





Staff:

MARILYN R. ABBOTT, Secretary to the Commission  
BILL BISHOP, Hearings & Meetings Coordinator  
SHARON BELLAMY, Hearings and Meetings Assistant  
FRED RUGGLES, Investigator  
LARRY JOHNSON, International Trade Analyst  
GERALD BENEDICK, Economist  
CHARLES YOST, Accountant/Auditor  
KARL von SCHRILTZ, Attorney  
GEORGE DEYMAN, Supervisory Investigator

## APPEARANCES:

In Support of the Imposition of Antidumping Duties:On behalf of Sekisui Speciality Chemicals America, LLC:

SCOTT R. NEUHEARDT, General Manager  
Sekisui Speciality Chemicals America, LLC

CORY J. SIKORA, Business Development Manager  
Sekisui Speciality Chemicals America, LLC

KENNETH R. BUTTON, Senior Vice President  
Economic Consulting Services, LLC

JENNIFER LUTZ, Senior Economist  
Economic Consulting Services, LLC

RICHARD B. GABBERT, Esquire  
DANIEL J. PLAINE, Esquire  
Gibson, Dunn & Crutcher, LLP  
Washington, D.C.

APPEARANCES: (Continued)

In Opposition to the Imposition of Antidumping Duties:

On behalf of Chang Chun Petrochemical Co. Ltd, "Chang Chun" and E.I. du Pont de Nemours and Company "DuPont":

RICHARD CHEN, General Manager, Overseas  
Marketing Division,  
Chang Chun

MAX YEI, Assistant to the Vice President  
for Technology,  
Chang Chun

BRUCE BECKER, Elvanol Polyvinyl Alcohol,  
DuPont

MICHAEL BRISBON, Vinyls Demand Manager,  
DuPont

RICHARD R. BOYCE, Economist  
Econometrica International, Inc.

EDMUND W. SIM, Esquire  
KELLY A. SLATER, Esquire  
Appleton Luff Pte. Ltd.  
Washington, D.C.

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P R O C E E D I N G S

(9:30 a.m.)

CHAIRMAN OKUN: Good morning and welcome to the U.S. International Trade Commission,

Before we begin our official proceedings this morning, I would like to take this opportunity to thank our secretary, Marilyn Abbott, for over 20 years of government service, including the last 13 at the ITC, and the last nine as secretary to the Commission. Marilyn started her federal government career in 1969 at the Congressional Research Service at the Library of Congress, and she came to the USITC on April 1st of 1998, April Fools Day, as the deputy secretary under then Secretary Donna Kanky, and she was designated as secretary to the Commission on January 13, 2002, by then Chairman Koplán.

As those of you who practice at the Commission know, the secretary serves as the public face of the Commission, and her efforts are crucial to the smooth operation of Commission business. As you should have learned by now, you don't mess with the secretary.

During Marilyn's time at the Commission there have been 344 hearings and 368 votes, the majority of which she attended. Marilyn has seen 13

1 Commissioners come and go. In fact, none of the  
2 Commissioners who hired her remain here today.

3 Today marks the final Commission proceeding  
4 for Marilyn Abbott. I understand that looking at the  
5 international seal every day when she comes to work  
6 has inspired her to start her retirement and pursue  
7 the international travels she has been dreaming about.

8 Marilyn, on behalf of the Commission, I want  
9 to wish the best to you and to thank you for your  
10 service, many years of service during your tenure  
11 here.

12 Do any of my colleagues want to add any  
13 additional remarks?

14 MS. ABBOTT: Thank you, Chairman Okun. The  
15 kind words are appreciated and the opportunity to have  
16 been the secretary is also appreciated. The best  
17 thing I can say or the most important thing to say is  
18 it's really been fun and I've learned a lot.

19 I can talk about Generalized Systems of  
20 Preferences, I can talk about rules of origin. When  
21 we get to steel, I can talk about hot-rolled, cold-  
22 rolled, slat, cut-to-length, noncorrosive, stainless,  
23 and I'm sure alloy, and I'm sure there are some other  
24 ones that I'm forgetting. I can also talk about such  
25 things as electrolytics, manganese dioxide, titanium

1 sponge and polyvinyl alcohol. I am frequently at  
2 dinner, never lack for something to talk about, and  
3 also read labels on clothes, and ask where food comes  
4 from.

5 As much as I have anticipated having more  
6 personality quirks to add and more topics that I can  
7 talk about at dinner, I also am anticipating new  
8 adventures and opportunities, and am looking forward  
9 to moving on, but I do appreciate the service here and  
10 the opportunity and I will miss it. Thank you.

11 CHAIRMAN OKUN: Thank you.

12 On behalf of the U.S. International Trade  
13 Commission, I welcome you to this hearing on  
14 Investigation No. 731-TA-1088 (Final), involving  
15 polyvinyl alcohol from Taiwan.

16 The purpose of this investigation is to  
17 determine whether an industry in the United States is  
18 materially injured or threatened with material injury,  
19 or the establishment of an industry in the United  
20 States is materially retarded by reason of less than  
21 fair value imports of polyvinyl alcohol from Taiwan.

22 Schedules setting forth the presentation of  
23 this hearing, notice of investigation, and transcript  
24 order forms are available at the public distribution  
25 table. All prepared testimony should be given to the

1 secretary. Please do not place testimony directly on  
2 the public distribution table. All witnesses must be  
3 sworn in by the secretary before presenting testimony.

4 I understand that parties are aware of the  
5 time allocations. Any questions regarding the time  
6 allocations should be directed to the secretary.

7 Speakers are reminded not to refer in their  
8 remarks or answers to questions to business  
9 proprietary information. Please speak clearly into  
10 the microphones and state your name for the record for  
11 the benefit of the court reporter.

12 If you will be submitting documents that  
13 contain information you wish classified as business  
14 confidential, your request should comply with  
15 Commission Rule 201.6.

16 Madam Secretary, are there any preliminary  
17 matters?

18 MS. ABBOTT: Yes, Madam Chairman.

19 With your permission we will add a witness  
20 to the Respondent's, Max Yei, who is the Assistant to  
21 the Vice President for Technology at Chang Chun  
22 Petrochemical and Chang Chun Plastics.

23 CHAIRMAN OKUN: Without objection.

24 MS. ABBOTT: Other than that, all witnesses  
25 have been sworn.

1 (Witnesses sworn.)

2 CHAIRMAN OKUN: Very well, let us turn to  
3 our opening remarks.

4 MS. ABBOTT: Opening remarks on behalf of  
5 Petitioners will be by Richard Gabbert of Gibson, Dunn  
6 & Crutcher.

7 CHAIRMAN OKUN: Good morning, Mr. Gabbert.  
8 Make sure your microphone is turned on.

9 MR. GABBERT: Thank you. I'm Richard  
10 Gabbert of Gibson, Dunn & Crutcher, appearing on  
11 behalf of Sekisui Speciality Chemicals America with my  
12 colleague Daniel Plaine.

13 A little over six years ago, SSCA's  
14 predecessor interest, Celanese, filed a petition  
15 seeking a remedy for dumped imports of PVA from  
16 Taiwan. A year prior to the filing of that petition,  
17 in 2003, the U.S. domestic PVA industry had obtained  
18 an antidumping order against imports from China, Japan  
19 and Korea, only to see a flood of imports from Taiwan  
20 take their place, depriving the domestic industry of  
21 most of the benefits they expected from the 2003  
22 order.

23 The six-year gap between the filing of our  
24 petition and the final phase of this investigation  
25 makes this case unique. Unlike in any other final

1 phase investigation that we're aware of, the  
2 Commission has the ability to look at the behavior of  
3 the subject importer over an extended period of time,  
4 and what stands out over the last six years is the  
5 increase in the volumes of subject imports.

6 This increase shows that any inference drawn  
7 in the preliminary stage that Taiwan was not dumping  
8 or that it would not step in to play the role in the  
9 marketplace that was played by China, Japan and Korea  
10 prior to the 2003 order was simply wrong.

11 You will hear from our panel today a  
12 description of SSCA's business products in the PVA  
13 market as well as a detailed account of the current  
14 industry and ongoing threat posed by Taiwanese  
15 imports. Scott Neuheardt, General Manager of SSCA's  
16 PVA business, will begin by describing the production  
17 process and the nature of the domestic market demand  
18 for PVA. We will then turn to the question of injury  
19 and the source of that injury.

20 All parties agree for the purpose of our  
21 discussion today that the Commission will consider all  
22 PVA sold in the domestic merchant market as a single  
23 domestic-like product. All parties also agree that  
24 the captive production provision applies here, and  
25 that the Commission should therefore focus primarily

1 on the merchant market when analyzing injury as it did  
2 in the preliminary phase of this investigation, and as  
3 it has done in the past PVA investigations.

4 Finally, all parties agree that the domestic  
5 industry is injured. This injury is most evident in  
6 the financial performance of the industry, but other  
7 factors such as market share points to injury as well,  
8 and these factors show that the industry's position  
9 was worsened over time.

10 You will also hear that the cause of this  
11 injury has become even clearer over time. Most  
12 importantly, underselling has been persistent over the  
13 final phase of the POI. In this respect, things are  
14 very different today compared to the preliminary phase  
15 POI. There has been a significant increase in  
16 underselling compared to earlier in the decade, and  
17 this underselling has exerted significant downward  
18 price pressure on domestic prices.

19 The price depression and suppression caused  
20 by this underselling is illustrated by the numerous  
21 incidence of lost sales and revenues that we listed in  
22 our questionnaire response and that we discussed in  
23 our prehearing brief.

24 You will hear the Respondent argue that  
25 these changes between the preliminary phase POI and

1 today, the poor financial performance, lost market  
2 share, lost sales and revenues, are largely  
3 attributable to the industry's supply issues in 2007  
4 and 2008, and the desire of purchasers to seek  
5 alternative sources of supply. But this is all old  
6 news. Contrary to what Respondents will tell you, we  
7 will show that the conditions of competition,  
8 including supply and demand patterns, largely haven't  
9 changed.

10 First, customers in this industry have long  
11 sought alternative sources of supply. During the  
12 preliminary phase of this investigation DuPont  
13 repeatedly declared that customers were already then  
14 seeking alternative sources of supply, and that was in  
15 2004. We will show that subject import volumes  
16 increased significantly between 2004 and 2007, and  
17 again between 2007 and 2008, again suggesting that  
18 something other than a desire to second source product  
19 was at play here.

20 Second, production shortfalls are not a new  
21 phenomenon in this industry. You have heard and will  
22 hear much from the Respondents about Celanese's force  
23 majeure in 2007, but even they acknowledge that  
24 Celanese failed to supply very few domestic customers  
25 as a result of this incident. Cory Sikora, global

1 development manager at SSCA, lived through this period  
2 at the company, and he will tell you that under 3  
3 percent of customer requests during this period were  
4 not supplied.

5 Finally, we will explain how the domestic  
6 industry remains under threat due to low prices and  
7 overcapacity on a global basis.

8 These two factors, coupled with attractive  
9 pricing in the U.S. market, means that the domestic  
10 industry will remain vulnerable to the threat of  
11 dumped imports from Taiwan. Thank you.

12 CHAIRMAN OKUN: Thank you.

13 MS. ABBOTT: Opening remarks on behalf of  
14 Respondents will be by Edmund W. Sim of Appleton Luff.

15 CHAIRMAN OKUN: Good morning, Mr. Sim.

16 MR. SIM: Good morning, Commissioners.

17 I would like to thank the Commission staff  
18 and the Commission for allowing us to participated in  
19 this part of the hearing. I am here on behalf of  
20 Chang Chun Petrochemical, which is the Taiwanese  
21 producer of polyvinyl alcohol, and E.I. du Pont de  
22 Nemours and Company, which is also part of the  
23 domestic industry in the United States producing  
24 polyvinyl alcohol.

25 Yes, this case is unique. We were talking

1 earlier about the secretary's career at the  
2 Commission. One of her first cases was this case, and  
3 the last case will be this case. During that time  
4 period the Petitioner which has in its briefs and  
5 submissions claimed that there is injury caused by the  
6 PVAs in Taiwan actually has had within its discretion  
7 if it really was injured during that six-to-seven-year  
8 period it could have re-filed a petition. It could  
9 have stopped the court appeal. They could have done  
10 this and they could have gotten relief at anytime over  
11 the last six years.

12 The fact that they have not, and that we  
13 have instead gotten to this point shows that during  
14 this period they were not injured by reason of imports  
15 from Taiwan.

16 Now, more importantly besides this, more  
17 importantly we feel, as both the domestic industry,  
18 part of the domestic industry and part of the  
19 worldwide industry for polyvinyl alcohol that  
20 polyvinyl alcohol from Taiwan entered this market in  
21 larger quantities during the latter part of the POI,  
22 and make no mistake about this. The POI in this case  
23 consists of the data collected by the Commission's  
24 questionnaire for the last three years.

25 Okay, you have to take a snapshot of the

1 industry on vote day, and that's a three-year period,  
2 not this extended period they are talking about.

3 Now, Taiwan's PVA entered this market mainly  
4 because of supply disruptions caused through various  
5 reasons in the industry both with regard to Sekisui  
6 and with regard to our client DuPont.

7 Now, 2009, we really feel that it is not  
8 reasonable to attribute causation of the global  
9 economic crisis. You can blame many people, you can  
10 blame Lehman Brothers, you can blame all kinds of  
11 people, but I really think it's very difficult to put  
12 a causal link of the condition of DuPont and Sekisui  
13 to polyvinyl alcohol from Taiwan.

14 Now, as far as threat, we believe that we  
15 can present information here and we have presented  
16 information in our submission showing that Taiwan is  
17 not a threat. Production increase in capacity can be  
18 explained which will be explained by Mr. Chen, Richard  
19 Chen from Chang Chun Petrochemical, and with regard to  
20 the global market in the United States, we will  
21 explain what has been happening in this market with  
22 regards to different types of demand, different supply  
23 and demand conditions, and what the future looks like  
24 for this industry.

25 The future actually is pretty good. We are

1 part of the domestic industry. Our client is DuPont.  
2 They feel comfortable and they will talk to you today  
3 about how the profitability of the company overall has  
4 improved with the overall economy in the United  
5 States. So Mr. Bruce Becker and Mr. Michael Brisbon  
6 from DuPont will help explain that.

7 So, we feel that -- you know, we are in  
8 agreement with the Petitioner about the like product.  
9 We are in agreement about the production provisions,  
10 but we are not in agreement about the causation. We  
11 are not in agreement about the threat. At the end of  
12 the day it's up to you all to make your own decision  
13 based on the information presented by both sides as to  
14 whether or not Taiwanese PVA really constituted a  
15 cause of material injury or threatened material  
16 injury. Thank you.

17 MS. ABBOTT: Will the first panel in support  
18 of the imposition of the antidumping duty orders  
19 please come forward?

20 (Pause.)

21 CHAIRMAN OKUN: Mr. Gabbert, you may  
22 proceed. It looks like the panel is ready to go.

23 MR. GABBERT: Commissioners, I'd like to  
24 take a couple of minutes at the beginning of our  
25 panel's presentation to address a couple of issues

1 that I alluded to in my opening remarks.

2 One would be the time gap between the  
3 Department of Commerce POI and the Commission's final  
4 phase investigation, and the other would be the  
5 presence of two non-overlapping investigation phases  
6 in this case. Now these appear to be matters of first  
7 impression before the Commission.

8 As to the first issue, Commerce selected as  
9 its POI for the dumping investigation the 12 months  
10 ending, the quarter ending prior to the filing of the  
11 petition as it is required to do under its governing  
12 statutes, and it preliminarily determined that during  
13 the POI CCP was dumping at a margin of just over 3  
14 percent.

15 From a statutory perspective, the fact that  
16 Commerce found dumping at a level above de minimis  
17 provides the sole basis the Commission needs for  
18 proceeding with this investigation.

19 Given the length of time that has elapsed  
20 since the investigation and the evidence of consistent  
21 dumping in the intervening period, however, SSCA  
22 believes that the current size of the margin is almost  
23 certainly higher than the 3.02 percent determined by  
24 Commerce. The evidence of injurious conduct by CCP in  
25 the Commission's final phase POI is greater than in

1 the preliminary phase POI, which included the Commerce  
2 POI.

3 As to the second issue, this case is unusual  
4 in that the preliminary and final phase of the  
5 Commission's investigation do not overlap. The  
6 preliminary phase of the investigate ended in June of  
7 2004, and the final phase of the investigation began  
8 in January of 2007. The Commission's regulations  
9 currently provide for a single investigation divided  
10 into preliminary and final phases.

11 We believe that the Commission should  
12 consider both phases of the investigation in  
13 evaluating whether domestic PVA producers have been  
14 injured. The Court of International Trade has stated  
15 that, and I quote, "In making a present material  
16 injury determination, the Commission must address  
17 record evidence of significant circumstances and  
18 events that occur between the petition date and the  
19 vote date."

20 And the Court also went on to explain that  
21 older information on the record provides a historical  
22 backdrop against which to analyze fresher data.

23 In this case, the Commission is presented  
24 with the rare opportunity in a final determination to  
25 observe market and pricing trends over a long period

1 of time. While we believe the evidence of both injury  
2 and threat are compelling within the final phase POI,  
3 comparing the two phases confirms the severity of the  
4 long-term damage caused to domestic industry and  
5 removes any doubt that the current indicia of injury  
6 reflects anomalies in the market during the POI  
7 because this historical backdrop, in the words of the  
8 CIT, is already on the record and the Commission  
9 should consider it in its analysis.

10 The use of domestic-like product in the  
11 merchant market, I simply reiterate the position  
12 outlined in our briefs, and outlined by opposing  
13 counsel in our opening statements, and since both  
14 sides seem to be in agreement here I propose not to  
15 spend any additional time addressing them unless the  
16 Commission has questions as I believe you would rather  
17 hear from our panel.

18 And with these remarks I turn things over to  
19 them. First, Scott Neuheardt, the General Manager of  
20 SSCA's PVA business, will speak, followed by his  
21 colleague, Mr. Cory Sikora, and then by Jennifer Lutz  
22 and Kenneth Button of ECS. Thank you.

23 MR. NEUHEARDT: Good morning. My name is  
24 Scott Neuheardt, and I am the General Manager of  
25 Sekisui Speciality Chemicals America, or as we will

1 refer to it as SSCA.

2 SSCA is the largest producer in America,  
3 largest PVA producer in America. We have production  
4 facilities in Calvert City, Kentucky, and Pasadena,  
5 Texas. I joined the company in 2002 when it was owned  
6 by Celanese and served as the commercial director of  
7 the PVA business until 2007. I spent the next two  
8 years in another division of Celanese before becoming  
9 general manager when Sekisui acquired the company in  
10 2009.

11 In my time in the business, both at Celanese  
12 and now at SSCA, I have witnessed firsthand the impact  
13 that dumped imports from the Taiwanese producers,  
14 Chang Chun, or I will refer to as CCP, have had on our  
15 business and on the PVA market more broadly.

