Celanese. We were here on behalf of the domestic PVA  
23       industry, asking the Commission for relief from PVA imports  
24       from China, Korea, and Germany that were unfairly traded and  
25       causing us serious injury.

1           During that proceeding, we were asked about  
2 imports from Taiwan and why they hadn't been included in our  
3 petition. The answer was simple: There was no evidence  
4 that Taiwanese imports were dumped, and there was no  
5 evidence that they were causing, or threatening to cause,  
6 injury to our industry. That was true then, and it's  
7 absolutely true now.

8           Taiwanese PVA plays a healthy and absolutely vital  
9 role in the U.S. market, complementing domestically  
10 manufactured PVA and providing the U.S. customer with a  
11 critically important, second source of a complete range of  
12 material. We have been sourcing product from CCPC for over  
13 20 years. In recent years, U.S. customers' needs for a  
14 second full-service source have grown, and Celanese's  
15 actions in the market have accelerated this trend.

16           I believe that this proceeding has relatively  
17 little to do with imports at low prices. Instead, it's a  
18 part of an ongoing attempt by Celanese to restrict  
19 competition in the U.S. PVA market. In addition, any injury  
20 that Celanese claims to suffer is a result of its own poor  
21 business judgment. I will provide examples to further  
22 clarify those statements.

23           Since the close of the earlier dumping case in  
24 September 2003, Celanese has engaged in four different  
25 tactics in the U.S. PVA marketplace.



1           First, they shifted policy from maintaining prices  
2 to cutting prices in an attempt to grow their U.S. market  
3 share.

4           Second, they have offered low prices to customers  
5 but only on the condition that the customer buy all of their  
6 PVA requirements from Celanese, and this has alienated a  
7 number of very important customers from them.

8           Third, they have signed long-term contracts with  
9 customers at very low prices that have locked Celanese in at  
10 a fixed price despite rising energy and raw material prices,  
11 causing the classic cost-price squeeze. This practice also  
12 establishes a floor price for the market, and it makes it  
13 harder for us, for DuPont, to raise prices.

14           Four, they have failed to initiate and implement  
15 price increases in the U.S. market, keeping prices low and  
16 effectively preventing competitors like DuPont from raising  
17 prices.

18           These actions have brought Celanese to the place  
19 they are now. These tactics haven't worked for them, and  
20 now they are trying to blame CCPC imports for their own  
21 business failure. Let me provide some background and  
22 discussion on these tactics.

23           First, you've heard about PVA. It's basically  
24 classified by hydrolysis level, with two main types. There  
25 is fully hydrolyzed and partially hydrolyzed. Our DuPont

1 facility, which is located in LaPorte, Texas, can only  
2 manufacture fully hydrolyzed PVA. That's how we differ from  
3 Celanese, in that we cannot produce the partially hydrolyzed  
4 material. Celanese produces both of these types of PVA.

5           However, our customers often ask for a full range  
6 of PVA products for their various needs and applications,  
7 and to provide them that full range, DuPont has  
8 traditionally looked to outside sources, including Celanese  
9 and CCPC, for the grades we can't produce. CCPC is hardly a  
10 new market entrant here. To the contrary, their product has  
11 been marketed in the U.S. for nearly 30 years, and DuPont  
12 has been buying material from CCPC, as I mentioned, for  
13 about 20 years.

14           Now, let me turn to a discussion of the market.  
15 In fact, the market is being driven by several factors.

16           First, two of the largest historical users of PVA,  
17 the U.S. textile market and the paper industries, have  
18 declined more rapidly than most had anticipated.

19           Second, our customers have accelerated the larger  
20 industrial trend of seeking and maintaining multiple sources  
21 of all of their key raw materials, such as PVA. By and  
22 large, this trend in PVA is not price driven. Rather, it's  
23 driven by the need to ensure a reliable supply stream in an  
24 era of supply crunches and just-in-time delivery.

25           Third, raw material and energy costs used in the

1 production of PVA have increased substantially more than  
2 forecast.

3 DuPont's response to these significant changes has  
4 been to adapt and to deal with this changing market.

5 First, we cut our costs. We cut our costs at our  
6 manufacturing operation and our commercial operation, and we  
7 continue to drive our costs down and continue to increase  
8 the energy efficiency of our plants.

9 Second, we have announced and implemented PVA  
10 price increases.

11 Third, we've worked to identify customers that  
12 require full service and a full product line, including  
13 customers in growing end use markets, such as PVA films, and  
14 we've focused on specific new product development there.

15 And, finally, we have made a conscious decision to  
16 maintain our management continuity of our PVA business  
17 during these very difficult market conditions and have made  
18 very few changes to our leadership in the last three years.

19 Faced with the same market challenges, Celanese  
20 has responded rather differently, with the four tactics I  
21 described earlier.

22 First, commencing in late 2002, Celanese altered  
23 its strategy to one of gaining volume share by aggressively  
24 cutting prices in most PVA market segments, and this tactic  
25 was not limited to those accounts just purchasing imported

1 PVA. We have documented evidence, which will be included in  
2 our post-hearing submission, of Celanese's leading prices  
3 downward. We also have direct and indirect knowledge that  
4 Celanese has sold so-called "second-quality PVA" at very low  
5 prices in an attempt to gain spot business.

6 We were concerned over these low prices. We got  
7 samples of the material, we analyzed it, and it certainly  
8 looked like first-quality material to us, as it did to our  
9 customers, which further supports our belief that this is a  
10 concerted effort by Celanese to gain spot sales by selling  
11 first-quality material at second-quality prices.

12 Second, we have documented incidences where  
13 Celanese has failed to implement announced price increases  
14 on numerous occasions, as a matter of fact, as recently as  
15 this month. Meanwhile, DuPont, and we're clearly not the  
16 market leader in the U.S., has initiated two of the last  
17 three price increases since the beginning of 2003. That is  
18 quite unusual.

19 Third, in the last two years, Celanese has a whole  
20 new leadership team running their business, a leadership  
21 team with very limited knowledge and experience in the PVA  
22 business, its applications, and its customers.

23 Lastly, we, too, have had experience with  
24 Celanese's negotiating tactics. As I mentioned earlier,  
25 many U.S. corporations have made the strategic decision to

1 have a second supplier of major raw materials, and DuPont is  
2 not exception to that. Beginning over a year ago, we  
3 entered into negotiations with Celanese to purchase PVA that  
4 we can't make at LaPorte. The negotiations dragged on,  
5 principally because Celanese wanted to restrict our  
6 purchases from CCPC. As a matter of fact, their first  
7 several proposals to us involved their being our exclusive,  
8 or nearly exclusive, supplier.

9 We refused to do that for a couple of reasons.  
10 First, we had serious concerns about the legality of this  
11 type of arrangement; and, second, like our customers, we  
12 recognize that being heavily dependent on one supplier for a  
13 key raw material can quickly lead to significant supply  
14 problems, especially when your supplier is also your largest  
15 competitor.

16 Nevertheless, we continued to negotiate with  
17 Celanese in good faith to try to find some common ground and  
18 mutually agreeable terms through as recently as September  
19 8th of this month. I now question Celanese's own good faith  
20 in these negotiations, given that up until the day after the  
21 filing of this petition, they continued to discuss a supply  
22 contract with us. I now believe they were just leading us  
23 on to give them time to complete the filing of this  
24 petition.

25 Lastly, Celanese has alleged that PVA purchasers

1 have shifted their sources to Taiwanese imports based on  
2 price. This is simply incorrect. The increased imports  
3 from Taiwan are a function of PVA purchasers making the  
4 legitimate commercial decision to move away from Celanese as  
5 their supplier. Celanese has answered by attempting to  
6 force the customer into exclusive supply arrangements, and  
7 for certain customers, they won't have anything to do with  
8 that.

9 In short, imports from Taiwan are a sensible and  
10 necessary reaction to market conditions instead of a pre-  
11 existing cause of injury. The cause of any injury to  
12 Celanese is self-induced. Poor business judgment on their  
13 part has resulted in their driving prices down, failing to  
14 implement price increases, and alienating customers by  
15 attempting to force them to sole source from Celanese, and  
16 this has been the cause of their problems. I don't believe  
17 that Celanese should be allowed to use the U.S. trade laws  
18 to make up for their own mistakes and hurt the U.S. customer  
19 base in the process.