16 Dumped imports from Asia has been an issue  
17 in this industry since before I joined the company,  
18 and Taiwan was a concern to us in 2003 when Celanese  
19 and DuPont jointly filed petitions in the  
20 investigation that ultimately resulted in the orders  
21 against China, Japan and Korea, and despite  
22 overwhelming evidence of significant dumping Taiwan  
23 was not included in the case because DuPont was, and  
24 still is now, considerable importer of Taiwanese PVA,  
25 and would not support the petition if it included

1 Taiwan.

2           Once these orders were in place, the  
3 aggressiveness of Chang Chun in pursuing business in  
4 the U.S. accelerated. CCP's obvious goal was to price  
5 its products as much as possible as the business  
6 previously supplied by the other producers in those  
7 countries. Unfortunately, it succeeded and ended up  
8 depriving the domestic industry of much of the benefit  
9 that we expected to see from the 2003 order, and it  
10 was not long before CCP started taking market share  
11 from us. In fact, DuPont was central to those  
12 efforts. Shortly after the orders were imposed,  
13 DuPont began to aggressively courting many of  
14 Celanese's largest PVA customers with dumped imports  
15 from Chang Chun.

16           Before describing how these dumped imports  
17 from Taiwan have been harming our business  
18 specifically, I'd like to take a few minutes to  
19 provide the Commission with a brief overview of our  
20 products and our business.

21           PVA is a synthetic polymer and it's used in  
22 a wide range of industries, including adhesives and,  
23 for example, water children's blues, as well as  
24 adhesives in the housing and building construction  
25 markets, textile for sizing, and also paper for

1 sizing, but in addition it's also used in coatings in  
2 the paper industry that makes your copy paper whiter  
3 and brighter. It's used in the production of  
4 polyvinyl butyryl or PVB, which is primarily used for  
5 the inner layer of laminated glass for the windshield  
6 in your automobile or for commercial construction.

7 PVA specifications are based on many  
8 characteristics but mainly hydrolysis levels and  
9 viscosities. There are several different PVA, or  
10 several different grades of PVA with varying  
11 characteristics based upon specific application  
12 requirements, and these are very mature segments that  
13 we sell into and mostly commodity applications, and  
14 comparable domestic and foreign products are largely  
15 interchangeable in these applications.

16 CCP stated at the preliminary conference  
17 that it sells into all segments of the U.S. market,  
18 and they offer a directly comparable product to  
19 virtually all the products that we produce to SSCA.

20 PVA is produced from vinyl acetate monomer  
21 or VAM and all PVA grades are produced on the same  
22 equipment but with slightly different manufacturing  
23 processes. Changing the product requires alternations  
24 to the manufacturing process. Therefore in order to  
25 maximize efficiency and minimize down time, SSCA

1 produces different PVA products on the same equipment  
2 according to a production campaign schedule. The  
3 schedule is built around orders and generally makes  
4 only incremental shifts to different viscosities and  
5 hydrolysis specifications.

6 Polyvinyl alcohol business is capital  
7 intensive. There are several different processes in  
8 the manufacturing of PVA and these processes are  
9 complicated and require a highly skilled labor force  
10 to operate, and as a result the industry has high  
11 fixed costs and must maintain high levels of staff  
12 utilization in order to remain viable.

13 The PVA business is also very energy-  
14 intensive, and it's subject to significant cost  
15 pressures from the volatility of oil, natural gas, and  
16 other key inputs into our raw materials such as  
17 ethylene and ethanol. Our plants are expensive to  
18 build and expensive to maintain, and we have extremely  
19 limited ability to reduce production volumes or turn  
20 down capacity, if you will, when the plant is running.  
21 We have to run the plant hard in order to ensure that  
22 we cover our fixed costs. A dramatic drop in  
23 production volume, as we saw during certain portions  
24 of the GDP, did not correspond to a drop in our cost.  
25 Even if the plant is running at a low capacity

1 utilization, we have to basically keep it fully  
2 staffed and our use of energy input varies very  
3 little. Because of this cost structure, running at a  
4 reduced reduction rate is simply not economically  
5 viable.

6 For us, the U.S. domestic market is a  
7 priority. However, domestic PVA production volume  
8 exceeds U.S. consumption. This fact, coupled with the  
9 high fixed cost structure of the industry, means that  
10 a significant amount of our sales today are in the  
11 export market even though prices are generally lower  
12 outside the United States. Prices are lower abroad  
13 because global markets are oversupplied and become  
14 increasingly so. We have, however, pursued  
15 opportunities to sell export production in foreign  
16 markets because we cannot scale back the production  
17 process without destroying our productivity.

18 As my colleague Cory Sikora will explain in  
19 greater detail, our export volume that is sold on the  
20 spot market also provides a buffer from which we can  
21 draw to supply our U.S. customers in the event that  
22 production falls short.

23 As we noted, our product is essentially  
24 interchangeable with Taiwanese PVA across applications  
25 in almost every segment. This interchangeability

1 means that when we compete with Taiwan for a  
2 customer's business the competition basically comes  
3 down to price. Customers may talk about how product  
4 availability and supply availability are important to  
5 them, but when it comes down to that time to make that  
6 purchasing decision it's usually or almost always  
7 about price, and this shouldn't be surprising.

8           On most of the metrics that our customers  
9 claim are important, we and CCP are quite similar,  
10 which means, again, that in the end it's price that  
11 matters most.

12           There are multiple instances where we have  
13 lost sales to Taiwan because we were unable to meet  
14 dumped price. In addition, we have also been forced  
15 to reduce our own price in order to meet the prices of  
16 dumped imports, and the competition from imports is  
17 especially painful when it prevents us from raising  
18 prices in response to raw material costs.

19           And one important point of note here is that  
20 after the acquisition of the PVA business by Sekisui  
21 in July of 2009, all of our raw materials are now  
22 purchased through market-based arm's-length  
23 transactions. In order to compete with dumped imports  
24 we have been forced to reduce prices to levels that do  
25 not allow full recovery of our fixed and variable

1 costs.

2 The alternative to cutting prices is to lose  
3 sales volume which our higher fixed costs or higher  
4 unit fixed costs, which is similarly destructive to  
5 our financial viability.

6 When we first filed the petition in this  
7 case back in 2004, CCP's dumped imports were already  
8 having a negative effect on the market. Now six years  
9 later I can say much of what we feared back in  
10 September 2004 has come to pass, and in fact has  
11 worsened. Taiwan's import volumes have grown  
12 dramatically since we filed our petition, and the  
13 downward pressure on our prices and on our  
14 profitability has meant that we have not been able to  
15 carry out the types of investments that are necessary  
16 to keep our plants in proper working order.

17 Chang Chun and DuPont have stated in their  
18 prehearing brief that the injury caused to the  
19 domestic industry is not due to imports from Taiwan,  
20 but due to supply disruptions from VAM force majeure  
21 incidents in 2007 as well as a result of the global  
22 recession, and that's simply is not true.

23 My colleague will discuss the force majeure  
24 in greater detail, but I wanted to emphasize that we  
25 went to great lengths, and I believe successfully, to

1 minimize the impact of force majeure on our U.S.  
2 customer base. We believe that it was not just  
3 market-changing events that caused the U.S. purchasers  
4 to seek to qualify alternative PVA products at Chang  
5 Chun and DuPont characterize in their briefs. The  
6 fact is that most, of not all, of our major customers  
7 already had alternative supplies in place.

8 In the 2004 preliminary hearing, Cathy  
9 McCord testified on behalf of DuPont that customers  
10 already sought secondary suppliers.

11 The second point I want to make is respect  
12 to demand for PVA, which has declined during the POI,  
13 with a modest recovery in 2010. As I stated above,  
14 PVA applications are mature and typically demand  
15 quality PVB. The PVA began to feel in earnest the  
16 effects of the recession beginning in 2-3 of 2008,  
17 with the most significant effect felt during 2009.  
18 However, we believe that some of what appears to be a  
19 reduction in demand was in fact customers and the  
20 entire value chain drawing down inventory during the  
21 recent recession as managing cash flow became our  
22 customer's and our customer's customers primary  
23 concern.

24 Likewise, we believe the current modest  
25 recovery is similarly due, at least in part, to

1 customers restocking inventories that have been  
2 deleted or depleted prior to 2010.

3           The impact on the domestic industry of  
4 dumped PVA from Taiwan has been severe, our financial  
5 performance has suffered as a result of our ability to  
6 increase prices and increasing input costs. We are  
7 not making capital investments aside from the repairs  
8 needed to remain in operation. We have little  
9 flexibility to cut costs elsewhere given the high  
10 fixed costs of our business, and as dumped subject  
11 imports continue to take business away from us through  
12 low prices, our unit costs will continue increase,  
13 thereby exacerbating our already weak position.

14           We at SSCA have no reason to expect that the  
15 injury to our business and the rest of the domestic  
16 PVA industry will subside going forward unless we are  
17 successful in obtaining an antidumping order against  
18 Taiwan. It is increasingly difficult for us to keep  
19 our prices in line with increasing raw materials, and  
20 the U.S. market becomes only more attractive as  
21 foreign producers, including those in China, continue  
22 to build additional capacity.

23           Moreover, given the capacity that CCP has  
24 built in China, we believe that they are gradually  
25 freeing up their Taiwanese plant by choosing to supply

1 other foreign markets with product from their Chinese  
2 facility, and in fact just this last month we learned  
3 of an offer CCP made to customers in Southeast Asia  
4 where they quoted price of their product out of China  
5 significantly lower than the identical product made in  
6 Taiwan. This suggests that CCP stands ready to shift  
7 its Taiwanese production from other export markets to  
8 the U.S. in the event the Commission finds no injury.

9 As we detailed in our brief, the  
10 consequences of continued dumping are likely to be  
11 very negative for SSCA. We've repeatedly delayed  
12 needed capital investments because of the  
13 uncertainties caused by the ongoing injury due to  
14 subject imports, and if we can't make these  
15 investments, or if our volumes or domestic prices drop  
16 to such levels that we can't cover our costs, the  
17 viability of one or both of our domestic plants will  
18 be called into question.

19 Our PVA business has long provided well  
20 paying, challenging manufacturing jobs to our  
21 employees, and it would be devastating to us as a  
22 company and to our communities if we were no longer  
23 able to provide those jobs.

24 Thank you, and I will turn it over to my  
25 colleague Cory Sikora.

1           MR. SIKORA: Good morning. Commissioners,  
2 I'm grateful for the opportunity to address you today  
3 on behalf of the 178 employees of Sekisui Speciality  
4 Chemicals America.

5           My name is Cory Sikora, and I currently  
6 serve as SSCA's global business development manager.  
7 Since 2001, I have worked in aggregate over nine years  
8 in SSCA's PVA business in a variety of roles,  
9 including inside sales, field sales, market  
10 development, marketing and business analysis. Over  
11 that time I have been responsible for direct customer  
12 relationships and sales to both small and large  
13 customers, efforts to expand PVA demand in new  
14 applications, price and contract management, and sales  
15 strategy within the U.S. region. Because of those  
16 roles, I have felt firsthand the impact of CCP's  
17 material coming into the U.S. and the dramatic impact  
18 that these dumped imports have had on our business.

19           As my colleague Scott Neuheardt has  
20 described the past several years have been challenging  
21 ones for SSCA. Because of the interchangeable nature  
22 of CCP's material with our own and the pricing level  
23 that Taiwan is promoting their product at, customers  
24 look to Taiwanese product as leverage to reduce our  
25 prices or to replace us as a supplier outright even

1 when we are trying to raise prices to cover increases  
2 in our cost base.

3 Customers generally are very direct about  
4 their need to continually lower their cost, and they  
5 view the pricing of CCP's product as an attractive way  
6 to keep our prices down or further lower their cost.  
7 A recent negotiation with a key paper customer is a  
8 prime example of the impact that CCP's aggressive  
9 pricing had on our business relationship.

10 Over a three-month negotiation period we had  
11 to reduce our price by 20 percent in order to keep our  
12 business in the face of aggressively priced material  
13 from Taiwan.

14 What I would like to focus on in my brief  
15 remarks, however, has to do with the history and  
16 effect of Celanese's declaration of force majeure back  
17 in 2007. At that time Celanese had an integrated  
18 production chain beginning with acetic acid. Acetic  
19 acid is the key feedstock used to make VAM which in  
20 turn is the key raw material for PVA.

21 In May of 2007, the Celanese acetic acid  
22 unit in Clear Lake, Texas, experienced an  
23 unprecedented event in the form of a mechanical  
24 failure of the acid reactor. Because the acetic acid  
25 unit had only a single reactor, this failure led to

1 the shutdown of the unit for approximately three  
2 months. The Clear Lake acid unit's capacity is about  
3 11 percent of the world's supply, so the shutdown of  
4 this unit had a significant impact in the production  
5 of VAM and ultimately led to a shortage of VAM  
6 globally.

7 As a result, Celanese declared force majeure  
8 on acetic acid and VAM. With VAM has the key  
9 feedstock for PVA, a force majeure declaration on PVA  
10 was subsequently announced as well. Although VAM  
11 production was significantly impacted by the reduced  
12 acid availability, the impact of PVA production was  
13 somewhat mitigated by the fact that one of our PVA  
14 producers produces acetic acid as a byproduct. This  
15 byproduct acid was recycled back into VAM production  
16 to make more VAN for PVA again, which meant that we  
17 could continue to operate a higher rates than other  
18 downstream VAM industry.

19 Overall, although the problem originated  
20 with acetic acid and moved into VAM, we were able to  
21 maintain a higher level of production. This was  
22 critical to our effort to continue to serve our  
23 customer base at as high level as possible.

24 A further complication in the industry was  
25 that, as was widely reported in the press at the time,

1 all four U.S. producers of VAM -- DuPont, Dow,  
2 Lyondell and Celanese -- declared force majeure on VAM  
3 at some point in 2007. Additionally, VAM supply  
4 problems were not restricted to the U.S.

5 For example, BP declared force majeure on a  
6 major facility in England during 2007, and Dairen  
7 Chemical, which is CCP's affiliated VAM supplier, cut  
8 back production of VAM in Taiwan in September of 2007,  
9 at the height of the global VAM supply crunch, which  
10 impacted PVA production in Taiwan.

11 So, although there has been a lot of  
12 sentiment in the market about the force majeure of  
13 PVA, the key issues related not to PVA production  
14 itself, but to upstream materials. They were not  
15 limited to the United States, and in fact also  
16 involved Taiwan.

17 I'd like to also highlight today our  
18 operations are no longer part of Celanese and solely  
19 dependent on internal transfer for raw material. We  
20 have several other VAM suppliers qualified which gives  
21 us much better flexibility to manage raw material  
22 disruptions in the future.

23 In any event, the total domestic impact of  
24 our force majeure on our shipments to our domestic  
25 customers was relatively small. The U.S. is a

1 critically important market for us, and during force  
2 majeure we worked to make the impact to our domestic  
3 customer base as minimal as possible.

4 As we had detailed during the sunset review,  
5 our overall production in 2007 declined minimally  
6 compared to 2006. In addition, in order to continue  
7 to serve our customer base we drew down our  
8 inventories by over 11 million pounds during that same  
9 period to help maintain supply. As well, because of  
10 the importance that we place on the U.S. market, we  
11 gave significant priority to our U.S. customers for  
12 product availability, and we temporarily reduced  
13 export spot sales to redirect product to the U.S.  
14 market.

15 Although the force majeure announcement on  
16 PVA was 50 percent, matching the upstream Dow force  
17 majeure announcement, our U.S. customers generally  
18 received significantly higher shipment levels and our  
19 overall deficit to U.S. customers was less than 3  
20 percent.

21 In addition, we made extra efforts to ship  
22 customers smaller orders or partial shipments as  
23 product was available, agreeing to absorb higher  
24 freight costs in order to keep supply levels up and to  
25 prevent shutting down of any customers. To my

1 knowledge, I do not recall causing a shutdown of even  
2 one of our customers due to a lack of material.

3           Despite these efforts we recognized that the  
4 force majeure was not an easy time for our customers  
5 or us as their supplier. But in the end I feel we  
6 worked diligently to supply both our contract and non-  
7 contract customers. As an example, in the sunset  
8 review it was noted by one customer that we had placed  
9 them on 20 percent allocation and were not able to  
10 supply 80 percent of our contracted volume. However,  
11 we demonstrated that we did in fact supply this  
12 customer in 2007 at higher than its contracted volume.  
13 Essentially this customer received more product in  
14 2007 than we were contracted to supply even though  
15 force majeure had been in effect.

16           We at SSCA understand why customers were  
17 worried about their ability to obtain product during  
18 the force majeure period, and we understand why  
19 customers might seek a secondary source of supply.  
20 However, it's been my experience through my role in  
21 the PVA business, which included working directly with  
22 customers and sales, that it's the price and not  
23 availability of an alternative supplier that is really  
24 the driving force behind CCP's success in the domestic  
25 market.

1           For the last two and a half years SSCA has  
2           been a reliable supplier in the U.S. market, and we've  
3           worked diligently to rebuild our reputation as such  
4           through our actions with our customer base. Yet CCP's  
5           price continues to be the key discussion points in our  
6           sales discussions with customers. For example, in  
7           2008, after the force majeure was no longer in effect,  
8           there were several cases where we had to reduce price  
9           to accounts sold to our customer Brenntag in response  
10          to competing offers of CCP material.

11           Similarly, during negotiation on a price  
12          increase in 2010 we were forced to lower the price by  
13          6.5 percent in response to a competitive offer from  
14          Taiwan.

15           As I stated, we have worked very hard since  
16          force majeure to show our customers our commitment to  
17          them and to maintain their trust as their supplier.  
18          We have consistently supplied our customers'  
19          forecasted demand. For the technical reasons we  
20          provide in our brief, we do ask customers for demand  
21          forecasts so that we can plan production campaigns  
22          accordingly. But we also maintain significant  
23          inventory levels that permit us to meet some degree of  
24          unexpected demand.

25           In a couple of cases that we detail in our

1 prehearing brief, we've not been able to meet the full  
2 volume of unexpected demand, but we have generally in  
3 fact come quite close, and we try and work with the  
4 customers to find alternative solutions to meet their  
5 needs if we cannot satisfy their unforecasted demand  
6 immediately.

7           Again, even with this record of high  
8 performance, we at SSCA recognize the desire of some  
9 of our customers to have multiple sources for their  
10 material. We have no objection to this, although we  
11 like to build strong relationships with our customers  
12 and hope to have them share as much as business with  
13 us possible.

14           Healthy competition in the market is a good  
15 thing for both us and our customers. It drives us to  
16 work hard to improve, and continuous improvement is  
17 one of the keystones of SSCA's policy of improving  
18 customer service through our outstanding quality,  
19 cost, and delivery. However, we don't believe that  
20 the desire for alternative suppliers is the primary  
21 focus, driving force, for their selection of CCP  
22 material.

23           When we price at or below the pricing our  
24 customers tell us CCP is offering, we win the  
25 business. We win it because the competition is, in my

1 experience, about the price. But the fact is that  
2 CCP's dumping makes it almost impossible for us to  
3 compete and still be viable. In most cases, when  
4 we're head to head with CCP, we simply cannot price  
5 low enough to win what our customers ultimately view  
6 as a price-based competition.

7 Imposition of an antidumping order on CCP  
8 would not deprive U.S. customers of an alternative  
9 supply, or inhibit healthy competition. It would  
10 simply ensure that there is a fair basis for  
11 competition, and that we can have an honest  
12 opportunity to win our customers' business. Thank  
13 you.