20 Thank you again for this time, and I'm available  
21 for any questions.

22 MR. SNYDER: Thank you, Kathy. I now have three  
23 other quick points to make. First, as you've heard, imports  
24 from Taiwan are not a cause of injury. Given the  
25 confidential record and the nature of the record, I can't

1 say very much here and we're also limited because of the  
2 APO. But with respect to Celanese's loss sales allegations,  
3 we urge the Commission to study these very carefully to  
4 determine and verify whether these actually happened the way  
5 Celanese says they did. We urge the Commission to figure  
6 out why they happened and what the customers have to say.  
7 We say this because everything we've learned about the  
8 market, everything you've heard from Dupont today suggests  
9 that those allegations warrant careful scrutiny.

10 Second, we urge the Commission to carefully  
11 consider why Celanese is injured, if, in fact, it is. We  
12 urge the Commission to review the successive sales and  
13 changes of ownership that Celanese has undergone in the  
14 recent years; try to understand what kind of impact this has  
15 had on the company's financial condition. We urge the  
16 Commission to review the management changes that have  
17 occurred, as a result of Celanese's recent corporate  
18 history. We believe these issues may go a long way in  
19 explaining what's going on in this case.

20 Third, I need to explain something about the  
21 average unit values, a topic that has come up during the  
22 course of the hearing today. These are the average unit  
23 values from the import Census data for May and June of this  
24 year. Upon the filing of the petition and the review of the  
25 information, Dupont reviewed the data, as well, and

1 identified the unusually low average unit values. We looked  
2 into this and Dupont determined that a clerical error in the  
3 reporting of the data, which we'll explain more fully in our  
4 post-conference statement, created this anomaly. Dupont has  
5 taken steps to correct this clerical error with Customs and  
6 will provide, to the best of our ability, a recalculation of  
7 those values for the post-conference statement. But, we  
8 wanted to share this with you and with the Commission, at  
9 this point.

10 With that, I'd like to turn this over to Seth  
11 Kaplan from Charles River Associates.

12 MR. KAPLAN: Good morning. I'm Seth Kaplan from  
13 Charles River Associates and I head the international trade  
14 practice there. I'm here on behalf of CCPC, a Taiwanese  
15 producer of PVA with over a 30-year history of supplying the  
16 U.S. market. Because of the confidential nature of much of  
17 the record and because we are still analyzing the APO  
18 material, at about 2:00 in the morning last night analyzing  
19 the APO material, I will confine my comments to the role of  
20 Taiwanese imports in the U.S. market and characterization of  
21 the conditions of competition in the United States and,  
22 finally, the interaction of the conditions of competition  
23 with the U.S. industry's condition, with special emphasis on  
24 the Celanese business decision. I will deal with these  
25 issues further in the post-conference brief, when we have



1 more time to look at the APO material in the light of day.

2 Let me now turn to some issues that I think the  
3 Commission should take note of; first, from Taiwan. CCPC  
4 has a long history in the U.S. market. The Commission  
5 sometimes examines records where importers enter the market  
6 soon before the filing of the case without a long history of  
7 selling in the U.S. and without relationships with customers  
8 in the United States. This is just the opposite. You're  
9 looking at a foreign producer, who is behaving responsibly  
10 for a long period of time.

11 Second, the imports are at levels that are less  
12 than they were in the past. If you look at a long time  
13 series of the imports of this product from Taiwan, you will  
14 note that the current levels are not inconsistent with the  
15 historical imports into the United States from Taiwan, in  
16 periods where there were no allegations of any injury, any  
17 pricing, any dumping concerns whatsoever.

18 Third, CCPC supplies material across the range of  
19 product; but, also, a range that extends beyond some of the  
20 production capabilities in the United States, even by  
21 Celanese. It's my understanding that they supply certain  
22 very high and very low viscosities that are not available in  
23 the United States and, certainly, with their 10 lines of  
24 production relative to the four, we understand, of domestic  
25 producer that in the environment with just-in-time

1 deliveries, they are able to be a reliable supplier on short  
2 notice for specific grades and viscosities that might take  
3 longer to acquire in the United States. This goes to the  
4 whole notion over the last 15 years of just-in-time delivery  
5 and multiple sourcing. This is just the reason why firms do  
6 that.

7 I'd now like to switch to some of the conditions  
8 of competition in the United States market and the role of  
9 Taiwan. First, there is an acknowledged lack of effect of  
10 Taiwanese imports on two producers: one supplying captive;  
11 the other here to tell you that, if anything, the products  
12 are complementary. They fill out the product line and they  
13 increase sales of U.S.-produced products by having the  
14 ability to sell a full product line to various customers.  
15 So, in effect, they're helpful.

16 There is, also, no alleged effect on exports of  
17 products. So, what we're talking about is an allegation  
18 confined to one segment of one producer of the industry and  
19 a claim of harm there. That, I believe, is about the  
20 narrowest claim I could recall in the many proceedings I  
21 have participated in.

22 I have done some analysis of the underselling and  
23 overselling and that is confidential; but, I ask the  
24 Commission staff and the economists and all the analysts to  
25 take note of that. I, also, note that in the context of the

1 whole U.S. production, that the market share is relatively  
2 small; and in the context of the large areas of U.S.  
3 production that doesn't compete, that the Commission can  
4 conclude that imports are not significant in the context --  
5 economic and legal context of the statute.

6           Much of the discussion this morning was about the  
7 effect on prices of imports and there is a certain  
8 conditions of competition the Commission should be aware of,  
9 in looking at the pricing behavior in this market. And one  
10 of them is that prices tend to lag the market conditions,  
11 because there are contracts and because those contracts are  
12 only open oftentimes twice a year. So, if there is a rise,  
13 for example, in material costs, unlike, for example, let's  
14 say, another industry you're familiar with, the mini-mill  
15 steel industry, where there is a scrap surcharge that  
16 immediately gets slapped on to the product from very sharp  
17 spikes in import prices, that's not available in this  
18 industry, unless it's written into a contract and they are  
19 not always written in the contracts. So what you see is  
20 sometimes rising input prices do not get translated into  
21 rising final prices for a while. And, also, you often do  
22 not see price increases until capacity starts to fill. So,  
23 you see the quantity move first and the price move later. I  
24 would like to call your attention to the capacity  
25 information in the questionnaire responses and in the staff

1 report.

2           The Commission is always somewhat suspect of these  
3 numbers, because there is a belief that the domestic  
4 industry sometimes tends to, while answering the questions  
5 correctly, interpret them in such a way to report lower or  
6 low levels of capacity. Keep this in mind when you look at  
7 the actual levels that are reported and I think what it  
8 tells you is that price increases will, because of these lag  
9 defects, because of the lag defects of input costs that are  
10 starting will continue and that these price increases that  
11 hold will continue to hold.

12           Two other points that were mentioned earlier:  
13 there is an increase in multi-sourcing over the last several  
14 years. This market does not stand still and there's two  
15 changes in the conditions of competition or accelerations  
16 that have occurred. One is in multiple sourcing. This is a  
17 non-price factor for why reasons -- for why a customer will  
18 buy from any source. They will be willing to pay more to  
19 guarantee supply sources in case of a supply crisis at one  
20 of their sources. So, I think it's important to note that  
21 there's been an increase in that and that there is a very  
22 negative reaction if one of their suppliers tries to force a  
23 single-source environment.

24           The globalization of the industry, also, had  
25 effects on prices, completely independent of other

1 conditions we've talked about. It used to be the case that  
2 suppliers of this product were able to price discriminate  
3 very effectively among the various end uses and to  
4 discriminate across regions. And as you have larger  
5 purchasers that potentially are in multiple end uses and are  
6 potentially in multiple locations, they are able to ask for  
7 global contracts and they, also, have more information on  
8 pricing across the whole market range. And what this has  
9 tended to do is to compress prices and work to eliminate the  
10 vergencies in prices and that's a factor completely  
11 independent of any of the behavior of the supplying firms;  
12 rather, it's the result of customer's reactions to more  
13 information.