14 MS. LUTZ: Good morning. I am Jennifer Lutz  
15 of Economic Consulting Services. I will be addressing  
16 the conditions of competition and current material  
17 injury.

18 There are several conditions of competition  
19 that are essential for understanding the PVA market,  
20 as shown in slide 1. First, demand for scope PVA is  
21 derived from the demand for the downstream products in  
22 which it is used, including adhesives, paper, and  
23 textiles.

24 Second, demand for PVA in the United States  
25 followed overall economic trends and declined during

1 the recessionary portion of the POI, particularly in  
2 2009. In 2010, demand volumes improved as the  
3 recovery began and purchasers sought to restock their  
4 inventories.

5 Third, as noted by Mr. Neuheardt, PVA is  
6 produced to a wide variety of grades related to  
7 specifications, including viscosity and hydrolysis.  
8 SSCA plans its production schedule and establishes  
9 production campaigns based on anticipated demand for  
10 various grades so that it can transition from the  
11 production of one product to another that has similar  
12 specifications, thus minimizing downtime and waste  
13 SSCA works closely with its customers to develop  
14 projections of demand over the coming period so that  
15 it can supply its customers' needs.

16 Fourth, demand for PVA is generally price  
17 inelastic. Seventeen of 21 purchasers reported that  
18 there are no substitutes for PVA, consistent with  
19 purchaser statements in the 2009 sunset review. A  
20 decline in the price of PVA does not generally lead to  
21 increased consumption.

22 Fifth, the U.S. PVA industry has production  
23 capacity significantly greater than the volume of U.S.  
24 consumption. Therefore, as a necessity, exports are a  
25 significant portion of the U.S. industry sales.

1           Sixth, third-party data provided in the  
2 prehearing report demonstrates significant global  
3 over-capacity to produce PVA. Projected increases in  
4 demand in the next few years are not expected to  
5 change this dynamic.

6           Seventh, as the Commission has noted in  
7 prior determinations, production of PVA is capital-  
8 intensive. Producers have a strong incentive to sell  
9 out their capacity as much as possible in order to  
10 spread high fixed costs over the largest volume of  
11 production possible.

12           Eighth, there is clear evidence on the  
13 record that PVA from Taiwan is essentially  
14 interchangeable with the domestic product. As shown  
15 in slide 2, 15 of 18 purchasers indicated that scope  
16 PVA produced in the United States in subject imports  
17 are always or frequently interchangeable, with 11  
18 purchasers indicating that the products are always  
19 interchangeable. With respect to the 19 factors  
20 identified in the purchasers' questionnaire, a large  
21 majority of purchasers indicated that the U.S. and  
22 Taiwanese products are comparable in virtually all  
23 respects, as shown in slide 3.

24           Significantly, given Respondent assertions  
25 about the availability of domestic supply, the U.S.

1 purchasers rated U.S. and Taiwanese suppliers as  
2 comparable in availability. As shown in slide 4, the  
3 U.S. purchasers found specifically that U.S. producers  
4 were comparable with the Taiwanese producer with  
5 respect to availability, availability of preferred  
6 type of product, delivery time, and reliability of  
7 supply.

8           Finally, because the subject import and  
9 domestic products are essentially interchangeable,  
10 price is a key factor in determining which supplier  
11 wins a sale. The prehearing report identified a  
12 number of factors listed as very important by a  
13 majority of responding purchasers, including price.  
14 Although purchasers identified a number of factors  
15 other than price as being important in purchasing  
16 decisions, the prehearing report also shows that  
17 purchasers consider PVA from domestic producers and  
18 Taiwan to be comparable with respect to all of these  
19 factors. Therefore, the selection of a supplier comes  
20 down to price.

21           The importance of price in purchasing  
22 decisions was identified by DuPont in the  
23 investigation of imports from China, Japan, and Korea,  
24 and repeated during the recent sunset review. DuPont  
25 also confirmed that nonprice factors are rarely

1 important in purchasing decisions. In 2003, as shown  
2 in slide 5, Ms. McCord of DuPont stated with respect  
3 to import competition with China, Japan, and Korea,  
4 "By far the most important factor today is price, and  
5 then price, and then price again. Once we meet the  
6 subject import price, these other nonprice factors may  
7 become the tiebreaker in a buying decision, but if we  
8 don't meet the price, we lose the business."

9           SSCA acknowledges that there were supply  
10 disruptions during the POI in 2007 and the first part  
11 of 2008. Respondent's prehearing brief asserts that  
12 U.S. purchasers reacted to these events by seeking  
13 alternative suppliers. In fact, however, customers  
14 have long made use of multiple suppliers. This was  
15 true long before this petition was filed, and was  
16 discussed in detail at the preliminary conference in  
17 2004. Similarly, there have been antidumping actions  
18 in this industry since 1993. In other words, the  
19 desire for alternative suppliers is old news.

20           Mr. Sikora has just described for you the  
21 facts about the 2007 *force majeure* and other  
22 disruptions, and how the actual volume shortfall was  
23 relatively small. The vast majority of the gains that  
24 subject imports made in the U.S. market in 2007 and  
25 the first part of 2008 were a result of low subject

1 import pricing, not the absence of available U.S.  
2 production.

3 In 2007, when Celanese declared *force*  
4 *majeure*, production volumes declined minimally. By  
5 drawing down inventories and redirecting export  
6 shipments to the U.S. market, SSCA estimates that  
7 Celanese's shortfall to U.S. customers was less than 3  
8 percent. Indeed, Celanese's U.S. commercial shipments  
9 were basically flat from 2006 to 2007.

10 DuPont also experienced a three-week supply  
11 disruption in 2008 caused by Hurricane Ike, without  
12 significant disruption in supply to U.S. customers.  
13 In response to a question during the sunset review  
14 hearing regarding the reliability of U.S. supply, Ms.  
15 Korte of DuPont stated clearly, as shown in slide 6,  
16 "In my opinion, we have not gotten any demonstrably  
17 worse, and in fact had excess production capacity  
18 available to supply our customers at the end of 2008,  
19 as demonstrated by the fact that we simply took our  
20 plant down, and yet still had very high inventories."

21 In a true short supply situation, you would  
22 expect the subject imports to enter and to be sold at  
23 relatively high prices. That was not the case.  
24 Moreover, there was no question of short supply from  
25 the latter portion of 2008 through 2010. Subject

1 imports were unambiguously sought during those periods  
2 because of their low prices.

3 I'm sorry. I lost the pages of my  
4 testimony. This is bad preparation. Thank you.

5 The U.S. PVA industry has suffered material  
6 injury due to the subject imports. From 2007 to 2009,  
7 production of PVA by the domestic industry declined.  
8 Without a corresponding decline in capacity, capacity  
9 utilization declined as well. In 2010, as demand  
10 improved, so to did U.S. production.

11 U.S. producers and U.S. commercial shipments  
12 fell during the 2007 through 2009 period. As demand  
13 improved in 2010, commercial shipments increased as  
14 well. Certainly some portion of the decline in the  
15 volume of U.S. producers' shipments was caused by the  
16 recessionary decline in demand during the period.  
17 However, U.S. producer shipments declined faster than  
18 demand. As a result, the domestic industry lost  
19 significant market share from 2007 to 2009.

20 In the first half of 2010, as demand  
21 improved and U.S. producers shipped higher volumes in  
22 the U.S. market, the industry's market share improved  
23 slightly.

24 The domestic industry's injury is most  
25 starkly apparent with respect to declines in its

1 financial performance. From 2007 through 2009, the  
2 profitability of the industry declined in each year.  
3 In the first half of 2010, the domestic industry's  
4 volume of sales improved as demand began to recover.  
5 However, the Commission can see from the dates  
6 provided in the confidential exhibit provided to the  
7 commissioners that despite the volume improvement, the  
8 financial condition of the domestic industry continued  
9 to be poor, significantly because of a cost price  
10 squeeze.

11 Furthermore, capital expenditures dropped  
12 over the POI, and the domestic industry delayed all  
13 but the most critical capital expenditures. Reported  
14 expenditures made by SSCA reflect the minimum  
15 necessary to keep the facilities operational and up to  
16 government mandated standards. SSCA has proposed a  
17 significant amount of capital spending over the next  
18 three years, but without an improvement in its  
19 financial condition, it will not be able to realize  
20 its plans. Likewise, R&D expenditures have declined  
21 over the period. Thank you.

22 MR. BUTTON: Good morning. I'm Kenneth  
23 Button, senior vice president of Economic Consulting  
24 Services. I will be addressing causation and threat.

25 An apparently unique facet of this

1 investigation is the fact that the petition was filed  
2 six years ago with the preliminary investigation POI  
3 covering the period from 2001 to 2003, plus January to  
4 June 2004. Therefore, with these data the Commission  
5 can observe the behavior of the subject imports of PVA  
6 from Taiwan over an extended period of time, from 2001  
7 to the present.

8           While much of the data are confidential,  
9 given the fact that the Taiwanese producer, CCP, is  
10 the only subject exporter, and that its product range  
11 is essentially co-terminus with the public import  
12 data, the public census import data are a valid  
13 indicator of subject import behavior for our review of  
14 the statutory causation and threat factors.

15           First, with respect to the subject imports  
16 today, clearly there are a significant factor in the  
17 U.S. market, constituting the largest single import  
18 source in the U.S. market. In fact, the subject  
19 import volumes in the part-year 2010 is almost equal  
20 in size to the aggregate of all nonsubject imports, as  
21 shown in slide 7.

22           Second, the subject import volume has  
23 increased significantly. In this respect, the  
24 Commission has multiple valid comparison points.  
25 First, during the preliminary phase POI, subject

1 imports increased from 15.6 million pounds in 2001 to  
2 23.5 million pounds in 2003, an increase of 51  
3 percent, as shown in slide 8. During part-year 2004,  
4 the subject imports increased by a further 26 percent.

5 Now, let's pause and recall that during the  
6 preliminary conference and in its public post-  
7 conference brief, Respondents appeared to suggest that  
8 there was no threat of the future significant increase  
9 in subject imports. Well, from 2003 to 2007, the  
10 subject imports grew from 23.5 million pounds in 2003  
11 to 26.1 million pounds in 2007, an initial increase of  
12 11 percent then. Within the final phase POI, the  
13 subject imports increased from 2007 to 2008 by a  
14 further 29 percent.

15 Thus overall we can see a track record of  
16 rising subject import volumes. As shown in slide 9,  
17 subject imports increased throughout the course of  
18 2008, until 2009, when the recession hit the market in  
19 full force. And at that point, the subject imports  
20 fell initially sharply, and then began to recover  
21 almost immediately.

22 Indeed, subject imports increased in the  
23 January to June 2010 period by a very large 76 percent  
24 over the comparable 2009 period. The recovery in  
25 subject import volume continued through August 2010.

1 In September 2010, when the Commerce Department  
2 published its preliminary dumping determination, the  
3 subject import volume dropped again, but it resumed  
4 growth in October and November.

5 The subject import market share data are  
6 confidential, but the growth trajectory in import  
7 market share, subject import market share, is  
8 generally parallel to the growth trend in the subject  
9 import volume. Subject import market share increased  
10 during the preliminary investigation POI. It  
11 increased during the period between the preliminary  
12 phase POI and the final phase POI. And during the  
13 final investigation POI, it has a largely parallel  
14 track as compared to volume.

15 The subject imports from Taiwan were able to  
16 increase volume and to increase and hold market share  
17 over the course of the 2001 to 2010 period by offering  
18 very low prices. First, as shown in slide 10, the  
19 subject imports entered the U.S. market at low import  
20 AUVs, both absolutely and relative to the nonsubject  
21 import suppliers.

22 Second, the subject imports were then sold  
23 to customers at low prices. The underselling data are  
24 especially probative in this respect because the  
25 extent of the subject import underselling increased

1 over this long investigation period, as shown in slide  
2 11. Specifically, during the preliminary phase POI,  
3 the Commission found that there was subject import  
4 underselling in 34 of 70 comparisons, or 49 percent of  
5 the comparisons.

6 In this final phase of the investigation,  
7 however, the subject imports undersold the domestic  
8 industry in 58 of 70 possible comparisons, or 83  
9 percent of the comparisons. In other words, things  
10 are different now. And the subject import behavior is  
11 significantly more aggressive than it was during the  
12 preliminary phase POI.

13 Moreover, the public record also shows that  
14 the subject imports undersold all of the significant  
15 nonsubject countries as well. As indicated in slide  
16 12, the subject imports overwhelmingly undersold  
17 nonsubject imports from China, Germany, Singapore,  
18 Japan, and Spain. I note in particular that the  
19 subject imports undersold Chinese PVA in 43 of 50  
20 comparisons, or 86 percent of the time.

21 In those data, I say no indication of  
22 Chinese price leadership, as suggested by the  
23 Respondents. Thus the record clearly demonstrates  
24 that Taiwan is the low-priced supplier in the U.S.  
25 market.

1           As a result of these low subject import  
2 prices, Celanese and SSCA have been forced either to  
3 cut their prices or to lose sales volume. Celanese  
4 and SSCA provided evidence with respect to numerous  
5 allegations of lost sales and lost revenues in the  
6 preliminary and final phases of this investigation,  
7 and the Commission staff confirmed multiple instances  
8 in both phases.

9           As discussed by Mr. Sikora, an additional  
10 impact of the availability of low-priced subject  
11 imports in the U.S. markets has been that SSCA has  
12 announced, but has not been able to implement fully,  
13 price increases needed in response to increases in raw  
14 material cost.

15           The Commission clearly recognizes this  
16 dynamic, as the questionnaire requested commentary on  
17 the extent to which the price increase announcements  
18 held. SSCA indicated that attempted price increases  
19 did not hold due to the availability of lower-priced  
20 subject imports. In cases where SSCA did not back  
21 down from increasing prices, SSCA has experienced  
22 several instances where it lost sales to the subject  
23 imports due to price.

24           Complicating matters further, during the  
25 part-year 2010, SSCA has found itself in a difficult

1 cost-price squeeze. Despite some volume recovery  
2 associated with the U.S. economic recovery, SSCA  
3 remained painfully under price pressure from the  
4 subject imports.

5 A recurrent assertion in Respondent's brief  
6 is that the subject import volumes were drawn in by  
7 what they view as the situation of short supply, in  
8 which customers turned to alternative supply sources,  
9 in this case Taiwan. The actual facts about the issue  
10 of domestic industry supply have been addressed by Mr.  
11 Sikora. Moreover, Respondent's assertion is  
12 undermined by the economics of supply and demand.

13 In a short supply market, where customers  
14 are allegedly turning to the subject imports as an  
15 alternative supplier, the subject imports should have  
16 been sold at relatively high prices. In fact, during  
17 the preliminary phase conference, CCP's economists  
18 testified about multiple sourcing -- testified in  
19 agreement with that concept when he assessed customer  
20 views about multiple sourcing.

21 As shown in slide 13, he stated that  
22 customers, quote, "will be willing to pay more to  
23 guarantee supply sources in case of a supply crisis at  
24 one of their sources," closed quote. He is right.  
25 However, the record shows that the subject imports in

1 fact continued to be low-priced, and to undersell not  
2 only U.S. producers, but the nonsubject import  
3 suppliers as well.

4 Now, what about the recession? The  
5 recession was primarily a factor for the PVA industry  
6 beginning in the third quarter 2008 to 2009. It hit  
7 the industry hard, and was one factor having a  
8 negative impact. And I appreciate that it is  
9 difficult for the Commission to identify the separate  
10 impacts on the domestic industry caused by the  
11 recession on the one hand and subject imports on the  
12 other.

13 However, what is apparent is that during the  
14 period prior to the recession and after the recession,  
15 you can see the negative effects of the subject  
16 imports. From 2001 to 2008, the subject imports  
17 increased in volume and market share, and undersold  
18 the U.S. producers, and had a clear negative impact on  
19 the domestic industry, such as with respect to  
20 financial performance.

21 In 2009, subject import volume declined.  
22 However, the subject imports continued to sell at very  
23 low prices. In part-year 2010, the subject import  
24 volume has increased rapidly once again, and low  
25 pricing continues unabated, and the negative impacts

1 are once again clearly evident.

2 As to threat, the essence of the threat case  
3 is that subject import volume is likely to continue to  
4 grow. The subject imports will continue to be low-  
5 priced, and they will cause material injury to the  
6 domestic industry. There are several reasons why it  
7 is likely that the subject imports will continue to  
8 increase in volume, as indicated in slide 14.

9 First, the subject imports have a 10-year  
10 history of increasing import volume and market share.  
11 And as indicated above, the rate of increase in  
12 subject imports is significant.

13 Second, CCP has increased its capacity since  
14 the preliminary phase period. According to public SRI  
15 data, the Taiwanese producer expanded its capacity by  
16 20 percent in 2009. As a high fixed-cost producer  
17 with excess production capacity, CCP needs to find  
18 export outlets for its production.

19 Third, CCP historically exported PVA from  
20 Taiwan to China. However, CCP has recently  
21 established a PVA plant in China. Therefore, CCP's  
22 previously China-bound export volume is now available  
23 for redirection to the U.S. market.

24 Fourth, given that Taiwan has only  
25 relatively small consumption of PVA, CCP is dependent

1 on the export market to sell its PVA output. In doing  
2 so, CCP has an economic incentive to direct more of  
3 its exports to the U.S. market because U.S. market  
4 prices tend to be higher than prices in other global  
5 PVA markets.

6 Now, why are U.S. market prices higher? Two  
7 factors appear to be key. First, there is a  
8 substantial global excess capacity, as indicated in  
9 the prehearing report, and that excess global volume  
10 in search of buyers tends to depress global prices.

11 Second, the antidumping order on China,  
12 Japan, and Korea tend to protect the U.S. market from  
13 the excess production capacity in these countries.  
14 The excess volumes in these countries tend instead  
15 generally to be directed to non-U.S. markets, such as  
16 the EU, contributing to price depression there. The  
17 depressive price impact can be seen, for example, in  
18 the EU, where imports enter the EU at significantly  
19 lower prices than imports enter the U.S. market.

20 As shown in slide 15, the AUV of total  
21 imports into the EU during January to June 2010, for  
22 example, was only \$1.03 per pound, as compared to the  
23 higher AUV of \$1.25 per pound for all imports into the  
24 United States.

25 At the sunset review hearing, the DuPont

1 representative confirmed that PVA prices in the U.S.  
2 market are higher than in other places. As shown in  
3 slide 16, she stated that, quote, "The U.S. still  
4 remains the highest-priced market," closed quote, and  
5 that Asian prices, quote, "were still substantially  
6 lower than U.S. average market prices," closed quote.

7 Thus, if you were the Taiwanese producer,  
8 where would you sell your PVA? Clearly, the U.S.  
9 market would be the economically rational destination.

10 Given their pricing history, the subject  
11 imports are likely to continue to enter the U.S.  
12 market at low prices that will depress or suppress  
13 domestic prices. As detailed on pages 45 and 46 of  
14 Petitioner's prehearing brief, strong support for the  
15 future expectation comes from the historical pattern  
16 of subject import underselling with respect to its  
17 breadth, its magnitude, and its timing.

18 Given the commodity nature of the product,  
19 it will be fundamentally by low pricing that the  
20 subject imports will achieve their further volume  
21 increases. As previously noted, Ms. McCord stated on  
22 behalf of DuPont in the final investigation hearing of  
23 the Japan, China, and Korean case, she stated, quote,  
24 "By far the most important factor today is price, and  
25 then price, and then price again. Once we meet the

1 subject import price, there are nonprice factors that  
2 may become the tiebreakers in a buying decision, but  
3 if we don't meet the price, we lose the business."

4 I believe that was a fair characterization  
5 of the economics of this market. If an order is not  
6 placed on the subject imports, the evidence indicates  
7 that it is highly likely that the U.S. industry will  
8 indeed be threatened with additional material injury.  
9 Thank you.

10 MR. GABBERT: That concludes our affirmative  
11 presentation, and we'd like to reserve the remaining  
12 time for rebuttal, and we'd be happy to take the  
13 Commission's questions at this time.

14 CHAIRMAN OKUN: Thank you. And before we  
15 turn to questions, let me take this opportunity to  
16 thank all of the witnesses for being here,  
17 particularly the industry witnesses who have taken the  
18 time to join us and answer our questions and help us  
19 learn about your business.

20 We will begin our questions this morning  
21 with Commissioner Lane.

22 COMMISSIONER LANE: Good morning. I too  
23 welcome you to this panel this morning. Apparently it  
24 has been six years in the making, but it's nice that  
25 you all are here. I'd like to begin first by asking

1 if you have any idea as to what Commerce will do on  
2 the preliminary margin, if it will be higher than the  
3 3 percent.

4 MR. GABBERT: Commissioner Lane, we had our  
5 last meeting with Commerce at the beginning of  
6 December, at which time we discussed the preliminary  
7 margin. They listened to both sides, what we had to  
8 say about the margin. We had certain criticisms of  
9 the margin, but we received no indication from them as  
10 to how they would rule on that particular issue.

11 As you probably know, we expect the margin  
12 to be released, the final margin to be released,  
13 tomorrow or Thursday, at which point we will know.  
14 But we have not heard anything from them in that time.

15 COMMISSIONER LANE: Dr. Button?

16 MR. BUTTON: You've raised the Commerce  
17 Department margin, and one interesting and unique  
18 aspect of that margin is that it was based on a POI  
19 from 2003 and 2004, which is a long time ago. And the  
20 question you might have in your minds is, well, that  
21 was then, this is now. What might it be if it were  
22 today?

23 We don't know, of course, but we do have  
24 some economic facts that we might keep in our minds as  
25 we consider it. And one of the things that was

1 contemporaneous with the margin back then was the  
2 underselling record in the preliminary phase  
3 investigation. And we have today a very different  
4 underselling record, in the current period of  
5 substantially greater underselling, suggesting greater  
6 aggressiveness in pricing. And that certainly would  
7 lead one to believe it's certainly possible that  
8 current level of dumping might be substantially larger  
9 than the 3 percent found in that long ago period.

10 COMMISSIONER LANE: Okay. Thank you. Now,  
11 as I understand it, the parties have agreed that the  
12 captive production sections of the law apply, and that  
13 we should be focusing on the merchant aspect of this  
14 case. And so if we do focus on the merchant market,  
15 doesn't the data still show a sizable portion of the  
16 domestic industry shipments do not compete with  
17 imports from Taiwan?

18 MR. BUTTON: Yes. In short, basically you  
19 understand that the feed stock that goes into PVB  
20 production do not compete with the imports from Taiwan  
21 because the Taiwanese do not sell that product to the  
22 United States.

23 COMMISSIONER LANE: Okay. Thank you.  
24 Specifically, what portion of domestic PVA production  
25 competes with subject imports?

1 MR. BUTTON: A statistical answer we'd be  
2 happy to provide, but it would need to be  
3 confidential.

4 COMMISSIONER LANE: Okay.

5 MR. BUTTON: In the confidential record.

6 COMMISSIONER LANE: Okay. Thank you. I  
7 would like for you to consider the domestic industry's  
8 exports, the captive consumption, the commercial sales  
9 of PVA -- or I'm sorry, PVB grade, PVA, and PVA used  
10 for PVB, and long-term contractual commitments without  
11 meet or release provisions.

12 MR. BUTTON: We will do so.

13 COMMISSIONER LANE: Okay. Thank you. The  
14 domestic industry reported sizable exports of scope  
15 PVA during the POI. Why?

16 MR. NEUHEARDT: Well, as we talked about in  
17 our testimony, with the high fixed costs of our  
18 plants, we do need to run them as fully as we can. So  
19 when we have the opportunity, we will export more  
20 material. Yes. And our production in the U.S. is  
21 much bigger than the U.S. consumption and our U.S.  
22 sales.

23 COMMISSIONER LANE: Is there any difference  
24 in the types of products the domestic industry sells  
25 in the U.S. market compared to the products the

1 domestic industry exports, or in the relative share of  
2 products mix of the products sold in the U.S. market  
3 compared to exports?

4 MR. NEUHEARDT: No. The products that we  
5 sell domestically and that we export are virtually the  
6 same.

7 COMMISSIONER LANE: Okay. I want to go back  
8 to your earlier answer. The Respondents have alleged  
9 that the domestic industry faces supply shortages or  
10 delayed shipments. And I know that you've talked  
11 about that in your testimony. But just to be  
12 specific, are you saying that the Respondents are  
13 wrong and that you exported because you had no market  
14 for them in the United States?

15 MR. NEUHEARDT: Our production during that  
16 time was very similar to what it was the prior year,  
17 and we drew down our inventory, so we continued to  
18 support the U.S. market first. And then as our  
19 production levels got better, we started to export  
20 again.

21 COMMISSIONER LANE: Okay. Let me refer to  
22 slide 15, which says that the U.S. PVA prices are  
23 higher than EU PVA prices. Could you tell me why  
24 there is a discrepancy between the prices of domestic  
25 production that is sold in this country and the prices

1 that the domestic industry receives for its export  
2 shipments?

3 MR. NEUHEARDT: I think what you're asking  
4 is why our export prices are lower.

5 COMMISSIONER LANE: Yes. I couldn't  
6 remember whether that was BPA or not -- I mean BP. So  
7 I made it obscure. But thank you.

8 MR. NEUHEARDT: Okay. As Mr. Button had  
9 testified, there is global over-capacity. So that's  
10 one of the primary reasons. And the other reason is  
11 that we do have a dumping order in place against some  
12 of the other producers. When referring directly to  
13 Europe, Europe is a significant net importer of PVA.  
14 So there is PVA coming in from a wide variety of  
15 producers.

16 COMMISSIONER LANE: Okay. Thank you. Now I  
17 have some financial, accounting, and production-  
18 related questions. And if these are BPI, then you can  
19 do them posthearing. First, regarding internal  
20 consumption, please indicate how you value internal  
21 consumption in the data reported in questionnaire  
22 responses. And if the valuation that was requested by  
23 the questionnaires was a fair market value, did you  
24 comply with that request?

25 MR. BUTTON: I can respond that, yes, the

1 questionnaire response complied with the request of  
2 the Commission's questionnaire, and the handling of  
3 the questionnaire and the methodologies used were  
4 discussed with the Commission staff.

5 COMMISSIONER LANE: For your own internal  
6 reporting purposes, do you value internal transfers  
7 using the same valuation basis as reported in your  
8 questionnaire responses?

9 MR. BUTTON: I think that getting into the  
10 details would put that one in the confidential brief.  
11 But I would note that just since the acquisition by  
12 Sekisui of the PVA facilities of Celanese that were  
13 commencing in July of 2009, SSCA has acquired all of  
14 its raw materials on an arms-length, third-party  
15 basis.

16 COMMISSIONER LANE: Okay. And could you  
17 please provide how you value byproducts in the data  
18 reported in questionnaire responses, and how you value  
19 it for your own internal reporting?

20 MR. BUTTON: Commissioner, we will do so.

21 COMMISSIONER LANE: Okay. Thank you. I  
22 think I'll wait until my next round to ask the next  
23 question. Thank you.

24 CHAIRMAN OKUN: Commissioner Pearson?

25 COMMISSIONER PEARSON: Thank you, Madame

1 Chairman. And I also would welcome the panel and  
2 express appreciation for the informative tour that we  
3 received, some of us, a few months ago.

4 So given the uncertainty surrounding imports  
5 and the uncertainties about the eventual disposition  
6 of this proceeding, why did Sekisui buy Celanese PVA  
7 facilities, and what was going on that would induce  
8 your firm to jump into that incredibly risky  
9 environment that you've been telling us about, where  
10 it's extremely difficult to make money?

11 MR. NEUHEARDT: Well, as we talked about,  
12 PVA is one of the main raw materials for PVB. And  
13 Sekisui is the second largest manufacturer of PVB  
14 globally. So it is an upstream acquisition play for  
15 them.

16 The other thing that I think is important  
17 here is if you -- and it's public information.  
18 Sekisui paid somewhere around \$173 million for the  
19 business, and when it was sold to Celanese, it was, I  
20 think, close to twice that. So I think they felt like  
21 it was a very good situation. And I think some of the  
22 other reasons is they're looking to expand their  
23 business outside of Japan. And the favorable yen also  
24 made the deal look more attractive to them.

25 COMMISSIONER PEARSON: This may be

1 confidential, but was there any contingency in the  
2 sale that would have adjusted -- that would have made  
3 some financial adjustment one way or another based on  
4 the outcome of this case?

5 MR. NEUHEARDT: We can provide that in the  
6 posthearing brief.

7 COMMISSIONER PEARSON: Okay, good. I would  
8 be interested in that. Commissioner Lane raised  
9 questions about this industry's exports. And I would  
10 have to say it's a bit unusual to have a domestic  
11 industry coming in as a petitioner when it has such a  
12 strong presence in export markets. I mean, we see it  
13 occasionally, but it's a somewhat unusual fact pattern  
14 because normally domestic industries that come as  
15 petitioners are having a hard time competing in export  
16 markets, and they may be exporting little or not at  
17 all.

18 How does your industry export? I mean, what  
19 is going on in the global market that creates  
20 significant demand overseas for PVA produced in the  
21 United States?

22 MR. NEUHEARDT: Well, I can answer it with  
23 -- I'll try to answer that. I think it's maybe not  
24 necessarily that it is PVA produced in the United  
25 States, but the demand for PVA, Asia is primarily the

1 biggest market for PVA. And then Europe and the  
2 Americas are roughly about the same size. So you have  
3 a lot of PVA capacity in Asia, so there is more  
4 capacity in Asia than there is demand, even though the  
5 demand is biggest there.

6 So PVA is very fungible. It moves around.  
7 It comes from Asia to Europe. It goes to Latin  
8 America. Very fungible for us. Again, with our high  
9 fixed costs, we have to use -- you know, we have to  
10 access the export markets to be able to cover our  
11 fixed costs.

12 But the other thing that goes on is we have  
13 a lot of global customers. So we have a customer in  
14 the U.S. that may have manufacturing facilities in  
15 Europe or South America, and that customer will want  
16 to have a global supply situation where they can make  
17 the same products in different regions.

18 So there is that element to it as well. But  
19 even when you add all of that into it, we still have  
20 more capacity than that type of consumption. And in  
21 order to cover our fixed costs, we have to export.

22 COMMISSIONER PEARSON: Okay. Well, for  
23 purposes of the posthearing, could you provide an  
24 assessment of the percentage of the domestic  
25 industry's exports that are going to related firms,

1 and then the percentage that might be going to the  
2 type of customer you described, a global customer with  
3 multiple locations? So give me some sense of what is  
4 going on there, if you could.

5 Now, Mr. Neuheardt, you've mentioned several  
6 times that your industry has high fixed costs. And  
7 you would admit, that's not entirely unique for  
8 industries that come in front of us. Yet many of them  
9 are not major exporters. How should we weigh that  
10 fixed cost issue? Is there something unique about PVA  
11 fixed costs that we should consider it differently  
12 than we have in other cases?

13 MR. BUTTON: Let me make perhaps the first  
14 response. I don't think it is in that sense unique to  
15 PVA. What it does indicate is that producers with  
16 high fixed costs, whether they're domestic or foreign,  
17 such as CCP, have an economic incentive to continue  
18 production operations, even if price does not cover  
19 total cost. I mean, the economic consideration here  
20 is cover your marginal cost, cover your variable cost,  
21 and as much of your fixed cost as you can. That's  
22 your contribution margin. And you'll do so in a short  
23 term. You have to cover your costs in the long term,  
24 but the pain of selling at less than full cost is less  
25 than the pain of having to shut down your operation.

1 And as you continue to produce with a high fixed cost,  
2 the more volume you have per unit hit of your fixed  
3 cost, you know, per ton or per pound that you make, is  
4 lower. So you really want to move the volume out.

5 So that makes the domestic producers  
6 reluctant to cut volume when under price pressure.  
7 And it makes in this case CCP quite encouraged to cut  
8 price in order to move the additional volume that has  
9 recently added.

10 COMMISSIONER PEARSON: Okay. Is production  
11 in the United States as large as it is in part because  
12 of the domestic availability of the inputs for PVA?  
13 Is that a reason that we have such a large PVA  
14 industry in the United States?

15 MR. NEUHEARDT: Yes. I may not know the  
16 history behind the air products business that was  
17 ultimately acquired by Celanese and then acquired by  
18 Sekisui. But I believe that part of the domestic  
19 industry is in place to provide PVA to the PVB  
20 business. So that was a major driver of part of the  
21 domestic industry. And then there is a market for PVA  
22 and the scope PVAs that we're talking about.

23 I believe that there is more or less PVB  
24 demand than what maybe historically some that have  
25 built PVB capacity thought would be around.

1 Therefore, they're having to sell more PVA into the  
2 merchant market than what was expected. Hopefully,  
3 that kind of answers the question.

4 COMMISSIONER PEARSON: Yes, okay. Dr.  
5 Button, perhaps this is for you. What trends in the  
6 domestic industry's performance can appropriately be  
7 attributed to subject imports rather than the  
8 recession? I know you touched on that. But if we  
9 look at the effects on the domestic industry, what can  
10 we see there that is attributable to subject imports?

11 MR. BUTTON: Well, in particular, I would  
12 look in the pre -- take, for example, the  
13 prerecessionary period. Let's take 2007-2008, look at  
14 market share trends. Look at financial trends for the  
15 domestic industry, and correlate those with what  
16 happened with subject import volume. That would be  
17 one basic thing. Look at the underselling and the  
18 price dynamics, which are key portions of the  
19 causation aspect.

20 After the recession -- and I'll call that  
21 the part-year 2010. Here we have a situation where we  
22 are in some recovery, some expansion. Once again,  
23 look at the financial performance of the domestic  
24 industry, and look at the trajectory of the subject  
25 imports and the subject imports pricing. What we have

1 here is in many ways, in many periods of time, we have  
2 fundamentally a price case. And you can see the  
3 dynamics of the subject imports being lower than the  
4 U.S. imports, and lower than the nonsubject imports.

5 I think if you look at the pre- and post-  
6 periods, that's true. Now, during the recession,  
7 again you find the subject imports being extremely low  
8 priced, extremely aggressive on all of those  
9 indicators.

10 COMMISSIONER PEARSON: Okay. Now, over the  
11 three full years of the POI, we see that the increase  
12 in nonsubject imports was greater than the increase in  
13 subject imports. And so I hear what you've just said.  
14 But do we have a Bratsk attribution problem here? I  
15 mean, why should we look at the record and say that  
16 this relatively smaller increase in subject imports  
17 from Taiwan is the cause of any injury to the domestic  
18 industry when we've had a larger increase in imports  
19 from nonsubject sources?

20 MR. BUTTON: Commissioner, I believe you  
21 have some specific information that directly responds  
22 to that. First of all -- and it's a couple of points.  
23 First of all, under Bratsk, a question might be, if  
24 the subject imports there were not there, who would  
25 get the sale. Okay. That's one interpretation of it.

1 And the answer is to look at the underselling where  
2 the subject imports are underselling all of the  
3 nonsubject suppliers, particularly China. That's  
4 point one.

5 Point two is that subject imports in  
6 aggregate volume is virtually as large as the total of  
7 the subject -- of the nonsubject imports. So when you  
8 have the prices of the subject imports falling, okay,  
9 that affects the entirety of that huge volume of  
10 subject imports, which is equal to or greater than the  
11 nonsubject volume. That is injurious. That affects a  
12 bigger piece of the market and the volume increase  
13 that you'd see with the nonsubjects.

14 COMMISSIONER PEARSON: Okay. Well, my time  
15 has expired. You may want to offer further  
16 elaboration in the posthearing, but I appreciate those  
17 comments.

18 MR. BUTTON: Yes, sir, I will.

19 CHAIRMAN OKUN: Commissioner Aranoff?

20 COMMISSIONER ARANOFF: Thank you, Madame  
21 Chairman. I want to join my colleagues in welcoming  
22 this morning's panel to the Commission. I just want  
23 to start by clarifying where we are on like product.  
24 I understand the statement in the opening statement  
25 that the parties agree that the like product should be

1 all PVA. I also understand that it was Petitioner  
2 that went to Commerce and asked that PVA -- PVB grade  
3 PVA be excluded from the scope.

4 Can someone explain to me why you went to  
5 Commerce and got that excluded from the scope if you  
6 weren't going to argue for a separate like product?

7 MR. GABBERT: I think the question really is  
8 why have we essentially conceded or agreed to approach  
9 the like product issue in the way that the Commission  
10 has handled it in the past and that the prehearing  
11 report seemed to be addressing the issue. And the  
12 reasons for that really are based on confidential  
13 data. And we prefer to elaborate on that in the  
14 posthearing brief, if possible.

15 COMMISSIONER ARANOFF: Okay. Well, you're  
16 welcome to do that. I just find myself a little bit  
17 confused, and I think some of my colleagues have  
18 privately expressed the same confusion.

19 As you know, the Commission has previously  
20 found all PVA to be a single like product when all PVA  
21 was included in the scope. And so one of the  
22 questions I have is some commissioners at some times  
23 have looked at the same situation somewhat differently  
24 when you have some of the product inside the scope,  
25 and some of the product outside the scope, because now

1 they're looking at whether you should be expanding the  
2 like product to include products that are outside the  
3 scope.

4 I don't personally usually treat them any  
5 differently, but some people sometimes do. Do you  
6 have any comments on whether the Commission ought to  
7 look at the like product issue any differently now  
8 that some of the product is outside the scope?

9 MR. GABBERT: That also we'd like to keep  
10 confidential. We've done some analyses on that, but  
11 would like to present that in the posthearing.

12 COMMISSIONER ARANOFF: Okay. Well, I'll  
13 look forward to hearing that.

14 I want to look at the issue that we've been  
15 discussing a lot today, the question of whether or not  
16 there was really a supply shortage in the market  
17 during 2007 and part of 2008. And there has been a  
18 lot of debate back and forth between the parties about  
19 the *force majeure* and some hurricanes and events like  
20 that. But taking a broader perspective, I think the  
21 Commission has seen in quite a few cases that have  
22 come before us that basic industrial inputs were in  
23 very high demand during that period leading up to the  
24 start of the recession, and that prices were going up  
25 for a lot of industrial inputs, and that there was a

1 certain degree of -- not to put too fine a point on it  
2 -- panic buying going on in the market, where  
3 customers were afraid that even if they could get  
4 supply now, maybe they couldn't get it later, and  
5 prices were going up.