14 Now, I'd like to turn to Celanese and talk about  
15 their behavior. I think one of the biggest facts to be  
16 aware of is their purchase of Air Products, PVA facilities,  
17 and the purchase price. We'll be supplying evidence from  
18 the general press, but I think it's commonly acknowledged in  
19 the industry that Air Products got quite a premium for their  
20 business and that the expectations of pricing and sales by  
21 Celanese was well beyond what could have been expected, at  
22 the time of the purchase, which partly explains their  
23 behavior in the market with this enormous amount of debt to  
24 service. Celanese, as part of their problems to account for  
25 their debt service has been trying to increase volumes by

1 demanding exclusive relationships. And this situation has  
2 backfired because of the needs of the multiple sourcing of  
3 various end users in the industry.

4           So what happens when someone insists upon that is  
5 they'll continue to multiple source, but they'll ship their  
6 sale of purchases to the other supplier. And so by  
7 insisting upon single sourcing they've, in essence, lost  
8 sales to existing customers. And that is the strongest  
9 possible signal a customer can send, that they don't like  
10 their practices. But, interestingly, the multiple sourcing  
11 issue was so strong that they don't cut people. They still  
12 keep them, because that overrides the poor behavior of the  
13 supplier.

14           The debt load, as well as the change in  
15 management, has, also, led to other market actions that are  
16 inconsistent with the way the market has functioned for a  
17 long time. As you well know from examining many industries,  
18 customers and suppliers develop a culture of how they deal  
19 with each other, in terms of pricing information is passed  
20 along, price increases are past along or price decreases,  
21 how contracts work. In this industry, there's been a long  
22 history that when price increase are made, they're make at  
23 certain types of increments; and when price decreases are  
24 made, they're made at certain increments. They're not  
25 exactly the same. But unlike commodity products, this is

1 more like a specialty product, and you rarely see these  
2 enormous spikes in prices, because of the way the  
3 relationships between suppliers and customers worked. And I  
4 think what happened with Celanese demanding very, very large  
5 prices increases is, once again, they alienated their  
6 customer base. The price increases did not hold and it cost  
7 them both in terms of volume and, in certain respects, in  
8 terms of the price they could have got anyway. They, in  
9 essence, got less than they would have, if they had priced  
10 in a way consistent with the culture and the way the market  
11 has functioned over time.

12 I would ask the economists to look at the  
13 contracts that -- long-term contracts that Celanese entered  
14 into, to see if there are escalators or changes in input  
15 prices into the like product. If not, in essence, they have  
16 set a floor and have set themselves up for financial  
17 distress, as input prices move.

18 Finally, the Commission staff should look at  
19 export shipments and prices of export shipments. The  
20 financial condition of the industry is characterized by  
21 their total sales, both domestic and exporter. But, when  
22 trying to characterize the causation of the channels in the  
23 industry of what causes injury to the domestic industry, the  
24 Commission can separately look at the returns on domestic  
25 and export shipment, to give it an indication of potentially

1 where these company's problems or industry's problems are  
2 coming from.

3 I'd like to conclude with two remarks. First,  
4 Celanese has tried to carve out every PVA shipment, other  
5 than their commercial sales, out of the industry. Solutia  
6 doesn't count. Dupont doesn't count. Export sales don't  
7 count. Captive sales don't count. How representative is  
8 that of the U. S. industry and when have you seen a  
9 petitioner come forward, to try to cut out the vast majority  
10 of production and sales and say that they're representative  
11 of the whole industry?

12 Second, negative preliminary determinations often  
13 arise from split domestic industries, where the petitioning  
14 parties' conviction regarding the facts are just plain  
15 wrong. I believe that this is just the case in this  
16 investigation, that the record will show that allegations  
17 and facts and theories posited by the Petitioner are  
18 inconsistent with the record that you've collected in the  
19 questionnaires and I look forward to explaining this further  
20 in the post-conference brief. Thank you.

21 MR. SNYDER: That completes the direct testimony.

22 MR. CARPENTER: Thank you, very much, panel, for  
23 your presentation. We'll begin the questioning with Ms.  
24 Spellacy.

25 MS. SPELLACY: Good afternoon. First, I'd like to



1 thank the panel for their presentations. Just a few  
2 questions. The first, I'd like to direct to Mr. Chen. Does  
3 Chang Chun have national distribution of your imports? Do  
4 you import through all ports or do you have a regional focus  
5 in which you're importing goods into the United States?

6 MR. CHEN: We see having an international very  
7 wide distribution.

8 MS. SPELLACY: With the United States?

9 MR. CHEN: Yes. In the United States, we had  
10 distributors.

11 MS. SPELLACY: Okay, thank you. I, also, wanted  
12 to ask Dupont -- and I'm not sure who would be the best;  
13 perhaps, Ms. McCord, you would be the best to answer this --  
14 have there been instances where you have wanted to produce  
15 domestically-produced products, PVA, from one of your  
16 competitors, in which you refused the sale; and, if so, has  
17 that impacted your decision to import?

18 MS. MCCORD: I'm sorry, I don't understand your  
19 question.

20 MR. SNYDER: Can you just repeat it? I think we  
21 just missed the first part.

22 MS. SPELLACY: Oh, yes. Have there been instances  
23 where you wanted to purchase domestically-produced PVA, in  
24 which you have been refused the sale from one of your  
25 competitors?

1 MS. MCCORD: Multiple times.

2 MS. SPELLACY: Okay. Is that something that you  
3 can document in the post --

4 MS. MCCORD: Absolutely.

5 MS. SPELLACY: Thank you. Also, and this is  
6 definitely for the post-conference brief, can you just  
7 expand upon the business relationship with Dupont and Chang  
8 Chun in the last few years, particularly those under the  
9 period of investigation? I know there have been some formal  
10 changes in that business relationship.

11 MS. MCCORD: We can expand on that, yes.

12 MS. SPELLACY: Okay.

13 MS. MCCORD: But to my knowledge, there hasn't  
14 been any formal changes, other than we've had a contract and  
15 we've been importing from CCPC for more than 20 years and we  
16 are doing that now. But, we will expand on that in the  
17 post-brief.

18 MS. SPELLACY: Okay, thank you. And I just have  
19 one last question, again, on the production. And if you can  
20 just indulge me, to help me understand the production  
21 process of PVA. I don't fully understand why Dupont  
22 facilities can only produce fully hydrolyzed PVA. I  
23 understand that there seems to be some type of special  
24 equipment to remove the free liquid, the centrifuge dryer.  
25 But, can you just, if you're the appropriate person, can you

1 expand upon why Dupont is limited to producing fully  
2 hydrolyzed PVA? Perhaps, I'm just not understanding the  
3 capital investment required for that material.

4 MS. MCCORD: Your question is a really good one.  
5 Actually, there's -- we produce PVA by a different process  
6 than everybody else in the whole world. Our process is  
7 what's called -- it's a reactor process.

8 MS. SPELLACY: Okay.

9 MS. MCCORD: So when you put the raw materials or  
10 the inputs together, the hydrolysis goes to completion. So,  
11 it essentially goes to 100 percent completion.

12 MS. SPELLACY: Oh, okay.

13 MS. MCCORD: Whereas Celanese or CCPC or others --

14 MS. SPELLACY: Okay.

15 MS. MCCORD: -- use what's called a belt process.  
16 So, you can actually control the amount of hydrolysis by the  
17 belt process.

18 MS. SPELLACY: Okay.

19 MS. MCCORD: We don't have that process, so we  
20 can't produce like that. Everything we make will go to  
21 complete hydrolysis.

22 MS. SPELLACY: Okay. Thank you.

23 MR. CARPENTER: Mr. Bernstein?

24 MR. BERNSTEIN: Thank you. If I may just start by  
25 following up on Ms. Spellacy's last question, Ms. McCord.

1 Are you saying the reason that Dupont can't produce  
2 partially hydrolyzed PVA is simply a technical reason or is  
3 there an economic aspect, as well? I mean, would it be  
4 technically possible to convert your process or tweak your  
5 process to produce a partially hydrolyzed product and that's  
6 just not economically possible?

7 MS. MCCORD: No. It would not be possible with  
8 the way our process is set up. It would require significant  
9 capital investment. You'd need a belt. You'd need things  
10 that we don't have in our situation, in our facilities.  
11 It's really a completely different process.