6 So aside from the specific events that  
7 you've described, would you describe any of what I've  
8 just talked about as characterizing this market during  
9 that period, with just a general concern about  
10 increased input costs and supply?

11 MR. SIKORA: I think in response to your  
12 question, you know, we've seen some examples during  
13 that time period where there probably was some buying.  
14 We had an example back during the *force majeure* period  
15 where one of our customers had three plant locations  
16 in the U.S., and we thought of our customers as, you  
17 know, one customer, and made material available for  
18 them.

19 One of their plant sites came in and bought  
20 all of the product that was available for their entire  
21 company. And then another plant site attempted to  
22 come in and buy further material, and we had to direct  
23 them and say, your sister location had actually bought  
24 all that material.

25 MR. NEUHEARDT: Maybe I can elaborate on it.

1 I mean, during that time, acetic acid was very, very  
2 tight, and I believe VAM was very, very tight. So  
3 when this announcement came out, there was panic in  
4 the marketplace. And I think in a lot of these cases,  
5 once that announcement came out, and even before the  
6 announcement, the rumors and all of the things that go  
7 along with that, the noise in the industry takes some  
8 time for people to really understand exactly what is  
9 going on.

10 But what happened, to your point, is there  
11 is panic out there. People try to place more orders.  
12 Our customers' customers hear about issues. They try  
13 to place more orders with our customers. And really  
14 as suppliers, you're trying to gather all the  
15 information and try to understand what is the real  
16 situation. And I think once you work through what  
17 happens, the industry begins then to get itself back  
18 into what would be a normal pattern again.

19 But certainly, there was a lot of panic, and  
20 there was a lot of people trying to buy more material  
21 than what they truly needed.

22 COMMISSIONER ARANOFF: Okay. As you pointed  
23 out in your direct testimony, this is an unusual case  
24 because the Commission could make an affirmative  
25 threat determination in the prelim, and then we can

1 actually look back and see what happened during the  
2 period of time where we predicted that the threat was  
3 going to materialize. And I think there is some data  
4 in the record that gives me pause when I look at it.  
5 I need to go and ask myself whether maybe I was wrong  
6 in predicting that a threat would imminently  
7 materialize.

8 In particular, in your brief you  
9 characterize a product from Taiwan as flooding into  
10 the U.S. markets since 2003, with an increasing  
11 prevalence in magnitude of underselling. But if  
12 that's the case, why has a gain in market share by the  
13 subject imports over, you know, like a seven-year  
14 period that we have information about -- it seems to  
15 me it has been pretty modest. It has been maybe  
16 around 1 percent a year, looking on average over the  
17 period. And if that's true, what would lead us now to  
18 conclude that that trend is really going to imminently  
19 accelerate?

20 MR. BUTTON: Well, let me just note that if  
21 you look at the market share of the subject imports in  
22 the preliminary phase, you know, if you took it, for  
23 example, in the market share as shown in our brief in  
24 2001 and 2002, I mean, you've got an increase in the  
25 market share since that time, which I think is non-*de*

1 *minimis*, by any means. We're not talking the steel  
2 case, where small market shares, you know, are very  
3 small.

4 I mean, here I think it is significant. I  
5 think the market share increased in -- you know, the  
6 market share developments between 2007 and 2008, you  
7 know, were significant. I think that there are both  
8 volume and price things going on here at this time.  
9 The domestic industry today has suffered lost sales,  
10 lost revenues, which certainly it is reported. And I  
11 certainly believe that is injured thereby.

12 I would find it very difficult to look at  
13 the record of the Taiwanese subject imports since the  
14 end of the 2004 phase period as benign. And we now  
15 have a situation where you've got -- well, you have  
16 new information that you didn't have then. What is  
17 the new information? You know, one is the change and  
18 the more aggressiveness in the market share -- or  
19 excuse me, in the underselling.

20 Now, you have the underselling of the  
21 domestic industry, underselling of the subject  
22 imports. You have new capacity in Taiwan. These  
23 suggest a second look, I think, for those who were  
24 hesitant in the original -- the preliminary  
25 investigation. It's worthy of a second look here now.

1           So I think even if you just take the current  
2 final phase period, you do have indications of injury,  
3 and you certainly have indications that the injury is  
4 likely to get worse.

5           MR. SIKORA: One other comment that I'd like  
6 to make, having been in sales, is that my experience  
7 has been that this product coming into the market can  
8 have an impact that is out of proportion to the amount  
9 that's coming in.

10           So, for example, you don't have to lose 100  
11 percent of a customer's business to have the price  
12 drop dramatically. As we had identified in my  
13 testimony, there was a customer where we had to lower  
14 our price by 20 percent. We still maintained a  
15 majority of that customer's business, but the price  
16 impact was very significant.

17           COMMISSIONER ARANOFF: Okay. I appreciate  
18 those answers. And to the extent that the information  
19 is available to you that covers some of the  
20 intervening period between our two POIs that we have  
21 from the sunset review, I'd just be interested in your  
22 thoughts on what happened after the Commission  
23 initially made the negative preliminary determination.  
24 In any event, I'll come back to this in my next round.  
25 Thank you, Madame Chairman.

1                   CHAIRMAN OKUN: Commissioner Pinkert.

2                   COMMISSIONER PINKERT: Thank you, Madame  
3 Chairman. And I too thank the panel for coming out  
4 today and helping us understand what is happening and  
5 what is likely to happen in this industry.

6                   I want to begin sort of at the end of the  
7 data stream, interim 2010. And if you look at the  
8 domestic industry market share in interim 2010 as  
9 compared to interim 2009, it appears that the domestic  
10 industry gained a small amount of market share while  
11 subject imports lost market share. Is there any  
12 explanation that you can think of for what happened in  
13 interim 2010?

14                  MR. BUTTON: Commissioner, the data, of  
15 course, are confidential to which you are referring.  
16 And we know that in 2009, I think dealing with the  
17 part-year period in 2009 is a little complicated  
18 because of course it was the recession. And chopping  
19 it up makes it difficult.

20                  If you look at, I'd say, 2009 as a whole,  
21 you find that largely the market shares haven't  
22 changed all that -- I think they haven't changed all  
23 that much. The 2010 market share, though, is still  
24 bigger than earlier periods, and certainly well bigger  
25 than, of course, the preliminary phase. Making a 2007

1 comparison to 2010, you'd see a change there.

2 I guess one of the other things that is  
3 going on here on the volume is that we have restocking  
4 underway. You know, you've got the recovery coming in  
5 and the market as a whole trying to adjust. One of  
6 the reasons I described something as a price case is  
7 that you've got also great -- you know, the pricing  
8 activity, if you look at the subject imports, are in  
9 fact stark in terms of the direction of their pricing  
10 and other players' pricing.

11 So the volume that the subject imports have  
12 if sold at a -- even if it doesn't change that much,  
13 if it continued to be sold at a lower price, that has  
14 a depressive effect on the whole market. And I  
15 believe that would be important even in the part-year  
16 2010 period.

17 COMMISSIONER PINKERT: Thank you. Now, I  
18 understand that you all have argued that long-term  
19 contract prices are vulnerable to competition from  
20 subject imports. And I'm wondering how I should  
21 consider the timing of that impact. Is there a lag  
22 time? Does it occur only when the contracts are  
23 renegotiated? I need to understand the dynamic of  
24 that impact.

25 MR. NEUHEARDT: Yes. We can describe the

1 types of contracts we have in the confidential portion  
2 of the posthearing brief.

3 MR. BUTTON: I would just add that the  
4 suggestion of the -- that there is a lag, and that if  
5 you just wait long enough, everything will be fine,  
6 that does not characterize the contracts in this  
7 market.

8 COMMISSIONER PINKERT: Thank you. And  
9 you'll elaborate on that in the posthearing?

10 MR. BUTTON: Yes, Commissioner, we will do  
11 so.

12 COMMISSIONER PINKERT: Thank you. Now,  
13 turning to the arguments about price suppression, I  
14 have a series of questions about that. The first one  
15 is, looking at the ratio of the cost of goods sold to  
16 sales, would you characterize that ratio as reasonably  
17 stable throughout the period that we're looking at,  
18 from 2007 to 2009?

19 MR. BUTTON: The numbers themselves, of  
20 course, are all confidential. And there are various  
21 things going on. You said 2007 to 2009 in particular,  
22 I believe. And the note that you've not said 2010  
23 comes to mind.

24 COMMISSIONER PINKERT: We'll get to 2010 in  
25 a second.

1           MR. BUTTON: Okay. I understand somebody  
2 describing that as relatively stable. There were  
3 things going on, though.

4           COMMISSIONER PINKERT: Thank you. Now, let  
5 me get to the other part of the period that we're  
6 looking at. Should we compare cost and cost to sales  
7 ratio data from full-year 2009 to data from the first  
8 half of 2010 for purposes of the price suppression  
9 analysis, or should we be comparing interim period to  
10 interim period, or some other half-year to interim  
11 2010?

12           MR. BUTTON: I think that given the fact of  
13 the recession in 2009 and the things that are going on  
14 that you have much more economic meaning in the full-  
15 year period when you're dealing with financial ratios.  
16 So I would compare the part-year 2010 number against  
17 the full-year 2009 number.

18           COMMISSIONER PINKERT: Taking into account  
19 your answer to that question, would it make sense to  
20 look at second-half 2009 versus first-half 2010?

21           MR. BUTTON: We can try and do that for you.

22           COMMISSIONER PINKERT: Thank you. And if  
23 you have any comments when you do that about whether  
24 that comparison is appropriate, it would certainly be  
25 helpful.

1 MR. BUTTON: Very good.

2 COMMISSIONER PINKERT: Thank you.

3 MR. BUTTON: Let me just add, we can do for  
4 SSICA, but we can't obviously do it for anyone else.

5 COMMISSIONER PINKERT: Understood. Now,  
6 turning to impact for a moment. And I know you've  
7 already talked quite a bit about this. But  
8 considering apparent consumption and subject import  
9 market share in 2008, would you expect the COGS to  
10 sales ratio and the operating income to be more  
11 adverse to the domestic industry in 2008 than in fact  
12 our data shows?

13 MR. BUTTON: You're making a specific  
14 comparison to the COGS ratio in 2007-08 versus the  
15 market share. Okay. You know, as I say, the variety  
16 of costs going on -- you know, as I say, we're not  
17 making a specific price suppression argument. We're  
18 making a current injury argument here very much tied  
19 to, you know, overall what is going on. I think that  
20 the operating income margin is what you want to take a  
21 look at in that respect.

22 If you're seeing an increase in a subject  
23 import, if you're seeing a decline in the subject  
24 imports' pricing, and you see problems in the domestic  
25 industry's financial performance, and underselling, I

1 think you have a package here that tells you something  
2 about the domestic industry's declining state and  
3 where that came from.

4 COMMISSIONER PINKERT: Thank you. Now, my  
5 next question is probably more appropriate for the  
6 posthearing. So I'll give you a chance to respond  
7 here, but if you prefer to respond in the posthearing,  
8 that's fine. What is your reaction to the  
9 Respondent's so-called unit revenue conversion  
10 methodology, which is discussed on page 17 to page 24  
11 of their brief?

12 MR. BUTTON: We will certainly deal with  
13 that in the post. However, if you're talking in  
14 essence the concept of a pass-through on pricing and  
15 the copper tube case, I would just note that in the  
16 copper tube case, you remember that copper is -- you  
17 have contracts and you have basically cost plus  
18 arrangements. Everyone knows the cost of copper, and  
19 you basically convert that into a downstream product.

20 That's not PVA. We'll provide further  
21 information on that in the post.

22 COMMISSIONER PINKERT: Thank you. Thank  
23 you, Madame Chairman.

24 CHAIRMAN OKUN: And again, thank you for all  
25 the responses thus far. I think I would just begin

1 first by also requesting that you address the issue  
2 about the domestic like product that Commissioner  
3 Aranoff raised. I have in previous cases looked at it  
4 differently when I'm being asked to expand beyond the  
5 scope. So again, it is a little confusing to me on  
6 the reasons for Petitioner's request at this point,  
7 and trying to see if it really should be treated the  
8 same as in the other previous cases. So I will look  
9 forward to seeing the additional information,  
10 understanding that you'd prefer to do that  
11 posthearing.

12 And then second -- and I'll direct this to  
13 you, Dr. Button. As you know, I voted in the negative  
14 in the prelim and again on remand. Point out to me  
15 what are the differences in this record versus the  
16 record I voted on earlier that you would have me focus  
17 on. And I think we started down this road a little  
18 bit in response to Commissioner Aranoff's inquiry.  
19 But again, what do you think is different on this  
20 record, understanding that you didn't want me to vote  
21 the way I did in the first time? But again, if you're  
22 looking at what is different from this record and the  
23 previous record, what are the keys that you think I  
24 should focus on?

25 MR. BUTTON: The things I think you should

1 keep in mind is that, one, over a longer period of  
2 time, the imports have increased. Two, the  
3 underselling data I think are starkly differently from  
4 where they were in the preliminary phase of the  
5 investigation. Now, the underselling data show  
6 underselling not only of the domestic industry, and  
7 also with respect to the nonsubject imports. The  
8 underselling data are additional probative -- and I  
9 think I mentioned in my testimony with respect to the  
10 change over time and the breadth of the underselling,  
11 and the intensity of the underselling, and in the  
12 timing of the underselling, especially in those  
13 regards what they suggest about threat. I think  
14 that's important.

15 I think the movement in the subject import  
16 prices compared to other prices, of the other parties,  
17 the nonsubject imports and the domestic producers, is  
18 clear here that it's more so than it was in the prior  
19 record.

20 And a specific point I will indicate to you  
21 in the confidential brief about the financial record.  
22 The financial injury record here is different from in  
23 the prelim, and in a couple of ways, which I think  
24 would be important in that sense, reassuring to  
25 someone making an affirmative determination in the

1 final phase context.

2 CHAIRMAN OKUN: Okay. I appreciate it, and  
3 I will look forward to your elaborating on that in the  
4 brief. What about with respect to the acquisition of  
5 Celanese by SSCA? What impact has that had on -- or  
6 should have on my analysis on the supply conditions or  
7 behavior in the market.

8 MR. BUTTON: Well, I'll let the folks from  
9 SSCA speak. But one of the things that -- you know,  
10 with respect to financial performance, there was in  
11 the preliminary phase of the investigation much  
12 interest in the issues of financial pricing of raw  
13 material. And in the period subsequent to that  
14 acquisition, you know, those issues no longer apply.  
15 So that could be some reassurance perhaps for those  
16 who had concerns before in the period since then.

17 And then as to the actual operations, I'd  
18 let SSCA speak.

19 MR. NEUHEARDT: I think from overall, as I  
20 stated, SSCA bought this business because it's an  
21 upstream play for them, and with Celanese it was  
22 somewhat of a downstream play. So there is a little  
23 bit different strategic intent with the business. But  
24 SSCA is just as committed to trying to do everything  
25 they possibly can to make this a viable and successful

1 business, as Celanese was.

2 CHAIRMAN OKUN: Does the difference in the  
3 perspective of upstream versus downstream have any  
4 impact on either the customers or the contracts?

5 MR. NEUHEARDT: It doesn't. We're still  
6 trying to make money. We're still trying to do  
7 everything we can to compete, and again to make it a  
8 successful business. You know, the one difference is  
9 there is a difference in captive right. So Celanese  
10 had a portion of captive that's different than the  
11 portion of captive that SSCA had. And that's really  
12 the only difference. But our commitment to the  
13 merchant market is the same as it was in one company  
14 versus the other.

15 CHAIRMAN OKUN: Okay. And I'll have the  
16 opportunity to ask the panel this afternoon, but  
17 obviously in the slides, Dr. Button, there is a lot of  
18 emphasis on what DuPont said in the sunset hearing.  
19 Do you think it's fair to repeat remarks that may bear  
20 to this case when in fact the case was, you know,  
21 against different subject imports, and they have a  
22 different business model with respect to -- or I guess  
23 I'll just leave it at that.

24 MR. BUTTON: I think the answer is yes, and  
25 a particular reason for it in each case. The comment

1 with respect to the economist in the prior hearing, he  
2 was talking about customer perceptions. You know,  
3 we're talking about the conditions of competition in  
4 the industry as a whole.

5           Secondly, Ms. McCord, she was talking about  
6 the role of price. And as a fundamental condition of  
7 competition, I think it is irrespective of who the  
8 domestic producer is. I think those were fairly  
9 cited, the point being here is that we're not making  
10 -- describing conditions of competition that are  
11 unfounded. We think those are accurate, and DuPont  
12 has agreed with those in other contexts when they were  
13 talking about the same industry, the same conditions  
14 of competition.

15           CHAIRMAN OKUN: Okay. And then with regard  
16 to the price suppression questions -- and Commissioner  
17 Pinkert may have actually covered most of this, but  
18 one thing I was trying to make out from the record is,  
19 is it your impression that in the most recent period,  
20 your price increases -- announced price increases have  
21 stuck. And if there is anything confidential, you  
22 know, please do it posthearing. But I'm just trying  
23 to understand kind of what is going on in this most  
24 recent period.

25           MR. NEUHEARDT: Well, just as an anecdotal

1 thing, we got an e-mail this morning. We announced a  
2 price increase back in November for implementation in  
3 December, and that price increase was due to a  
4 significant run-up in ethylene and methanol in the  
5 U.S. So we announced -- we saw that run-up, and we  
6 announced that price increase. And we got an e-mail  
7 this morning from a customer, and here we are, you  
8 know, almost two months after that price increase  
9 announcement, and the customer says, if you persist in  
10 raising my price, I am going to shift my volume to  
11 subject import products in Chang Chun.

12 So we're still battling through that  
13 increase. We're still trying to push it through. But  
14 we don't necessarily know the complete outcome at this  
15 point.

16 CHAIRMAN OKUN: Okay. I appreciate that.  
17 And if there is any specific information for the  
18 posthearing, I would take a look at that as well as  
19 information that can be discussed in public.

20 Then let me ask a couple of questions in my  
21 time remaining with respect to our pricing data and  
22 our coverage. And as you know, the Respondents have  
23 alleged that direct comparisons of the prices of the  
24 importer Perry and prices of the domestic product are  
25 not comparable because imports are sold, and it was

1 without value added support, and are different levels  
2 of trade. Can you respond to that?

3 MR. BUTTON: I can respond, and the others  
4 can as well. I don't think there is merit to the  
5 argument. I think they're searching for a way to  
6 discredit the underselling data. I think that when  
7 you look at -- even if you look at the data split out,  
8 as the staff report does, you come to basically the  
9 same conclusion as we've described.

10 Service is something that is not an on or  
11 off point. There is kind of a continuum to it. And  
12 there are companies -- customers to which SSCA sells  
13 that requires greater or lesser amounts of service.  
14 So I think you have a match between -- you know, in  
15 terms of Perry customers as well as you have a match  
16 with some of the DuPont customers.

17 I think they're trying to wriggle out of  
18 some very, very important and probative data on  
19 underselling.

20 MS. LUTZ: I'd also like to add the data in  
21 slide 3 from the Petitioner questionnaire -- the  
22 purchasers ranked Taiwan and U.S. products as  
23 comparable with respect to technical support and  
24 service, and in fact ranked the U.S. as inferior in 4  
25 out of 15 comparisons. So that's not consistent with

1 the difference in how purchasers view the two sources  
2 based on technical support.

3 CHAIRMAN OKUN: Okay. Mr. Sikora or Mr.  
4 Neuheardt, anything you just want to add on that? Oh,  
5 well, my time just expired, so if it can be quick,  
6 that would be helpful.

7 MR. NEUHEARDT: No. I agree with what it  
8 said. I mean, different customers require different  
9 levels of service. And in some cases, those services  
10 are provided, and in other cases, they're unwilling to  
11 pay for them, and they're not provided. So I  
12 completely agree, there is no difference between Chang  
13 Chun material sold through DuPont or sold through  
14 Perry Chemical, as far as we can see.

15 CHAIRMAN OKUN: Okay. Thank you very much.  
16 Vice Chairman Williamson.

17 VICE CHAIRMAN WILLIAMSON: Thank you, Madame  
18 Chairman. And I too want to express my appreciation  
19 to the witnesses for their testimony today. In a  
20 posthearing submission, please discuss how changes in  
21 the byproduct revenues have affected the profitability  
22 of each domestic producer over the period of  
23 investigation.

24 MR. BUTTON: Vice Chairman, we will do so.

25 VICE CHAIRMAN WILLIAMSON: Good. Thank you.

1 For filing purposes, have you made projections of U.S.  
2 demand for PVA for 2011 and 2012, and, if so, can you  
3 share them with us?

4 MR. NEUHEARDT: I think in general we see,  
5 you know, we're hopeful that the modest recovery that  
6 we've seen in 2010 will continue into 2011, but our  
7 projections are that it's relatively flat and we don't  
8 see a lot of economic health, at least in 2011, and,  
9 from our standpoint, it's difficult to tell in 2012.  
10 I think the only area where we're really seeing  
11 anything significant or that is even moderately  
12 hopeful is in the PVB market.

13 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
14 I was wondering, in those forecasts, what are your  
15 forecasts for the raw materials? I don't know if you  
16 want to do that here or posthearing.

17 MR. NEUHEARDT: We can provide in the  
18 posthearing, but we generally have a very difficult  
19 time of predicting the volatility of the things that  
20 drive our feed stock so we tend to just follow what's  
21 published out there from CMAI or ISIS and those types  
22 of publications.

23 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
24 Mr. Neuhardt, you mentioned that the modest recovery  
25 in 2010 was in part due to customers' restocking

1 inventories depleted during, before that. I was just  
2 wondering what evidence you have for that. Either you  
3 can mention it now or posthearing that you supply.

4 MR. NEUHEARDT: Okay. I think a great  
5 example is in the emulsions powders industry. This is  
6 an industry that does cements and mortar. As you can  
7 imagine, it's a seasonal industry because when the  
8 weather's bad, none of this type of activity takes  
9 place, so consequently, the industry does not have  
10 enough capacity to keep up with demand during peak  
11 demand cycles. So in May through, you know, August or  
12 whatever, they can't keep up with the demand with  
13 their existing capacity. So the way they augment that  
14 is that they build inventory in the fourth quarter and  
15 in the first quarter. What we saw in 2010 was these  
16 guys, after the economic crisis, brought their  
17 inventories way down. They didn't foresee what their  
18 demand was going to be moving forward so they brought  
19 their inventories down, and demand picked up more than  
20 what they had expected in 2010 and so they had to run  
21 much, much harder than they normally would for a  
22 longer period of time. I think that's an example of  
23 where we're seeing it. We're seeing it in the entire  
24 value chain. In fact, at Celanese, at that time we  
25 immediately began to draw our inventories down and we

1 began to hear from all of our customers that we need  
2 to bring our inventories down and monitor our cash.

3 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
4 Anything else you could add on. Big picture would be  
5 helpful later. Okay. If we find the CAFTA production  
6 provision applies -- we focus, you know, primarily in  
7 the merchant market. Now, our data in the staff  
8 report is from the basis of scope PVA, all PVA. Now,  
9 does the scope PVA correspond to the merchant market  
10 PVA for our analysis?

11 MS. LUTZ: Commissioner Williamson, the  
12 confidential exhibits that we handed out prior to our  
13 testimony are our calculations of the merchant market  
14 apparent consumption and P&L, or both combining scope  
15 and PVB grade PVA.

16 VICE CHAIRMAN WILLIAMSON: Okay, and it's  
17 clear what -- okay. We'll take a look at that  
18 posthearing.

19 MR. BUTTON: What is in there is any product  
20 that is within the commerce scope, and therefore,  
21 within the Commission's scope, no matter who sold by  
22 in the commercial market. So that would then apply  
23 to, you know, DuPont, and SSCA and so forth. So that  
24 contains the commercial market for all PVA, scope, as  
25 well as other.

1                   VICE CHAIRMAN WILLIAMSON: Okay. Thank you  
2 for that clarification, and we'll take a look at this.  
3 Thank you. Ms. Lutz, on Slide 3, which is, by  
4 coincidence, up on the screen, it shows that a  
5 majority of the purchasers rated U.S. and Taiwanese  
6 product to be comparable in the factors of lower  
7 price. How is this consistent with our pricing data  
8 showing mostly underselling by the Taiwanese product?

9                   MS. LUTZ: I think it's consistent in that  
10 in many cases SSCA has reduced its prices to meet the  
11 import competition. They would either have to do that  
12 or not sell.

13                   VICE CHAIRMAN WILLIAMSON: So what is it?  
14 The purchasers are saying after we get through  
15 negotiating, the prices are comparable?

16                   MS. LUTZ: That is how I can imagine it.

17                   VICE CHAIRMAN WILLIAMSON: Okay.

18                   MR. NEUHEARDT: Yeah. I would agree with  
19 that. I mean, when we're selling to a customer and  
20 somebody comes in and lowers our price by 20 percent,  
21 we're forced to match it. Then, at that point, yeah,  
22 our prices are comparable.

23                   VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
24 I was wondering, you stated that, you know, your  
25 export prices are lower than your U.S. prices, and

1       SSCA been the subject of antidumping proceedings in  
2       other countries in an export market?

3               MR. NEUHEARDT: Not as SSCA, but the  
4       business was subject to dumping for Korea back in, I  
5       think it was 2004, 2005. I'm not 100 percent sure of  
6       the date.

7               VICE CHAIRMAN WILLIAMSON: Okay.

8               MR. NEUHEARDT: The U.S. was. Yeah, the  
9       U.S. was subject to an investigation in Korea.

10              VICE CHAIRMAN WILLIAMSON: Okay. That's the  
11       only one that you know of, right? Thank you. Okay.  
12       You say that the multiple sourcing was an issue raised  
13       in the prelim and therefore does not explain  
14       purchasing patterns in this phase. I was wondering,  
15       have any purchasers started buying CCP product as an  
16       alternative source of product during the current  
17       period of investigation? Of course, you can put that  
18       posthearing if you don't have it now.

19              MR. NEUHEARDT: As far as we know, not a new  
20       situation, but they began, I mean, they've been  
21       qualified for a while and have prices better than they  
22       have switched. In fact, when we looked at our top 15  
23       customers that we have out there, 13 of them have  
24       qualified CCP material and 14 of them have qualified  
25       other alternative, you know, another one has qualified

1 other alternatives. So there is a significant amount  
2 of interchangeability, and we have not seen anybody  
3 specifically that was buying from us that hadn't  
4 already qualified CCP go and qualify CCP and start  
5 buying from them.

6 MR. BUTTON: Commissioner, we're trying to  
7 make this point and emphasize this point because we're  
8 trying to deal with what we think is an incorrect  
9 assertion by the Respondents, which we believe what  
10 they're saying is that the force majeure in 2007,  
11 which you've heard from Mr. Sikora resulted in SSCA  
12 being able to achieve all but, you know, less than  
13 three percent of customer requirements during that  
14 tough, difficult time, that that caused something new  
15 to happen, and that something new was a turning to,  
16 you know, other suppliers, alternative suppliers,  
17 which had not previously been done. Our point is is  
18 that that has been done consistently over time and  
19 that it was not a C change in 2007 as that they're  
20 suggesting and that the order of magnitude of the  
21 impact on customers of the force majeure was much  
22 smaller than they seem to be suggesting, and certainly  
23 does not justify, you know, the increases in the  
24 volumes from SSCA and certainly don't justify SSCA's  
25 low price.

1 VICE CHAIRMAN WILLIAMSON: Okay.

2 MR. BUTTON: Excuse me. I misspoke. The  
3 increasing volumes from Chang Chun CCP and the very,  
4 very low prices from CCP.

5 VICE CHAIRMAN WILLIAMSON: Was there any  
6 occasion that maybe people said, hey, maybe then 75  
7 U.S., 25 percent foreign, I better have 50/50? You  
8 know, has there been any change in the pattern of  
9 alternative sourcing in terms of percentages?

10 MR. NEUHEARDT: Yeah. I think in most of  
11 our contract business that we have, we still have  
12 major supply positions. We still have some that are  
13 100 percent. Again, it depends on price. If our  
14 price is good enough, we're have the ability to get  
15 more share. If our price isn't, then maybe it will be  
16 a 50/50 situation. It's been that way for a long  
17 period of time.

18 VICE CHAIRMAN WILLIAMSON: Okay. Okay.  
19 Thank you for those answers. My time has expired.

20 CHAIRMAN OKUN: Commissioner Lane?

21 COMMISSIONER LANE: Thank you. Dr. Button,  
22 I've noticed that several times you have indicated  
23 that the recession is over, and so I would like for  
24 you to just put on the record why you say the  
25 recession is over and the indicators that make you

1 reach that conclusion.

2 MR. BUTTON: Commissioner Lane, I use that  
3 in the sense that we are now in recovery. That is to  
4 say, economic growth is positive. We've hit the  
5 trough and we're coming out of it. Economic growth  
6 last year, I guess, was at two and a half percent, or  
7 approached a little less than that maybe, but two and  
8 a half percent this year. So that's what I mean by a  
9 situation of recovery. We're not recovered, past  
10 tense, but we're in the process of recovery. That's  
11 what I meant to say.

12 COMMISSIONER LANE: Okay. And during this  
13 period of economic growth has the industry been able  
14 to increase its employment?

15 MR. BUTTON: Well, I believe the issue of  
16 employment Lutz and Neuheardt talked about in an  
17 industry of this sort where you are not ramping down  
18 production volume and reducing employment, I think the  
19 employment remains relatively flat by technical  
20 necessity.

21 MR. NEUHEARDT: No, I agree with that.  
22 During the acquisition from Celanese, a lot of shared  
23 services roles were involved in the PVA business, and  
24 so we had to, as now not being part of Celanese, go  
25 acquire those resources to perform those functions. I

1 think the answer is we didn't go higher any more than  
2 what we had in the business when it was part of  
3 Celanese. The recession did not cause us to lay  
4 anybody off, though.

5 COMMISSIONER LANE: Okay. Thank you. You  
6 may have answered this before. To what extent does  
7 your level of fixed versus variable costs enable your  
8 firm to operate either at less than full capacity or  
9 to shut down in response to a decrease in demand and  
10 then increase production or resume production when  
11 demand picks up?

12 MR. NEUHEARDT: I think that the answer here  
13 is that you can't turn it down. You know, we still  
14 have the labor force that's there. Again, these are  
15 chemical processes that are very complicated, so it's  
16 not like you can lay off those workers and then go  
17 hire somebody that can step right in and start the  
18 plant back up and running. And we don't turn down the  
19 plants. I mean, we run them or we try to run them as  
20 hard and as fast as we do, and if we have to turn them  
21 down, you know, it's a significant issue for us  
22 financially.

23 COMMISSIONER LANE: Okay. Thank you. I  
24 have a question that will need to be answered in the  
25 posthearing. Are the cost structures of domestic

1 producers the same as they were in the preliminary?

2 MR. GABBERT: We will address that in the  
3 posthearing.

4 COMMISSIONER LANE: Okay. Thank you. Page  
5 V-15 of the staff report discusses DuPont's and  
6 Sekisui's ongoing negotiations for sales of U.S.-  
7 produced PVA. Either now or in your posthearing  
8 brief, please provide any updated information you may  
9 have concerning Sekisui's ongoing or recently  
10 completed negotiations for sales of U.S.-produced PVA.

11 MR. GABBERT: We'll do that as well in the  
12 posthearing.

13 COMMISSIONER LANE: Okay. Thank you.  
14 Beginning at page 9 of your prehearing brief you  
15 discuss technical constraints inherent in the  
16 production of PVA. How do you account for these  
17 constraints in calculating your PVA capacity and  
18 capacity utilization?

19 MR. NEUHEARDT: They do make your capacity  
20 utilization change, but it's not a significant, you  
21 know, it's a couple of percent and not something that  
22 if you only did one mix of grades versus another it  
23 would change it hugely. The point here is is that we  
24 do try to run these things where we're making  
25 incremental changes as we grade change, and that if we

1 have to make a difference in, you know, hydrolysis,  
2 those are types of things that we don't like to do.  
3 We would much rather prefer to do it incrementally.  
4 If you run your production campaign like that, then  
5 the mix of your grades does not impact you the way  
6 that it normally would if you just looked at it by run  
7 rates. So that's why we plan those campaigns very,  
8 very carefully and why our capacities don't change  
9 significantly with a different mix.

10 COMMISSIONER LANE: Okay. Thank you. At  
11 page 27 of your prehearing brief you refer to a  
12 domestic industry that was healthy. When was the  
13 domestic PVA last in a healthy condition? Now, or in  
14 your posthearing submission, please explain what  
15 levels of price, production, revenue and operating  
16 income margins does the domestic industry, in general,  
17 and Sekisui, in particular, need in order to justify  
18 continued investment in its U.S. PVA operations.

19 MR. GABBERT: Commissioner, we'll do that as  
20 well in the posthearing.

21 COMMISSIONER LANE: Okay. Thank you. From  
22 page 33 to 35 of the prehearing brief Respondents'  
23 analogize this case to several previous Commission  
24 investigations in which the Commission found that  
25 decreases in domestic production was not the result of

1 subject imports. Do you agree that this case is  
2 analogous to the investigations upon which Respondents  
3 rely? If not, please distinguish the facts of those  
4 previous investigations with the ones at hand.

5 MR. GABBERT: Commissioner, we'll address  
6 this more fully in our posthearing brief. I believe  
7 that one distinguishing factor, for example, in, if I  
8 remember correctly, the sodium metal from France case  
9 is that the underselling data that you see here was  
10 simply not present there. Overselling by subject  
11 imports characterized the market in that case. This  
12 case is fundamentally different. So the attribution  
13 problems that they may have had of the source of the  
14 injury are simply not present here. If it's okay,  
15 we'll address that question more fully in posthearing.

16 COMMISSIONER LANE: Okay. Thank you. Have  
17 Sekisui's U.S. production facilities qualified to sell  
18 PVB grade PVA to its affiliate in Japan?

19 MR. NEUHEARDT: We prefer to answer that in  
20 the posthearing brief.

21 COMMISSIONER LANE: Okay. Have Sekisui's  
22 U.S. facilities been qualified to sell PVB grade PVA  
23 for export to any other source?

24 MR. NEUHEARDT: Similarly, we'll answer in  
25 the posthearing brief.

1                   COMMISSIONER LANE: Okay. I also want you  
2 to answer if the PVB grade PVA you sell in the United  
3 States differs from the PVB grade PVA that you export.

4                   MR. GABBERT: We'll address that in the  
5 posthearing as well.

6                   COMMISSIONER LANE: Okay. Thank you.  
7 Solutia, DuPont and Sekisui all compete in the global  
8 PVB market. How has Sekisui's acquisition of  
9 Celanese's PVA operations changed this dynamic? Have  
10 you already answered that?

11                   MR. NEUHEARDT: No. I would think that  
12 maybe DuPont and Solutia might give you a better  
13 answer than I would, but, you know, I think that  
14 definitely by acquiring the PVA business from  
15 Celanese, Sekisui is now similarly positioned, if you  
16 will, from a raw materials standpoint in that they now  
17 have upstream PVA capability.

18                   COMMISSIONER LANE: Okay. Thank you. Dr.  
19 Button or Mr. Neuheardt, you may have answered this.  
20 At page 59 of your prehearing brief you assert that  
21 PVA is a commodity product. If so, how should the  
22 Commission take into consideration nonsubject imports,  
23 including those from China producer SVW, in its injury  
24 analysis?

25                   MR. BUTTON: Commissioner, we did comment on

1 that before with respect to particular underselling  
2 with nonsubject imports that we believe that the  
3 Bratsk characterization does not apply here. It is a  
4 commodity product, but we find that the nonsubject  
5 imports are being sold in the U.S. market at prices  
6 that are generally higher than the U.S. prices and  
7 therefore are in that sense not likely to replace, to  
8 take the volume sold by the subject imports.

9 COMMISSIONER LANE: Okay. Thank you. With  
10 that, my time is up. Thank you, Madam Chair.

11 CHAIRMAN OKUN: Commissioner Pearson?

12 COMMISSIONER PEARSON: Thank you, Madam  
13 Chairman. If an antidumping order goes into effect,  
14 does the domestic industry anticipate increasing its  
15 sales of PVA to U.S. customers or is this such a price  
16 case that the volume of sales might be about the same,  
17 but the price of those sales would be higher?

18 MR. NEUHEARDT: I think, you know, we hope  
19 that both will happen, that we will be able to get  
20 more volumes, but I think primarily what will happen  
21 is we'll be able to get more price and we won't have  
22 as much pressure on price constantly as what we've  
23 seen. We do expect that we should pick up volume as  
24 well.

25 COMMISSIONER PEARSON: Okay. So is there

1 enough unused volume currently within the U.S.  
2 industry to serve that demand or will there have to be  
3 some reduction in export sales in order to serve the  
4 new U.S. customer?

5 MR. NEUHEARDT: We will be able to service  
6 them, and we will also be able to, or we will also  
7 have to reduce our export volumes, or redirect our  
8 export volumes as well.

9 MR. BUTTON: Commissioner, one of the  
10 statements by the domestic industry has been by Mr.  
11 Neuheardt and others, is that they prefer to sell in  
12 the U.S. market because U.S. market prices are higher.  
13 So if you can divert export sales, instead of going to  
14 the EU, sell it in the United States, you have a  
15 better financial return. That would be a goal.

16 COMMISSIONER PEARSON: Yes. That actually  
17 was one of the reasons that had prompted my earlier  
18 question to why do you export so much if the best  
19 place to sell the stuff is in the United States?

20 MR. BUTTON: Part of the answer has to do  
21 historically. You know, we had the antidumping case  
22 against China, Japan and Korea, now you have the  
23 proceeding with Taiwan and you have the evident  
24 underselling. The domestic industry finds the U.S.  
25 price, even as it is, being depressed and suppressed.

1 That makes it difficult.

2 COMMISSIONER PEARSON: Given the severe  
3 recession during the POI should we view the continued  
4 capital investments in R&D expenditures made by this  
5 industry, albeit they were declining somewhat, but are  
6 they a sign of strength and viability of the domestic  
7 industry or should we interpret them differently?