12 MR. BERNSTEIN: Thank you. I'll now start asking  
13 just a few questions about, I guess, contention matters.  
14 First of all, in domestic-like product, does either of the  
15 parties have a position on what the domestic-like product  
16 should be or dispute the proposed domestic-like product that  
17 the Petitioner has advocated?

18 MR. CHEN: (Not on mic) -- opinion about the scope  
19 of the products. I think we basically produce some of the  
20 product, which is below 80 percent, which the American  
21 producers are not making at all. So, when they're referring  
22 to 80 percent or more as the scope of the investigation, we  
23 do have some of the product, which is below 80 percent,  
24 which we believe is not produced in America by Celanese or  
25 the other producers.

1           MR. CAMPBELL: I think, essentially, Mr. Chen,  
2 Chang Chun might dispute -- raise some scope clarification  
3 requests, but that's with the Department of Commerce, of  
4 course. On domestic-like product, we don't have any  
5 position. We don't contest.

6           MR. BERNSTEIN: Thank you. Mr. Snyder?

7           MR. SNYDER: The same here for Dupont, yes.

8           MR. BERNSTEIN: Thank you. On domestic industry,  
9 does -- I'll first ask Dupont, does Dupont have a position  
10 on the Petitioner's contention that Dupont should be  
11 excluded from the domestic industry?

12           MR. JAFFE: Dupont should not be excluded from the  
13 domestic industry. It's clear that based upon the related  
14 party allegations, that they're unsubstantiated; that they  
15 have not demonstrated that there's any control whatsoever  
16 with regard to the imports. I believe you will, also, see,  
17 as we will demonstrate in our post-hearing briefs, that they  
18 are relatively small next to the production that takes place  
19 in the United States, based upon the domestic-like product  
20 definition.

21           MR. BERNSTEIN: Thank you, Mr. Jaffe. And, also,  
22 in your post-conference brief, if you could address the  
23 argument that the Petitioner has been making, that you're  
24 benefitting by importing allegedly dumped imports. Dupont  
25 is deriving an economic benefit from its importation

1 activities.

2 MR. JAFFE: Yes. We'll respond to that in our  
3 post-hearing brief. I just have one request of the  
4 Commission. A number of the allegations with regard to our  
5 relationship with CCPC are marked as business proprietary in  
6 the petition. I don't understand how Celanese can mark  
7 business proprietary information that purportedly has to do  
8 with the relationship between Dupont and CCPC and I would  
9 request that the Commission ask them to change that in their  
10 petition, so we can fully address, so we can fully address  
11 the issue.

12 MR. BERNSTEIN: Okay. I don't -- has the  
13 Secretary ruled on --

14 MR. CARPENTER: I don't believe that the Secretary  
15 has ruled on the bracketing of the petition. But, it would  
16 appear to me that you're, also, in a position to discuss  
17 yourselves what your relationship -- what Dupont's  
18 relationship is with CCP and you're not constrained by what  
19 the petitioner has bracketed.

20 MR. JAFFE: Absolutely, and we will certainly  
21 address that. I just note that they make a number of  
22 unsubstantiated allegations, bracket them. So, in order to  
23 directly respond to them, we have already responded to them  
24 at the Department of Commerce and we'll do so again here at  
25 the International Trade Commission. But, it would be

1 helpful, obviously, and allow us to give a complete  
2 response, if we had an opportunity, obviously, to show those  
3 bracketed allegations with regard to the relationship  
4 between these two companies directly to our clients.

5 MR. CARPENTER: Your point is well taken and we'll  
6 take that into consideration.

7 MR. JAFFE: Thank you.

8 MR. BERNSTEIN: Next question. The Petitioner  
9 requests that the Commission, as it did in the 2002-2003  
10 investigations, apply the captive production provision in  
11 this investigation. Do either of the parties here have a  
12 position on that?

13 MR. CAMPBELL: This is an issue we'll definitely  
14 take up in our post-conference brief. But, at this point, I  
15 would say that we're opposed to that. We don't think that  
16 the Commission should apply the captive production provision  
17 under these set of facts.

18 MR. JAFFE: It's Dupont's position that Solutia is  
19 a member of the domestic industry for purposes of this  
20 investigation.

21 MR. BERNSTEIN: Okay. I don't know if that's  
22 really responsive to the question I asked. I mean, that's -  
23 - Solutia was a member of the domestic industry in the 2003  
24 investigations and the Commission applied the captive  
25 production provision. That doesn't result in exclusion of

1 the parties, which I believe was the point I was trying to  
2 make to Petitioners this morning. But, you may want to  
3 consider that in your post-conference submission.

4 Let me go to a few other questions. My next  
5 question is for Mr. Chen. Could you -- do you happen to  
6 have a copy of the charts that the Petitioner submitted this  
7 morning?

8 MR. CAMPBELL: No, we do not.

9 MR. BERNSTEIN: Okay.

10 MR. CAMPBELL: Here it is. I'm sorry.

11 MR. BERNSTEIN: Oh, okay. Mr. Chen, could you  
12 look at Chart 6?

13 MR. CAMPBELL: Six?

14 MR. BERNSTEIN: Yes, it's the last chart in the  
15 sequence. Basically, what the chart purports to show is  
16 that the percentage of exports of PVA from Taiwan destined  
17 to the United States has increased since the issuance of the  
18 antidumping orders in the other investigations and the  
19 percentage of exports to Asian and Pacific markets have  
20 declined. I guess my question for you is given your  
21 testimony that demand is going up relatively more in Asia  
22 and that U.S. prices may be somewhat depressed as a result  
23 of actions of Celanese, why would the Taiwanese producers  
24 increase their focus on the U.S. market and decrease it on  
25 Asian and Pacific markets, as these charts seem to show?



1           MR. CHEN: The market has changed with the year  
2           2003. Ever since the antidumping orders was in place last  
3           year against China, Korea, and Japan, we have seen a  
4           reduction from all these countries into America and this is  
5           a situation we can really understand. All these producers  
6           in all these three countries have to shift their focus into  
7           the Asian markets. They are basically Asian producers. You  
8           can imagine that there is much more competition of that  
9           product, which all these three countries ship to America  
10          before has to be otherwise shipped to Asian countries. So,  
11          we had recorded a reduction of our sales in America. The  
12          vacant left by this company in America, because of the  
13          requirement of the customer to have a secondary -- strong  
14          desire to have a secondary supply source, -- fits very well  
15          into this category, and we have seen an increase of the  
16          shipment from Taiwan to America.

17          MR. BERNSTEIN: Would it be correct to infer that  
18          since the orders have been issued, that prices for PVA are  
19          more attractive in the U.S. than they are in Asian markets?  
20          It seems to be an implication of what you said, but you  
21          didn't actually say that. Is that a correct -- would that  
22          be a correct statement?

23          MR. CHEN: The price in Asia is showing much more  
24          competition in the year 2003, after the antidumping order is  
25          in place in America. And the American price, at that time,

1 in the year 2003, remained quite constant. That's what I  
2 mean.

3 MR. BERNSTEIN: Okay. Mr. Chen, could you  
4 clarify, does Chang Chun import any products from Taiwan  
5 into the United States that are fully hydrolyzed products,  
6 that are products that would overlap what Dupont produces  
7 here?

8 MR. CHEN: We, also, ship some of the fully  
9 hydrolyzed PVA into America.

10 MR. BERNSTEIN: Again, is that overlapping  
11 Dupont's product range?

12 MR. CHEN: Dupont's products have their own unique  
13 character respect. Dupont's products are available in a  
14 more dusty form. That means the pocket size. If you look  
15 into our products, a majority is granular size. To a lesser  
16 degree, it is a fine powder material. Dupont's material sit  
17 in between these two. So, the customers has to look into  
18 this pocket size very carefully, when they are trying to  
19 pick up reasonably acceptable products for their own use.

20 MR. BERNSTEIN: Ms. McCord, do you have anything  
21 to add on this issue?

22 MS. MCCORD: Dupont sells -- we sell our LaPorte  
23 products first and foremost. And from my knowledge, CCPC  
24 has other distributors in the U.S., not Dupont, who may be  
25 importing material that competes directly with our LaPorte

1 produced material.

2 MR. BERNSTEIN: Okay, thank you. That's what I  
3 was trying to get at. Thank you for stating that a little  
4 more concisely.

5 Ms. McCord, in your testimony, you said there was  
6 a continued decline in the paper and textile segments. Have  
7 there been increases in other segments? I believe the  
8 Celanese witness this morning said that overall demand since  
9 2002 has been flat. Is that your assessment?

10 MS. MCCORD: The textile industry has been -- the  
11 textile industry has declined over the -- you know, since  
12 about 2000, 2001. It seems to have somewhat stabilized now,  
13 although next year when the WTO orders come off and  
14 everything, I think we're going to see -- we may see a  
15 further decline. Our customers are concerned about that.

16 Paper has seen a lot of consolidation. And where  
17 you've had multiple -- many different paper companies,  
18 you've seen a lot of consolidation, shutting down of lines.  
19 It seems to have somewhat stabilized.

20 PVB has grown and Dupont is very active in the PVB  
21 business. We see this in our own internal sales of PVA to  
22 our PVB business, as well as our PVB business that we  
23 service outside. And there has been, I think, some  
24 significant growth in films, in the PVA film market.

25 MR. BERNSTEIN: Thank you. From Dupont's

1 perspective, could you comment on whether Dupont saw any  
2 changes in its own position or improvements in pricing after  
3 imposition of the orders on Japan, Korea, and China?

4 MS. MCCORD: We'd like to do that in the post-  
5 hearing brief, please.

6 MR. BERNSTEIN: Okay.

7 MS. MCCORD: But, we'll definitely comment on  
8 that.

9 MR. BERNSTEIN: Okay. I mean, obviously, for  
10 purposes of your brief, if you're including Dupont in the  
11 industry, we're, as a legal matter, more interested in the  
12 industry as a whole. I was just -- we've heard sort of  
13 Celanese's own impressions of what occurred and I just  
14 wondered whether Dupont had any other particularized  
15 characterizations it would like us to know about.

16 Ms. McCord, when you were testifying about what  
17 the Celanese policy in the marketplace was, and you were  
18 going through these four characteristics of what Celanese  
19 was doing, when did these Celanese policies you're  
20 identifying start? What time frame are we talking about?

21 MS. MCCORD: I would say late 2002, early 2003,  
22 they had a shift in their strategy, from what we could see,  
23 in the marketplace and then it changed in their management.  
24 And it appeared that those seemed coincident and these new  
25 policies have come into effect. I can -- I've been at a

1 number of customers, who have shared with me their  
2 experiences with Celanese on the -- you know, it's you buy  
3 everything from or you get nothing from me strategy and I've  
4 heard that from multiple customers. So, I would say, late  
5 2002, early 2003.

6 MR. BERNSTEIN: But just to clarify, this was not  
7 something that was coincident with or a result of the orders  
8 being imposed on the other countries, because that would  
9 have been mid second to third quarter or third quarter or so  
10 of 2003.

11 MS. MCCORD: Yes, that's probably correct.

12 MR. BERNSTEIN: Okay. I think one of you had  
13 mentioned this in your testimony, but I'll just put this on  
14 the record, this request. In your post-conference  
15 submission, if you could, please, comment on the discussion  
16 at pages 27 to 28 of the petition, that the prices derived  
17 from the Taiwan export statistics and individual U.S. price  
18 quotes are consistent with one another, but not consistent  
19 with the average unit values derived from U.S. import  
20 statistics. And, in particular, if you could respond to the  
21 suggestion that there's no logical explanation, that the  
22 fluctuation in average unit values measured by import  
23 statistics in recent months, and along those lines what you  
24 believe is, I guess, the best source of information for  
25 pricing and unit value data.

1           MR. SNYDER: We will, yes. We're still trying to  
2 pull together the compilation of that data from May and  
3 June; but, we will.

4           MR. BERNSTEIN: Okay. And, finally, Mr. Kaplan,  
5 when you were talking about how Celanese reacts in the  
6 marketplace, as a result of the high purchase price it  
7 produced for Air Products, just to clarify, this is not a  
8 new or very recent phenomenon. This is something that goes  
9 back a few years, isn't it?

10          MR. KAPLAN: That's correct.

11          MR. BERNSTEIN: Okay. Because, I seem to recall  
12 it was something that was raised by Respondents in the prior  
13 set of investigations.

14          MR. KAPLAN: Well, they adopted one unsuccessful  
15 strategy and moved to a second unsuccessful strategy.

16          MR. BERNSTEIN: Okay. As a final matter, Mr.  
17 Snyder, could you clarify, with respect to your opening  
18 remarks, which you alluded to a little more, when you began  
19 talking in the current session, are you requesting that the  
20 Commission take some sort of particular action with respect  
21 to either the Patton Boggs representation or these material  
22 that the attorney -- what you refer to as the attorney-  
23 client materials? It would help us, if you could clarify  
24 for the record whether you're just expressing disapproval of  
25 certain techniques or questioning the relevance of certain

1 data or whether you are seeking some specific action from  
2 the Commission.

3 MR. SNYDER: Sure, I'd be happy to. At this  
4 point, we're not requesting any specific action. We're  
5 exploring where remedies might be available. We had  
6 originally sought to work this out. Dupont sought to work  
7 it out directly with Patton Boggs and directly with  
8 Celanese. And failing that, we've now gotten to this point.  
9 There are other extra ITC, if you will, outside the context  
10 of the ITC, efforts being made to address this issue. We  
11 are not prepared, at this point, to say whether we want to  
12 drag the ITC into this dispute and into this discussion.  
13 So, at this point, I don't have any specific request. I  
14 wanted to be sure that it's on the record and clear, because  
15 I don't know where this discussion will go. But, I wanted  
16 to raise it and make the Commission aware of it, at this  
17 point.

18 MR. BERNSTEIN: Okay. I appreciate your  
19 clarification of your position and I have no further  
20 questions.

21 MR. CARPENTER: Mr. Benedick?

22 MR. BENEDICK: Yes. Before I start with my  
23 prepared questions, I have a question for Mr. Kaplan.  
24 You've identified several conditions of competition. Could  
25 you either here now or in addition to, in the post-

1 conference brief, give us some basis for these conditions of  
2 competition, some examples?

3 MR. KAPLAN: I will discuss that in the post-  
4 hearing brief, with examples.

5 MR. BENEDICK: Okay, thank you. Also, Mr. Kaplan,  
6 you asked us -- or asked me, the economist, to look at the  
7 contracts of Celanese, the long-term contracts, and see if  
8 they have price escalators or clauses related to increase in  
9 their input costs that they could pass on, I presume, to  
10 their customers. Ms. McCord testified that that was one of  
11 the strategies of Celanese, was the long-term contract and  
12 locked them into a low price, when input prices were rising.  
13 Are you questioning whether that is what was happening or is  
14 that a way for you to suggest that that was how we could  
15 find a basis for that?

16 MR. KAPLAN: I think we believe that to be the  
17 case. I think that would be the --

18 MR. BENEDICK: But, you have no first-hand  
19 knowledge?

20 MR. KAPLAN: No.

21 MR. BENEDICK: That would, obviously, be  
22 proprietary and you suggested we look into that.

23 MR. KAPLAN: That's correct.

24 MR. BENEDICK: Thank you. A question for Mr.  
25 Chen. You commented in your testimony about a two percent



1 increase in growth for PVA and a five percent increase in  
2 growth. I presume those are annual increase you're  
3 referring to. And is that the U.S. versus Asia growth? I  
4 wasn't clear as to what the two percent referred to, what  
5 the five percent --

6 MR. CHEN: For the two percent, we are referring  
7 to the worldwide for the PVA.

8 MR. BENEDICK: And five percent?

9 MR. CHEN: The five percent specifically to Asia,  
10 particularly China.

11 MR. BENEDICK: Okay. And is that growth on a one-  
12 year period or a multi-year period?

13 MR. CHEN: In multiple years, for the past couple  
14 of years, we have seen that.

15 MR. BENEDICK: Oh, for each year, that kind of  
16 growth?

17 MR. CHEN: For each year.

18 MR. BENEDICK: Okay.

19 MR. CHEN: For each year.

20 MR. BENEDICK: Thank you. Mr. Kaplan, could you  
21 characterize total U.S. demand for PVA is price elastic,  
22 inelastic, or unitary?