8 MR. NEUHEARDT: I think they need to be  
9 interpreted a little bit differently. I mean,  
10 clearly, I think from Celanese's perspective, they did  
11 decrease emphasis on R&D. Now, that might not have  
12 been as a direct result of the recession, but maybe  
13 moreso because they were planning on doing something  
14 different from this business. I think it's for us, we  
15 want to try to find different applications, different  
16 ares to sell PVA and so we're going to spend money  
17 trying to do that, and that's where our R&D  
18 expenditures come in. We also spend money on  
19 technical service, and the reason that we do that is  
20 so that we can continue to develop better  
21 relationships with our customers so that at the most,  
22 or at the least we get a last look if we hear about a  
23 competitive situation so that they call and give us an  
24 opportunity to respond rather than just take the  
25 business away from us.

1                   COMMISSIONER PEARSON: Do you find that that  
2                   commitment to technical service with some customers  
3                   has been sufficient to get them to say, well, we want  
4                   to shift some of our volume to offshore, but we also  
5                   want to keep a bunch of our volume with you because we  
6                   can rely on you and we know it?

7                   MR. NEUHEARDT: Certainly, again, it gives  
8                   us a relationship advantage, but one of the things or  
9                   one of the dynamics that I think happens in the  
10                  industry is your procurement department has much more  
11                  influence over decisions than your production  
12                  department in a lot of cases with our customers. So  
13                  as much as maybe production people would like to buy  
14                  from us, it's the procurement guys that make the  
15                  ultimate decision and their decision is ultimately  
16                  based upon price. But that's a battle we fight every  
17                  day.

18                  COMMISSIONER PEARSON: Well, just going back  
19                  to the capital expenditures, R&D expenditures, they've  
20                  been able to hold up better in this industry than in  
21                  some others we've seen because the recession has  
22                  really caused them to drop rapidly in some industries.  
23                  Our job here isn't to make comparisons across  
24                  industries, but it's just an observation I would  
25                  offer.

1           MR. BUTTON: I think, as indicated before,  
2 there are some capital expenditures that are simply  
3 required because of regulatory requirements and they  
4 have to be made no matter what if the plant is to  
5 continue in operation.

6           MR. NEUHEARDT: That is true. From an  
7 operational standpoint, there are certain things that  
8 you have to do from a regulatory standpoint.

9           COMMISSIONER PEARSON: Okay. It's not  
10 uncommon that we have cases where one side says that  
11 we should look at this as a supply push market in  
12 which an aggressive overseas supplier is pushing  
13 product into the United States at a low price, and  
14 then we'll have the respondents come and say  
15 basically, no, no, no, no, this is a demand pull  
16 market and the product has come into the United States  
17 at an increasing level because the customers here have  
18 reached out and talked to us and pulled it in. I  
19 think that your take on this is that it's more a  
20 supply push one, but this afternoon we may hear the  
21 other view from Respondents, so I wanted you to have a  
22 chance to address this again, if you could.

23           MR. NEUHEARDT: Yeah. I think, again, as we  
24 talked about in the testimony, the domestic market is  
25 the priority for us. We have the highest prices here,

1 our cost to supply in the domestic market are less  
2 than they are to export, so we would love to sell as  
3 much as we possibly can in the domestic market. Where  
4 we run into issues is when we continue to get price  
5 suppression and rather than chase that price  
6 suppression down, you know, at some point we say we're  
7 going to let them have that piece of business and try  
8 to hold on to the market. So there's some of that  
9 that goes on, and in some cases we're thrown out  
10 because a customer is upset when somebody offers a  
11 price that's significantly lower than us and we don't  
12 get the opportunity to respond.

13 COMMISSIONER PEARSON: Okay. So you are  
14 seeing the U.S. market more as a supply push market in  
15 terms of the imports. Even though the actual increase  
16 in volume of the subject imports is relatively modest,  
17 you still see it more a supply push than a demand pull  
18 marketplace.

19 MR. NEUHEARDT: Absolutely.

20 COMMISSIONER PEARSON: Okay. If the United  
21 States is the most attractive country in the world in  
22 which to sell PVA, would could have motivated CCP to  
23 build a plant in China instead of here? I mean, are  
24 they just bad investors?

25 MR. NEUHEARDT: Well, I think there's demand

1 in China. I don't know, you'll have to ask them, but  
2 I would guess that they're more comfortable with  
3 building plants closer to where they operate or where  
4 their center of gravity is, if you will.

5 COMMISSIONER PEARSON: But do you understand  
6 -- yes, Dr. Button?

7 MR. BUTTON: I'm so sorry. I was going to  
8 revert to a comment you made a moment ago. It looks  
9 like you finished that. Commissioner, you were  
10 speaking before about the increase in subject imports  
11 from Taiwan as a modest volume increase. Here, I  
12 think that, do look at the longer period of time in  
13 the record. In 2001, the imports from Taiwan were,  
14 you know, 15.6 million pounds -- 15.6, okay? In 2008,  
15 it was 33, nearly 34 million pounds. So, you know,  
16 we've got a doubling of the volume. The volume today  
17 from Taiwan is basically as big as the volume from  
18 everybody else combined. So, I mean, I think there  
19 is, you know, a significant volume increase here that  
20 needs to be dealt with, and that the volumes in  
21 overall magnitude, you know, are quite significant.

22 COMMISSIONER PEARSON: Okay. Madam  
23 Chairman, I think I have no further questions, so I'll  
24 stop there and thus earn back the extra minute that I  
25 took the first round. Thank you very much to the

1 panel.

2 CHAIRMAN OKUN: Duly noted. Commissioner  
3 Aranoff?

4 COMMISSIONER ARANOFF: Thank you, Madam  
5 Chairman. On page 40 of their prehearing brief the  
6 Respondents argue that there are numerous new  
7 applications for PVA that are being developed and that  
8 are providing, or will provide, new demand in the U.S.  
9 market. Can you please comment on the short-term  
10 market prospects for new applications and the likely  
11 effects on demand in the imminent future?

12 MR. BUTTON: Commissioner, one of the issues  
13 with respect to the prehearing brief by the  
14 Respondents is that they've kept, left the identity of  
15 those applications as confidential so we can't discuss  
16 those with, you know --

17 COMMISSIONER ARANOFF: Well, let me just ask  
18 Mr. Neuheardt and Mr. Sikora. You've told us this is  
19 a mature market. Are there any new applications for  
20 PVA that you're aware of?

21 MR. NEUHEARDT: We hope that there are but  
22 we don't see anything significant in the short-term  
23 that's going to, you know, materially make this  
24 business much better than it is, or that is going to  
25 increase demand to where it matches up with what the

1 capacity situation is any time in the short-term, and  
2 we're looking as well. In fact, that's what Mr.  
3 Sikora's function is.

4 COMMISSIONER ARANOFF: Okay. That's a  
5 little bit of a vague answer. I hope you'll amplify  
6 that. I think you're saying maybe, I don't know, kind  
7 of. That's what I got out of your answer.

8 MR. NEUHEARDT: Yeah. I think we don't see  
9 that there is anything out there, again, in the short-  
10 term that is going to fundamentally change the market  
11 dynamics either of the U.S. market or of the global  
12 market.

13 COMMISSIONER ARANOFF: Okay. In the  
14 preliminary phase the record showed a meaningful  
15 difference between the capacity utilization rate at  
16 which each domestic producer said it needed to operate  
17 in order to be profitable. Obviously, you haven't  
18 seen each other's responses, but I would ask for both  
19 Sekisui and for DuPont that you update that  
20 information for us for the record in your posthearing  
21 brief.

22 MR. GABBERT: We'll do that.

23 COMMISSIONER ARANOFF: I have a number of  
24 questions about the way that price negotiations take  
25 place in this market. My sense is from listening to

1 the questions that my colleagues asked that I may not  
2 get any answers in the public hearing, so I'm going to  
3 read the questions, if there's anything you would like  
4 to tell me publicly about them, that would be great,  
5 otherwise I'll look forward to your answers in the  
6 posthearing brief. The first question is Respondents  
7 argue that there's a working expectation, that's the  
8 term they used, in price negotiations for PVA, that  
9 raw materials are a pass-through and that only the  
10 conversion fee is really being negotiated. I wanted  
11 to know whether that is, in fact, the case now,  
12 whether that has been the case over the past seven  
13 years or so that this case has been around, and  
14 whether there's a difference with respect to that  
15 working expectation between contract and spot sales,  
16 sales to end users or distributors or at times of  
17 either rising or falling raw material costs.

18 MR. NEUHEARDT: Sure. I can answer some of  
19 that just generally. We do get significant pressure  
20 when raw materials go up, so we do try to pass-through  
21 those costs. However, what happens is, you know, the  
22 customers do not, the expectation is is that they're  
23 not going to pay more because vinyl acetate monomer  
24 goes up, they're going to try to find out how can we  
25 get the lowest possible price regardless of what vinyl

1 acetate monomer or any other feed stock has gone up,  
2 so it's much more prevalent on the market dynamics  
3 than it is on what happens from a cost-through  
4 standpoint. We can talk about in the confidential  
5 version the differences in some of those negotiations.  
6 Not all of them are that way, but the predominant  
7 amount of them are. So it's more market driven than  
8 cost pass-through driven.

9 COMMISSIONER ARANOFF: Okay. I understand  
10 what you're saying, and hopefully you're going to  
11 provide more detail, because my understanding is, you  
12 know, sometimes there are contracts that do have cost  
13 escalation clauses in them, and so the question is why  
14 don't those work? Maybe they do work and it's other  
15 sales you're talking about, or maybe they don't work  
16 because there are meet or release type situations.  
17 It's that dynamic that I think the Commission really  
18 needs to understand, and then obviously spot sales are  
19 going to present a different situation as well.

20 MR. NEUHEARDT: And you are correct, there  
21 are a number of different types, but predominantly,  
22 the negotiations are based more on market and not cost  
23 pass-through. We will describe in greater detail what  
24 our current situation is.

25 COMMISSIONER ARANOFF: What kind of

1 information do purchasers have when they're  
2 negotiating price with you? Are there public pricing  
3 series that they can look at or information on buyers  
4 who may not be in the same end use of PVA as they are  
5 so they can know, you know, if they're in the textile  
6 industry what the building products people are paying  
7 you, or is this market so fragmented that everybody's  
8 kind of on their own?

9 MR. NEUHEARDT: There are publications out  
10 there that track vinyl acetate monomer, that track the  
11 inputs to vinyl acetate monomer, and there is one  
12 publication that sometimes comments on PVA, in  
13 general, but for the most part, they are on their own.  
14 They can get a feel for the raw material inputs, but  
15 most of what they do is try to gather information from  
16 competitive sources.

17 COMMISSIONER ARANOFF: To what extent does  
18 that allow you to engage in some price discrimination  
19 where you can get a better price from people in some  
20 customers or some end use segments than others?

21 MR. NEUHEARDT: Yeah. I think clearly the  
22 purchasing people that are focused on raw materials  
23 are also the ones that buy vinyl acetate monomer and  
24 they are primarily in the adhesive and the emulsions  
25 industry. Some of the industries, such as paper and

1 others, don't necessarily follow those trends and  
2 don't understand them as much. So there can be some  
3 discrepancies there.

4 COMMISSIONER ARANOFF: Is there anything you  
5 can tell me generally about the contract negotiation  
6 process in terms of, you know, in some industries we  
7 see a very well-organized sort of auction-like process  
8 with, you know, written offers or, you know, internet  
9 auctions, and in others you see sort of an informal  
10 conversation where you meet with the customers a few  
11 times and talk about what they're anticipated needs  
12 are and it's much less formal. What does the contract  
13 negotiation process look like in this industry?

14 MR. NEUHEARDT: There's a little bit of  
15 both, but I would say there's predominantly more  
16 meeting and having several meetings and discussing,  
17 you know, what the needs of the customer are, what are  
18 needs are, what's happening to us, what's happening to  
19 them, and a lot of the conversation in the end really  
20 boils down to what kind of pricing did they get from  
21 somebody else. That's ultimately what happens when we  
22 settle a price is what did somebody else offer them,  
23 and what do we have to compete with?

24 COMMISSIONER ARANOFF: Okay. For purposes  
25 of the posthearing, can you make sure that we have in

1 our record what percentage of your annual production  
2 volume is covered by price indexed contracts, and  
3 also, by long-term contracts that are not indexed  
4 around material prices and whether that percentage  
5 covered by each type of contract is increased or  
6 decreased over time.

7 MR. NEUHEARDT: Yeah. We will provide that.

8 COMMISSIONER ARANOFF: Okay. Thank you.  
9 I'm going to ask that DuPont provide the same  
10 information. My next question, which I guess I'd also  
11 ask you to provide posthearing unless you want to  
12 comment on it, is how much volume in terms of long-  
13 term contract sales is being renegotiated during  
14 calendar year 2011?

15 MR. NEUHEARDT: We will answer that in the  
16 posthearing.

17 COMMISSIONER ARANOFF: Okay. Again, I'd  
18 also ask that DuPont provide that same information.  
19 You've made the argument that production volume  
20 increases in the first half of 2010 were mostly due to  
21 purchasers need to restock depleted inventories, and,  
22 to a smaller extent, due to recovering demand. Is  
23 that to say that you're arguing that the Court  
24 decisions upholding the Commission's affirmative  
25 preliminary determination, and then, following that,

1 Commerce's affirmative preliminary determination in  
2 this investigation were not an important factor in the  
3 recovery of production levels that was seen in the  
4 first half of 2010? If that is the case, why?

5 MR. BUTTON: I would like to respond to that  
6 in a postconference brief, please.

7 COMMISSIONER ARANOFF: Okay. One last  
8 question while I have a few more seconds. I  
9 understand from the record that there may have been  
10 attempts to qualify PVA from Taiwan for PVB  
11 applications in the United States, and yet my  
12 understanding is that your threat case is not based on  
13 that possibility, that PVA from Taiwan will gain  
14 acceptance in PVB applications in the United States.  
15 Can you tell me why?

16 MR. BUTTON: The Taiwanese product is  
17 already well-accepted in the United States.

18 COMMISSIONER ARANOFF: For use for making  
19 PVB?

20 MR. BUTTON: I'm sorry. I couldn't hear  
21 clearly your question. You know, at this point we are  
22 making the case specifically with respect to the scope  
23 imports, and we're assuming that that is what would be  
24 likely to continue.

25 COMMISSIONER ARANOFF: Okay. All right.

1 Thank you very much for those answers. Thank you,  
2 Madam Chairman.

3 CHAIRMAN OKUN: Commissioner Pinkert?

4 COMMISSIONER PINKERT: Picking up on the  
5 discussion that you just had with Commissioner Aranoff  
6 about the contract negotiations, you said that the  
7 contract prices are impacted very centrally by  
8 competing offers. I'm wondering, what form do those  
9 offers take?

10 MR. NEUHEARDT: As far as how do we receive  
11 those offers? Most of the time they are in verbal  
12 communication. So we will have a meeting, we will  
13 discuss what our situation is and we will get feedback  
14 from the customer that you are uncompetitive, and then  
15 it's up to us to determine are we really uncompetitive  
16 or is something else going on. In some cases we learn  
17 more, in other cases we don't. So that's all part of  
18 the negotiation. In certain negotiations, if we view  
19 that our offer is good and we hold to our offer, we  
20 can lose that contract, and in other cases where we  
21 choose to meet it, then we can ultimately maintain it.

22 COMMISSIONER PINKERT: All right. Perhaps  
23 this next question is better for the posthearing but  
24 can you talk a little bit about how you might verify  
25 whether there really is a competing offer and what the

1 terms of that offer might be?

2 MR. NEUHEARDT: Yes, and we do try to get as  
3 much documented information as we possibly can,  
4 obviously, but we will provide more information --

5 COMMISSIONER PINKERT: And along these same  
6 lines, how would you know whether the competing offer  
7 was really apples to apples in terms of all of the  
8 contract terms that might be applicable to your  
9 negotiations?

10 MR. NEUHEARDT: Again, it's usually based  
11 upon information that we've picked up. We try to talk  
12 to as many people, with any customers we possibly can  
13 to get bits and pieces of information. We compare it  
14 to other pieces of information we've heard in similar  
15 industries, and we try to ask the right level of  
16 detail and the right level of questions. In some  
17 cases we get a lot of good information, and in other  
18 cases we don't.

19 COMMISSIONER PINKERT: But you don't  
20 actually get a piece of paper that's got all the terms  
21 of the offer on it, the competing offer.

22 MR. NEUHEARDT: Very rarely will that  
23 happen.

24 COMMISSIONER PINKERT: Okay. Thank you.  
25 Now, turning to some arguments about global oversupply

1 that are made in the context of threat, Respondents  
2 argue at page 38 of their brief that there's no  
3 evidence of significant global oversupply. How do you  
4 respond to that?

5 MR. BUTTON: Commissioner, I can make some  
6 general comments, and then Sekisui can as well. First  
7 of all, I think the staff report information does  
8 indicate that there is a global oversupply. We find  
9 additionally that there is public information  
10 additionally that shows that that oversupply is likely  
11 to expand -- by oversupply, I mean excess capacity,  
12 capacity substantially greater than demand -- and that  
13 there is a projection that by 2014, just because that  
14 number is out there, the magnitude of this additional  
15 capacity will be, you know, extremely large so that  
16 there is a factual base, you know, for that. Let me  
17 ask Sekisui to comment about some additional  
18 production that is coming onstream.

19 MR. NEUHEARDT: Yeah. I think the market  
20 still is in an overcapacity situation and it's only  
21 getting worse. In fact, I think the recent news that  
22 we've submitted in the brief came from China that  
23 Sichuan Vinylon is starting up 100,000 ton PVH, or PVA  
24 facility in February, there's another company that's  
25 bringing, that has already brought up or is in the

1 process of bringing up another 100,000 ton PVA  
2 facility in inner Mongolia in China, and, of course,  
3 Chang Chun within the last 12 months has doubled their  
4 40,000 KT plant in China to 80,000 KT, so there is a  
5 significant amount of capacity that has come onstream,  
6 is coming onstream. Even beyond those two, or those  
7 three that I've talked about, there are several other  
8 announcements that are out there that are over another  
9 200,000 to 300,000 tons. The projected demand is  
10 certainly not going to keep up with that level of  
11 capacity.

12 COMMISSIONER PINKERT: Well, in a mature  
13 market, which is the way you've characterized this  
14 market, what would explain the kinds of increases in  
15 supply that you're talking about?

16 MR. NEUHEARDT: I think in a lot of ways  
17 this situation is very similar to what we saw back in  
18 the early 2000s when DuPont and Celanese began talking  
19 about filing the initial claims. I mean, you've come  
20 off a period of a significant amount of capacity  
21 expansion, and back then I think it was 200,000 to  
22 300,000 tons of capacity came onstream, and we're  
23 sitting here today in a very similar situation where  
24 due to, you know, whatever reasons of people thinking  
25 there's going to be growth there or different

1 strategies from different companies, we have a lot of  
2 different companies that are adding capacity and we  
3 have some that have not been in the PVA industry that  
4 are getting into the PVA industry, so it's a variety  
5 of different elements going on. At the end of the  
6 day, it really looks a lot similar in that regard for  
7 us as it did back in the early 2000s.

8 COMMISSIONER PINKERT: Well, is it possible  
9 that these folks are getting into the PVA industry for  
10 internal consumption of the product or is it to  
11 service outside demand that may or may not  
12 materialize?

13 MR. NEUHEARDT: I think in some cases it is  
14 to service internal demand, and other cases it's to  
15 service outside demand that may not materialize.