23 MR. KAPLAN: Well, I --

24 MR. BENEDICK: Or would you like to comment in --

25 MR. KAPLAN: I'd like to just raise a conceptual

1 point, that the issues about lack of substitute product in  
2 the end uses is relevant in a world market; but in a market  
3 where there is multinational companies that could switch  
4 their production source of the product using PVA, makes the  
5 demand for that product more elastic than what one would  
6 otherwise be, if they could not switch the source of  
7 production for the products using PVA.

8 MR. BENEDICK: Here, I'm looking at total U.S.  
9 demand, not demand for, let's say, U.S.-produced product  
10 versus demand for imported Taiwanese product.

11 MR. KAPLAN: No, I understand. But, total U.S.  
12 demand for PVA would be affected -- the elasticity would be  
13 affected by the ability of --

14 MR. BENEDICK: Oh, I understand.

15 MR. KAPLAN: -- individuals to substitute other  
16 products; but, also, to substitute production to other  
17 places or to other products downstream. And that's what I'm  
18 referring to.

19 MR. BENEDICK: Okay. So --

20 MR. KAPLAN: So, I'll discuss the actual --

21 MR. BENEDICK: Okay. So, you'll discuss sort of  
22 the role of non-PVA substitutes and the role of shifting  
23 production, let's say, from other product here in the U.S.  
24 that uses PVA, to another location in the world?

25 MR. KAPLAN: That's correct.

1           MR. BENEDICK: Okay, thank you. Would you agree -  
2 - again, Mr. Kaplan, would you agree with the comments  
3 earlier by Celanese regarding the substitutability and use  
4 between fully and partially hydrolyzed PVA? And I'd, also,  
5 like Ms. McCord to address that, as well.

6           MR. KAPLAN: We began discussing this issue and  
7 we're going to continue after the conference, because it's  
8 both a commercial and a technical issue and I need more  
9 information, at this point, to characterize it as a range,  
10 elasticity range.

11           MR. BENEDICK: Okay. Ms. McCord, did you want --

12           MS. MCCORD: If I could do it by -- for example,  
13 by market segment. In PVB, which is used mostly in  
14 automotive and architectural windows, it's the main raw  
15 material. That's a fully hydrolyzed product. You're not  
16 going to substitute a partial hydrolyzed in that  
17 application.

18           In textile sizing, a lot of what's used in textile  
19 sizing is partially hydrolyzed. However, Dupont makes a  
20 fully hydrolyzed copolymer at a LaPorte plant, which mimics  
21 these -- I guess you would actually call them intermediately  
22 hydrolyzed PVA, that other producers may use. And so, you  
23 can use that in textile sizing. A lot of it depends on the  
24 specific fabric that's being sized and the heat treatment of  
25 the fabric. But, you can use both partially, immediate, and

1 fully hydrolyzed in those applications.

2 In adhesives, it depends on whether or not your  
3 adhesive is actually going to sit around for a while. If  
4 it's sitting around for a while, you'll probably use a  
5 partially hydrolyzed. Otherwise, it's going to gel up, if  
6 it's a fully -- you know, if you used a fully hydrolyzed.

7 So, it's really applications specific. But, there  
8 is a fair amount of substitutability. But, we will -- we  
9 can address it more in the brief.

10 MR. BENEDICK: Okay. That would be very helpful.  
11 Thank you. Again, Mr. Kaplan, would you agree that U.S.  
12 demand for PVA is affected by overall U.S. economic  
13 activity, as well as by demand in the specific sectors using  
14 it?

15 MR. KAPLAN: Yes, especially to the extent that  
16 the specific sectors rise and fall with the aggregate demand  
17 in the economy.

18 MR. BENEDICK: Okay. Ms. McCord, I had asked  
19 early with Celanese, does U.S. PVA demand in the principle  
20 end-use sector move together or in disparate directions.  
21 Your testimony has been and, perhaps, Mr. Chen's testimony,  
22 is that there's been a globalization, so that prices for PVA  
23 in one sector can be affected by prices in another end-use  
24 sector. Is that what you were saying?

25 MS. MCCORD: Yes. I think that we're seeing more

1 now of, I guess, spillover from sector -- from market  
2 segment to market segment; where, before, you know, you  
3 might see textiles with a certain price and perhaps  
4 adhesives or paper or PVB with a different price. Those  
5 prices are getting closer together now, I think, because of  
6 the globalization and the multinational accounts that are  
7 purchasing.

8 MR. BENEDICK: Okay. Over what time period has  
9 this been occurring and did it occur all at once or is it  
10 just sort of an evolving process?

11 MS. MCCORD: I think it's a gradual evolving  
12 process. Also, for example, you had asked about, well,  
13 would you see one move one way and the other move another  
14 way.

15 MR. BENEDICK: Yes.

16 MS. MCCORD: In textiles, although the U.S.  
17 textile industry is shrinking or, at this point, stabilized,  
18 the global textile industry is not. It's just basically the  
19 U.S. textile industry has migrated to Asia, for the most  
20 part. So, that's part of the reason, I think, that you see  
21 Asia demand for PVA being fairly strong now, because of that  
22 migration of that business. But, as we saw textiles  
23 shrinking, we're still seeing an increasing -- for example,  
24 an increasing demand for PVB, for automotive, as the  
25 applications for PVB grow to beyond just windshields, to

1 side lights, to more architectural glass. And, you know, as  
2 Florida gets hit by more and more hurricanes, our demand for  
3 PVB goes up and the legislation goes into place that  
4 increases that kind of demand. And so, you see that kind of  
5 increasing. So even though you'd see textiles kind of  
6 shrinking, you're seeing PVB demand growing.

7 MR. BENEDICK: Now, is it your assertion that  
8 total demand in the U.S. for PVA has increased over the  
9 period of investigation or would you agree with Celanese  
10 that it's been kind of flat?

11 MS. MCCORD: I would say, it has been fairly  
12 stable, but we're seeing, at least in the last six months,  
13 some growth and I think that goes along with the overall  
14 economy growing. We're seeing some growth. Textiles, which  
15 had been on a very significant decline since 2000-2001, has  
16 really stabilized. And so, I'm not seeing that shrink  
17 anymore. I'm not seeing it grow, really, but I'm not --

18 MR. BENEDICK: Right.

19 MS. MCCORD: -- seeing it shrink anymore.

20 MR. BENEDICK: As convergence of prices across  
21 end-use sectors, has this continued at a rather steady rate  
22 over the period of investigation? Has it accelerated? If  
23 you want to answer in the post-conference brief, feel free.

24 MS. MCCORD: Let me do that, please.

25 MR. BENEDICK: Okay, thank you. And, Ms. McCord,

1 would you agree with Celanese's reason for why U.S. demand  
2 for PVA to produce PVB has increased in the U.S.?

3 MS. MCCORD: Yes. I think that's accurate. As  
4 automotive builds increase, as developments into side  
5 lights, back windshields, and then architectural, that's all  
6 a PVB demand, which relates directly to PVA.

7 MR. BENEDICK: I would like to switch to supply  
8 factors. And, Ms. McCord, again, I would like to direct the  
9 same natural gas questions to Dupont, as I did to Celanese.  
10 I can certainly repeat them here. Since natural gas is the  
11 major feedstock to produce VAM, is natural gas or a  
12 derivative purchased by your firm to produce VAM? Is  
13 natural gas, also, purchased by your firm, as a fuel in the  
14 production process, to produce PVA? How important is the  
15 price of natural gas vis-a-vis total cost to produce PVA?  
16 And in connection with that, if you could report in the  
17 post-conference brief, the percent of total cost to produce  
18 PVA accounted for by the cost of natural gas. If you want  
19 to do it as an average over the period of investigation, if  
20 2003 would give you -- make it easier to calculate, give us  
21 for 2003, that would be helpful.

22 And, in addition, I've been looking at the Energy  
23 Information Administration, United States natural gas  
24 industrial prices, and they report it monthly. And I'd like  
25 to know if those prices are consistent -- or the trend in

1 those prices consistent with the trend in your cost of  
2 natural gas.

3 MS. MCCORD: VAM is a -- we produce -- Dupont,  
4 also, produces vinylized acetate monomer (VAM), which is the  
5 direct raw material for PVA. If you look at the production  
6 of VAM and the production of PVA, PVA is actually much more  
7 energy intensive process than is VAM. VAM is actually an  
8 exothermic process, so you get a lot of the energy back.  
9 But, PVA is not. It's a very energy-intensive process. So,  
10 the impact of natural gas -- rising natural gas costs  
11 actually have a much greater affect on PVA than they do on  
12 VAM.

13 MR. BENEDICK: Okay. Well, I'll look at your  
14 response as to whether it's a major feedstock to produce  
15 VAM. And when you say it's more energy intensive, does that  
16 mean you use natural gas as a fuel or energy in the  
17 production of PVA?

18 MS. MCCORD: It's used in the production of steam  
19 and in the production of electricity.

20 MR. BENEDICK: Right, right, for your utilities.

21 MS. MCCORD: That's what's used -- right.

22 MR. BENEDICK: And you use natural gas for that  
23 purpose, also?

24 MS. MCCORD: That's right.

25 MR. BENEDICK: Okay. Again, Ms. McCord, because



1 this is proprietary, if you would respond in a post-  
2 conference brief, what is the minimum capacity utilization  
3 level that your firm requires in a 12-month period, to  
4 achieve acceptable economy of scale benefits? Again, if you  
5 want to do it for a representative 12-month period during  
6 the POI or if doing it for 2003 makes it easier, please do  
7 it that way.

8 And, finally, Ms. McCord, in the post-conference  
9 brief, to what extent do your selling prices of PVA differ  
10 by type of packaging; again, 50 pound bags, supersacks,  
11 bulk? And, if significant, could you report in the post-  
12 conference brief the U.S. shipment quantities of PVA by each  
13 of these packaging types? This is what you would produce  
14 here in the U.S. If you could do it for the period of  
15 investigation or, again, if 2003 makes it more manageable,  
16 just do it for that year. And as an example, I'm looking  
17 for, say, a shipment of 200,000 pounds, what would be the  
18 price by each type of packaging for that and how would that  
19 differ.

20 MS. MCCORD: Okay, sure.

21 MR. BENEDICK: That's all the questions I have.

22 MR. CARPENTER: Ms. Pedersen?

23 MS. PEDERSON: (No verbal response.)

24 MR. CARPENTER: Mr. Johnson?

25 MR. JOHNSON: (No verbal response.)

1 MR. CARPENTER: Mr. Deyman?

2 MR. DEYMAN: I'm George Deyman, Office of  
3 Investigations. It was mentioned that of the product  
4 exported from Taiwan, that a portion of it consists of  
5 product with very high or very low viscosities that are not  
6 available in the United States. Could you tell me -- could  
7 you estimate now or tell us in your post-conference brief,  
8 the percentage share of the product that you export to the  
9 United States, that you believe is not available from the  
10 domestic producer?

11 MR. CAMPBELL: I think that's something we can  
12 address in the post-conference brief.

13 MR. DEYMAN: Also, if you could tell us in the  
14 post-conference brief, what share of your exported product  
15 consists of partially hydrolyzed versus fully hydrolyzed.

16 Also, the petition -- the recommended scope of the  
17 investigation in the petition, since I haven't seen the  
18 actual scope of the Department of Commerce, but the  
19 recommended scope excludes PVA in fiber form. How large is  
20 this product in fiber form? What is it exactly? What is it  
21 used for and how important is it in the grand scheme of  
22 things?

23 MR. CHEN: Chang Chun is not making this product.  
24 I think it's produced in Japan and China.

25 MR. DEYMAN: Is this product produced in the

1 United States?

2 MS. MCCORD: It's not produced in the United  
3 States. And, actually, it's not used in the United States  
4 either, to my knowledge.

5 MR. DEYMAN: Okay. That's helpful. One witness  
6 at the Commission's hearing in last year's PVA investigation  
7 stated that imports from Taiwan are concentrated in the  
8 textile sector. Do you agree that the imports from Taiwan  
9 are concentrated in the U.S. textile sector?

10 MR. CHEN: No. We do not have a reasonable share  
11 in the textile business. Our material characteristics is  
12 much more suitable for the emulsion, adhesive, and paper.

13 MR. DEYMAN: Okay. The public version of the  
14 petition in Exhibit 3, page two, presents capacity  
15 information, indicating that CCPC is the world's largest  
16 single producer of PVA. Would you agree with that?

17 MR. CHEN: We are not the single largest in the  
18 world.

19 MR. DEYMAN: You are not?

20 MR. CHEN: We are not.

21 MR. DEYMAN: Could you indicate other large --  
22 other producers that may be larger?

23 MR. CHEN: The Japanese Kuraray Group apparently  
24 is number one.

25 MR. DEYMAN: Dr. Kaplan mentioned that in the

1 early 1990s, the import levels of PVA from Taiwan were at  
2 higher levels than they have been in recent years. Of  
3 course, in part, they were higher, because there was an  
4 antidumping order put on the imports in 1996. How do we  
5 know that the import levels will not revert to those of the  
6 early 1990s? What has changed that would indicate that the  
7 levels will not revert to those high levels?

8 MR. CAMPBELL: If it would be all right, we would  
9 prefer to address this in the post-conference brief.

10 MR. DEYMAN: Sure. That would be very helpful and  
11 I have no further questions. Thank you.

12 MR. CARPENTER: Thank you, very much, panel, for  
13 your presentations and for your helpful responses to our  
14 questions. We appreciate you coming here today. At this  
15 point, we'll take about a 10-minute recess and we will  
16 resume with the rebuttals and closing statements of the  
17 parties, beginning with the Petitioners.

18 (Whereupon, a brief recess was taken.)

19 MR. CARPENTER: Could we resume the conference,  
20 please? Welcome, Mr. Samolis and Mr. Bruno. Please proceed  
21 whenever you're ready.

22 MR. SAMOLIS: Thank you, very much. We will be  
23 very brief. Let me just highlight a couple of points for  
24 the record and then I will turn it over to Mr. Bruno.

25 With respect to the question of Patton Boggs

1 appearing here, there should be nobody, particularly Dupont,  
2 that is surprised that we are here, appearing on behalf of  
3 Celanese. This is an issue that has been discussed in great  
4 detail between Patton Boggs and Dupont. I will not belabor  
5 this issue with respect to the ITC. We can address it in  
6 the post-conference brief. But, I will leave it at that,  
7 without dragging the ITC into that particular issue.

8           The second point I would like to make is with  
9 respect to Dupont's and Chang Chun's own admission this  
10 morning, that they are -- Chang Chun is filling out Dupont's  
11 product line, that they -- I think those are the words I  
12 wrote down from my own notes -- the fact that they are  
13 complementing Dupont's product line. I think all of that  
14 indicates with respect to the definition of the domestic  
15 industry, there's no question that Dupont, number one, is  
16 benefitting from the dumped imports from Taiwan; and number  
17 two, has structured their business relationship in such a  
18 way that they are relying on the imports from Chang Chun to  
19 fill out the total spectrum of the product line of PVA  
20 products that are available. So, I think based on those  
21 very basic factors, there is no question that they ought to  
22 be excluded from the definition of the domestic industry.

23           Having said that, let me turn it over to Mr. Bruno  
24 for his comments.

25           MR. BRUNO: For the record, my name is Philippe

1 Bruno. I would like to address some of the issues that have  
2 been raised this morning in context of those testimonies  
3 from those parties opposing the petition. In particular,  
4 and this is not in no particular order, I would like to  
5 address the point raised by the Chang Chun witness. This  
6 witness said that the prices of Taiwanese imports declined  
7 over the period of investigation 2001 through 2004, in  
8 response to the competition from the unfairly-traded imports  
9 from Korea, Japan, and China. And that may be right; but  
10 the problem with that testimony this morning is the fact  
11 that after the orders were in place, Taiwanese prices  
12 continued to decline. They did not rise. And you would  
13 have expected that imports from Taiwan, if they were tied to  
14 the pricing structure of the other imports, would have risen  
15 after the orders. That is not the case.

16 I would like to address the issue raised by Mr.  
17 Kaplan with respect to the volume of Taiwanese imports.  
18 They have been much higher in the past, at some remote point  
19 in the past. He did not indicate at which point in time.  
20 But if he's referring to 1996, an investigation in 1996,  
21 that's about 10 years ago. What we noted in this present  
22 period of investigation is that imports from Taiwan have  
23 risen dramatically after the orders were in place and are  
24 now. Not only did they affect the imports from the other  
25 countries that were subject to the orders, but they exceeded

1 the levels of those imports.

2 Dupont has told you this morning that they have  
3 adopted a strategy to adapt to the changes in the  
4 marketplace. What is interesting is that what was left out  
5 in his testimony is the fact that Dupont, essentially, has  
6 imported and distributed increasing volumes of dumped  
7 imports from Taiwan, went after Celanese customers to sell  
8 these products that they do not produce domestically at  
9 dumped prices. And that, in effect, is, also, part of the  
10 Dupont so-called strategy to adapt to the market changes.

11 Dupont has, also, alleged that Celanese problems  
12 are entirely due to a number of factors, among which I noted  
13 two: the fact that U.S. customers need multiple sources of  
14 supply for PVA; and that, essentially, the Celanese folks do  
15 not know how to sell PVA. This is laughable. Dupont was a  
16 petitioner in the last case and I believe that the person  
17 that testified this morning also testified in that case.  
18 And then the question is, what has changed since 2003. The  
19 only difference is that Dupont today opposes the petition,  
20 while a year ago, it supported the petition. And the other  
21 difference is that Dupont now benefits from the dumped  
22 imports from Taiwan in the marketplace.

23 And I would like to come back, finally, to the  
24 testimony that was presented by Mr. Kaplan. Essentially,  
25 Mr. Kaplan has used what we refer to the kitchen sink

1 approach, I'm going to throw everything at the wall and see  
2 what's going to stick. And what he overlooked in his  
3 testimony is that the situation of the U.S. PVA industry  
4 that the Commission found to be materially injured in 2003  
5 has worsened. It has not improved. The imports from Taiwan  
6 have not declined since 2003. They have increased to levels  
7 that are much higher than the import levels from subject to  
8 the previous case. Taiwanese prices have not risen since  
9 2003. In fact, it's the opposite. They have declined to  
10 levels today, which are lower than the prices of the import  
11 subject to the previous case.

12           These are facts and the Commission will be able to  
13 support those facts through the information it collects in  
14 its questionnaires, and those are the statutory factors that  
15 need to be met, in order to prove injury by reason of the  
16 subject imports. And we believe that the facts support our  
17 position that, indeed, the PVA industry is materially  
18 injured by reason of the Taiwanese imports. Thank you.

19           MR. SAMOLIS: I'd like to close by reiterating or  
20 reminding everyone what the mandate of the Commission is, at  
21 this point in the proceeding. Obviously, the question is  
22 whether there is a reasonable indication of injury to the  
23 domestic industry by reasons of these imports. As Mr. Klett  
24 testified, there is no question that imports are increasing  
25 and continuing to increase in greater numbers, based on the



1 July 2004 numbers. Imports from Taiwan are going up. The  
2 average unit values are going down. The injury to the  
3 domestic industry has been fully verified, based on the  
4 information we have provided to the Commission, in terms of  
5 the questionnaire responses. And as far as we're concerned,  
6 that basically fulfills all the statutory elements for an  
7 affirmative determination at this phase of the proceeding.  
8 Thank you.

9 MR. CARPENTER: Thank you, gentlemen. Mr.  
10 Campbell, Mr. Snyder, Mr. Jaffe, please come forward.

11 MR. CAMPBELL: On behalf of Chang Chun  
12 Petrochemical, I'd like to thank the Commission staff for  
13 taking the time to hear us today and allow us to present our  
14 views. We believe that the record shows that there is not a  
15 reasonable indication of material injury or a threat of  
16 injury by reason of Taiwanese imports of PVA.

17 Just a quick comment on one of Celanese's focus  
18 points. They have argued that the 2003 orders have not  
19 benefitted Celanese, to the extent that the imposition of  
20 those orders should have. What Celanese fails to recognize  
21 is that Celanese is already a large player in the United  
22 States market and U.S. customers are smart, rational  
23 business people. They don't want to rely on just one source  
24 of supply for their full range of PVA needs. After the  
25 orders were imposed, only Taiwanese imports of PVA were

1 effectively there to fill in that gap and U.S. customers  
2 wisely, out of non-priced considerations, demanded more  
3 Taiwanese imports of PVA. Thank you.

4 MR. JAFFE: Matthew Jaffe with the law firm of  
5 Crowell & Moring, on behalf of Dupont. Level playing field,  
6 I think I've been at a number of ITC investigations and I'm  
7 sure you have been at more, in which a petitioner has come  
8 forward and said, all we want is a level playing field.  
9 Well, I think Celanese has given a new definition. They  
10 don't want a level playing field. They want to level the  
11 playing field. They want to erase all competition that  
12 exists.

13 Let's move back. Let's look at the conditions of  
14 competition that were in place in 2002 and 2003. Textile,  
15 paper industry declines more rapidly than expected.  
16 Customers coming forward requesting multiple source of  
17 supplies for key raw materials. Raw material energy costs  
18 increase substantially more than forecasted.

19 Producers, how do they react? Producers of PVA,  
20 how do they react? Dupont, long-term perspective. We cut  
21 our costs. Celanese, they didn't cut their costs. They cut  
22 their prices. They wanted to gain volume. Dupont, we tried  
23 to increase our prices. Celanese, trying to lead prices  
24 downward. They're trying to bully their customers to source  
25 100 percent from Celanese. Dupont, we're trying to be a

1 full service company. We want to add value to what we do.  
2 Celanese, well, they failed to initiate price increases and  
3 then they sold first quality PVA for second quality prices,  
4 as if they were going to fool their customers, to recognize  
5 or something. And Dupont, stable leadership, not only  
6 during this period, but stable leadership for a number of  
7 years. Celanese, threw out the old leadership, just put in  
8 an entirely new. You've heard, I've only been working here  
9 for two years. I don't know how you manufacture PVA. That  
10 was the testimony.

11 Level the playing field. And you see it again in  
12 the petition. What are they trying to do? Well, they said,  
13 Solutia doesn't count. We want you, the ITC, to level the  
14 playing field, so it just is us. And Dupont, they don't  
15 count either. Just level the playing field, again.

16 Well, the one thing that stands in their way here  
17 is their customers. You see, the customers here want  
18 multiple sources of supply. The customers here want  
19 Celanese not to level the playing field. They don't want a  
20 monopoly here. They want multiple sources of supplies.  
21 They want the ability to source key raw materials from  
22 different companies.

23 And then, again, look at the petition again, level  
24 the playing field. Engaged in unethical conduct. Patton  
25 Boggs should remove itself from this case. Celanese,

1 placing attorney-client privilege on the record. Celanese  
2 should remove that information from the petition. And if  
3 they don't do the right thing, then, yes, we will come  
4 forward and ask the Commission to do it for them.

5 Level the playing field. There's nothing  
6 reasonable about this petition. And the Commission, on that  
7 basis, should find that there is not a reasonable basis for  
8 moving forward. Thank you.

9 MR. CARPENTER: Thank you for those comments. Let  
10 me mention a few dates in closing. The deadline for both  
11 the submission of corrections to the transcript and for  
12 briefs in the investigation is Friday, October 1<sup>st</sup>. If  
13 briefs contain BPI, a non--proprietary version is due on  
14 October 4<sup>th</sup>. The Commission is tentatively scheduled to  
15 vote on the investigation for Thursday, October 21<sup>st</sup>, at  
16 11:00 a.m. It will report its determination to the  
17 Secretary of Commerce on October 22<sup>nd</sup>. Commissioner's  
18 opinions will be transmitted to Commerce on October 29<sup>th</sup>.

19 Thank you for coming. This conference is  
20 adjourned.

21 (Whereupon, at 1:00 p.m., the hearing was  
22 concluded.)

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**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Polyvinyl Alcohol from Taiwan  
**INVESTIGATION NO.:** 731-TA-1088  
**HEARING DATE:** September 28, 2004  
**LOCATION:** Washington, D.C  
**NATURE OF HEARING:** Hearing

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:** 9/28/04

**SIGNED:** LaShonne Robinson  
Signature of the Contractor or the  
Authorized Contractor's Representative  
1220 L Street, N.W. - Suite 600  
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) 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 proceeding(s).

**SIGNED:** Carlos Gamez  
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) 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 proceeding(s).

**SIGNED:** Renee Miskell  
Signature of Court Reporter