16 COMMISSIONER PINKERT: Is there any way that  
17 we can get our hands around that? Maybe not here at  
18 the hearing, but maybe in the posthearing?

19 MR. NEUHEARDT: I mean, I wish I could. I  
20 mean, it's very difficult for us to understand, also,  
21 why we continue to see people announcing capacity out  
22 there.

23 MR. BUTTON: Commissioner, there are other  
24 folks looking at this. With respect to future  
25 capacity and expectations, it will be there and it

1 will be excess. Attached to our brief was an article,  
2 or a news story from I guess the China National  
3 Chemical Association which talked about the projected  
4 numbers we mentioned through 2014. They're looking at  
5 China, looking at it closely, and the expectation they  
6 had is substantial excess capacity. So, you know,  
7 that we fear is to be the economic reality.

8 COMMISSIONER PINKERT: Well, let's stay with  
9 China for a second. Do we have a good basis for  
10 concluding that the additions to Chinese capacity and  
11 the projected additions are not mainly to service  
12 internal consumption, either internal to the country  
13 or internal to the companies that would be producing  
14 this.

15 MR. NEUHEARDT: Yeah. I guess I can give an  
16 example of Sichuan Vinylon. They are increasing their  
17 upstream vinyl acetate monomer output and they're  
18 increasing their polyvinyl, or PVA, output. They also  
19 manufacture emulsions, which is a consumer of PVA.  
20 They are, in fact, not increasing their emulsions  
21 capacity. So in the case of Sichuan Vinylon, clearly  
22 they're looking to place that product out into the  
23 merchant market. Now, there are others that have a  
24 slight amount of internal capacity that, you know,  
25 they're looking to fulfill, and I think an example of

1 that would be Kuraray in Germany where they've  
2 announced, you know, a 24,000 ton capacity expansion,  
3 but that's primarily to service their PVB business as  
4 its growing and to serve, you know, what's left, to  
5 service other parts of Europe.

6 MR. BUTTON: Commissioner, the quote I was  
7 searching for that was attached to our brief is from  
8 the China National Chemical Information Center  
9 published in the *China Chemical Reporter* December  
10 2010. What they're saying here is they're looking out  
11 towards the future, and "It is expected that China's  
12 demand for PVA will reach around 700,000 tons in 2014.  
13 China's capacity for PVA will exceed 1.1 million tons  
14 per year at that time. The capacity will be in  
15 surplus and the market competition will be fiercer."  
16 That tends to shape some of the expectations that  
17 Sekisui has.

18 COMMISSIONER PINKERT: Thank you very much.  
19 If there are no further comments on that question, I  
20 just want to thank you for all of the testimony today,  
21 and I look forward to the posthearing submission.

22 CHAIRMAN OKUN: Let's see. I think I just  
23 have one final question, and, Dr. Button, I'll direct  
24 it to you, just in terms of kind of a broader theory  
25 of the case and, Mr. Gabbert, you could respond as

1 well, which is in your presentation I believe some of  
2 you focused on underselling, and prices and what you  
3 see is the volume into the market during this period  
4 and on causation questions, all of which are, you  
5 know, obviously very important. With respect to  
6 correlation issues, and often we see cases where, and  
7 again, correlation doesn't prove causation, but  
8 sometimes you see we have cases where import volume  
9 goes up, underselling goes up, you can see you have  
10 something happening in prices or you have something  
11 happen with respect to the financial criteria. Do you  
12 think this case, or tell me how you view the  
13 correlation in this case and why it is or isn't  
14 important.

15 MR. BUTTON: I believe there are  
16 correlations to be found. One of the most  
17 straightforward of the correlations is the volume.  
18 You have to ask is there injury, and is there  
19 causation? Have the imports increased? How is that  
20 reflected in terms of causation on the domestic  
21 industry performance? I go back to the volumes and on  
22 Slide 8. You know, if we look over time, has volume  
23 increased in other correlations? Yeah. Volume from  
24 2001, 2002, 2003, you know, has gone up. In 2007 it's  
25 higher and 2008 it's higher. Okay? You could stay

1 within the final phase POI, correlation 2007 to 2008,  
2 you've got increasing volume of subject imports, the  
3 prices go down, there is underselling and the subject  
4 imports' national performance declines, okay? So I  
5 think that's a correlation, okay? In 2010, you know,  
6 you've got the volume going up, the financial  
7 performance continuing to still be very bad and the  
8 subject import prices going down. You have  
9 underselling pattern in its breadth, intensity and in  
10 timing. It's a correlation in that over time things  
11 are getting worse. So in these respects I believe,  
12 you know, there are correlations that have, that do  
13 reflect causal relationships.

14 CHAIRMAN OKUN: Okay. Well, I will look  
15 forward to your posthearing submissions with respect  
16 to the specific data. With that, I don't have further  
17 questions, but want to thank you for all those  
18 answers. Chairman Williamson?

19 VICE CHAIRMAN WILLIAMSON: Thank you, Madam  
20 Chairman. I have no further questions, and I do want  
21 to thank the witnesses for their testimony.

22 CHAIRMAN OKUN: Let me check to see if there  
23 are -- Commissioner Lane?

24 COMMISSIONER LANE: I apologize if this  
25 question has been asked. My memory sometimes isn't

1 what it used to be. What is the status of PVA imports  
2 from China by Chinese producer SVW, and what is the  
3 current antidumping duty margin applicable to those  
4 imports?

5 MR. GABBERT: The current antidumping duty  
6 on those imports I believe is zero. As to the status  
7 of those imports, I take it that you're referring to  
8 the volume of the imports.

9 COMMISSIONER LANE: Yes.

10 MR. GABBERT: The volume, I don't have the  
11 data directly in front of me, but one of the notable  
12 things about products from SVW is that, and the SSCA  
13 employees can speak to this more directly, we, the  
14 SSCA does not see that product in the market to the  
15 extent that they see the Taiwanese product. In  
16 discussing this, based on market intelligence, our  
17 belief is that most of this product is going to  
18 purchasers who do not purchase product from SSCA or  
19 have not purchased product from SSCA for a long time,  
20 and so to the extent that those volumes may be  
21 increasing, they're not increasing in a way that is  
22 directly impacting the price that SSCA is having to  
23 offer its customers. In other words, you know, when  
24 they compete head to head with SVW, as the overselling  
25 data shows, as the pricing data shows, largely, SVW is

1       overselling and not underselling. I don't know if --  
2       Scott, do you have additional comments?

3               MR. NEUHEARDT: No. I think Richard summed  
4       it up very well. We certainly see that the imports  
5       from Sichuan Vinylon have gone up, but we do not see  
6       them in the marketplace being aggressive like we do  
7       with the Taiwanese. Our belief is that they have  
8       maybe one or two customers that they sell to and those  
9       customers are growing.

10              COMMISSIONER LANE: Okay. Have you  
11       requested any administrative reviews of their imports?

12              MR. GABBERT: No, we have not. We would  
13       prefer to address this more fully in the posthearing,  
14       but just in terms of what we can discuss here, there  
15       are a couple of issues. One is, as you know, the  
16       business was recently sold by Celanese and then  
17       purchased by SSCA. This matter alone has kept the  
18       company's hands full, and obviously Celanese, when  
19       they were marketing, shopping the business on the  
20       market, were not keen on taking, incurring additional  
21       litigation costs. There are some other issues that we  
22       would prefer to address in the posthearing.

23              COMMISSIONER LANE: Okay. And when you  
24       address those, if you have not requested  
25       administrative reviews, would you say why?

1 MR. GABBERT: Yes, we will.

2 COMMISSIONER LANE: Okay. Have the orders  
3 on PVA from China, Japan and Korea been effective with  
4 regard to those three countries?

5 MR. GABBERT: I believe that they have, but  
6 I think that you probably would prefer to hear it from  
7 the business people themselves.

8 MR. NEUHEARDT: I believe that they have,  
9 and I think what Celanese testified in the sunset  
10 hearing was it's been, you know, modestly an  
11 improvement on the business, but at the end of the  
12 day, our contention was back when we first filed this  
13 case and still is now that the major impact of those  
14 orders has really been taken by imports from Taiwan.

15 COMMISSIONER LANE: Okay. Thank you. With  
16 that, I have no further questions. Thank you all for  
17 your appearance and your answers today. Thank you.

18 CHAIRMAN OKUN: Let me see if there are  
19 other questions on the dias. Let me turn to Scott to  
20 see if they have questions for this panel.

21 MR. BENEDICK: Gerry Benedick, Office of  
22 Economics. I have a question for Mr. Sikora. In your  
23 testimony, you indicated that Sekisui absorbed freight  
24 during the company's force majeure period. Was that  
25 reflected in your firm's reported price data which was

1 requested on a net basis? If you want to check and  
2 answer in posthearing, that's fine. No further  
3 questions.

4 MR. DEYMAN: George Deyman, Office of  
5 Investigations. The staff has no further questions.

6 CHAIRMAN OKUN: Thank you. Let me turn to  
7 Respondents to see if they have questions of this  
8 panel. For the record, Mr. Sim is shaking his head  
9 that they do not have questions for this panel, which  
10 means I can take this final opportunity before we  
11 break for lunch to thank the witnesses again for being  
12 here and for all the answers. We look forward to your  
13 posthearing submissions. We will take a one hour  
14 lunch break and resume at 1:30. Let me remind parties  
15 that the room is not secure, so please take any  
16 business confidential information with you. With  
17 that, this hearing is in recess.

18 (Whereupon, at 12:29 p.m., the hearing in  
19 the above-entitled matter was recessed, to reconvene  
20 at 1:30 p.m. this same day, Tuesday, January 25,  
21 2011.)

22 //

23 //

24 //

25 //



1 presentation by the counsel to Sekisui.

2 One is about the relative level of the  
3 dumping margin. As we all know, the dumping margin,  
4 the final dumping margin will be announced on Thursday  
5 at noon. And we, of course, have no idea what the  
6 margin will be, because that's subject to  
7 determination by the Commerce Department.

8 But I will say that to surmise that the rate  
9 would be higher if you had taken the more recent  
10 period, as opposed to the earlier period, is not  
11 correct, having seen the data.

12 But more importantly, if you saw the  
13 exchange between the parties about the period of  
14 investigation, the Commerce part of the case, during  
15 that phase of the case Sekisui argued to use 2003/2004  
16 as the period of investigation. We argued to use  
17 2009/2010, because we felt it would have a lower  
18 dumping rate.

19 Well, you know, despite that, the Department  
20 used 2003/2004, and, based on that, has preliminarily  
21 come out with the three-percent margin.

22 So our point there is that we shouldn't  
23 surmise that using a later period would result in a  
24 higher rate. In fact, we shouldn't surmise anything  
25 at all, because we frankly have to take the dumping

1 rate as it comes out from the Commerce Department on  
2 Thursday.

3 Another point is, that's come up repeatedly  
4 in the Sekisui presentation, is going back in time to  
5 2001 data, 2003, 2003. Again, the Commission is  
6 supposed to look at the condition of the domestic  
7 industry, which includes DuPont and Sekisui, on vote  
8 day. And it's the present condition of the industry.

9 Going back in time really doesn't, has  
10 relatively limited value. The more important is to  
11 look at the POI in this phase of the investigation.

12 And the final point I'd like to raise is,  
13 which my client, DuPont, has raised, about Slide 5 in  
14 this presentation talking about price, price, and  
15 price by Ms. McCord from our client, Dupont. She was  
16 referring to the company, the factory formerly owned  
17 by Celanese. She was referring to Sekisui, not to  
18 imports. And the citation is also to a different part  
19 of the proceeding.

20 In any event, these -- or we can talk about  
21 this in the post-hearing brief in more detail, but I  
22 just wanted to get that out of the way before we get  
23 on with the industry presentation.

24 Up here with me are, from left to right,  
25 from Chang Chun we have Richard Chen, who is the Vice

1 President or General Manager of Overseas Marketing for  
2 Chang Chun. Max Yeh, who is from Chang Chun, and who  
3 is helping Mr. Chen, mainly because Mr. Chen is very  
4 good in English, but he's not a native English  
5 speaker. So we ask for some leeway on that.

6 On my left are Michael Brisbon, who is the  
7 Vinyls Demand Manager from DuPont, and Bruce Becker,  
8 who is from the Polyvinyl Alcohol Sales Department of  
9 DuPont. And Mr. Becker will explain, he has a lot of  
10 experience in PVA. He has been before the Commission.  
11 In fact, as he'll explain in a moment, he was with Air  
12 Products, and so he was there at the beginning.

13 And Mr. Becker will explain what has  
14 happened in this industry in the last few years, and  
15 even back in time, if we go back to the early parts of  
16 the 2000 decade.

17 Mr. Brisbon is here to also answer  
18 questions, and to provide support for Mr. Becker.

19 Mr. Chen will explain, from Chang Chun, the  
20 nature of Chang Chun's business, its operations in  
21 Taiwan, its experience in the United States, and Chang  
22 Chun's experience worldwide: in China, in Asia, in  
23 other parts of the world. And explain what the, how  
24 Chang Chun has approached this market, how Chang Chun  
25 approaches business, and how Chang Chun sees its

1 future presence in the United States market.

2 So our first witness is Mr. Bruce Becker.

3 And I would like Bruce to start with his statement.

4 Thank you.

5 MR. BECKER: Hello.

6 CHAIRMAN OKUN: I don't think your

7 microphone is on.

8 MR. BECKER: Is that better?

9 CHAIRMAN OKUN: Yes.

10 MR. BECKER: Okay. Again, good afternoon.

11 I started with good morning, but it is afternoon.

12 Thank you, Edmund.

13 My name, as Edmund has said, is Bruce  
14 Becker, and I am with DuPont. And today what I would  
15 like to do, and it's a lot more comfortable for me and  
16 hopefully for you all, I've looked at seven different  
17 topics, and some of them are very brief. But they  
18 certainly can be expanded during the question-and-  
19 answer period, and/or the following add-on brief. And  
20 I'll go through those seven topics and try to frame  
21 me, try to frame the industry, and try to frame some  
22 of the critical elements that have taken place over  
23 the period in question to hopefully assist you in  
24 making your decision.

25 First of all, as Edmund has mentioned,

1       fortunately, unfortunately -- most of the time my wife  
2       tells me it's unfortunate -- but I have lived in  
3       polyvinyl alcohol for over 15 years. In fact, this is  
4       my fifteenth year in the business.

5               I started out with Air Products, and spent  
6       four years working as the Global Business Manager for  
7       Air Products; was involved in the sale of Air  
8       Products' business to Celanese, spent approximately  
9       three years with them. And I have been with DuPont  
10       since 2003, spending about eight years with them.

11              So as you probably would guess -- and again,  
12       I'm not saying it's positive, but I do know this  
13       business. I have been involved in a lot of the  
14       decisions that were made around this business, both in  
15       the senior level and a junior level, and have learned  
16       a lot, too. And certainly will express my opinions if  
17       asked.

18              So what I'd like to talk about first is,  
19       there are some recent activities that you all have  
20       been involved with, and I have been involved with,  
21       both in the marketplace and in the legal front, that  
22       bring us here today. Probably the biggest thing was,  
23       is historically, Air Products was the largest PVOH  
24       producer in the Americas.

25              And just as an aside, I refer to polyvinyl

1 alcohol as PVOH. I know it's commonly labeled PVA.  
2 Just as an aside, that's actually polyvinyl acetate.  
3 It's not polyvinyl alcohol.

4 But anyway, it was the biggest, biggest  
5 business. And in the late 1990s, early 2000s, Air  
6 Products made the decision that they were not going to  
7 reinvest in the business, and they elected to sell the  
8 business. And it was sold to Celanese Corporation,  
9 which of course is a very big acetic acid and vinyl-  
10 acetate monomer producer.

11 And then they ran the business up until  
12 2009, and in 2009 they sold their PVOH operations to  
13 Sekisui, the Japanese company that's represented  
14 today, or SSCA.

15 That's kind of an industry, very brief  
16 industry background. But during that period of time  
17 there were a number of legal actions that took place.  
18 And the ones that were relatively recent, some I was  
19 involved in, some I wasn't.

20 But there was an anti-dumping petition filed  
21 in 2002. It was filed by Celanese and DuPont, and it  
22 led to anti-dumping orders against China, Japan, and  
23 Korea at that timeframe.

24 The dumping was proven. There was a duty  
25 imposed. And pricing did improve, and it did crimp

1 the exports of those affected. That was Kuraray from  
2 primarily Japan, DC Chemical, a Korean company from  
3 Korea, and it had an impact on Sichuan Vinylon Works  
4 from China, as well.

5 That brought us to the next order, and the  
6 next order was the one we're discussing today. And  
7 that case was filed unilaterally by Celanese. And  
8 DuPont has opposed the filing of this petition. We  
9 did so when first offered, and we continue to do so  
10 today, and feel that it is not the right thing to do.

11 I'd like to shift gears. I'd like to talk  
12 briefly about the product. FCCA has mentioned it is a  
13 polymer, it's a very unique polymer with a wide range  
14 of diverse applications. It's used, one, as an  
15 additive to enhance performance characteristics, such  
16 as water solubility, tensile strength in industries  
17 ranging from textiles to adhesives to paper.

18 It's also used as a reactant, and that's the  
19 second major use. And approximately half of DuPont's  
20 production is used internally to make polyvinyl  
21 buturyl, or PVB, and is sold under DuPont's trade  
22 name, Butacite. This, in turn, is sold to both the  
23 architectural and automotive industries.

24 And I think as we all know, it's used as an  
25 interlayer in either glass windows or glass

1 windshields, and should the glass be broken, instead  
2 of that glass landing in your lap or in your face and  
3 hurting you, the film in between the two layers of  
4 glass holds the glass on that film. And hopefully the  
5 person involved does not get hurt, and that saves the  
6 individual.

7           In the United States, DuPont and Sekisui are  
8 the primary supplies of PVOH. He do, together,  
9 collectively have the largest market share. There is  
10 another producer, Kuraray, which is a  
11 German/Singaporean/Japanese company, that supplies  
12 material from its three plants. And then there are a  
13 couple distributors -- one is Perry and one is WEGO --  
14 that service the market. But unlike the two of us,  
15 offer the product without any, or little, technical or  
16 customer support.

17           I've talked about the product, but I do want  
18 to emphasize that we foresee significant growth  
19 opportunities in the future of polyvinyl alcohol. And  
20 a couple of the key examples -- and we have really  
21 been very selective in trying to support those where  
22 we think there's a good potential for success. But a  
23 couple of those key examples include polyvinyl alcohol  
24 films used in the production of LCD displays; and  
25 secondly, as a raw material, again in PVB production,

1 to be used ultimately in a new application, which is  
2 photovoltaic thin-film solar modules. And that's very  
3 consistent, certainly with what our president has  
4 said, where we're going to put a lot of money into  
5 those potential applications. And I think there's a  
6 lot of decisions that need to be made on what  
7 technology will actually be chosen. But we think that  
8 is a tremendous upside.

9           The other interesting thing on the LCD side  
10 is, is probably SSCA understands better than we do  
11 that marketplace, because the Japanese have been very  
12 active in that application.

13           How have we looked at this marketplace?  
14 What have we done? Well, we're not, this business is  
15 not unlike many.

16           Number one, we do pride ourselves on working  
17 with our customers, and trying to solve their  
18 problems; and hopefully, in turn, generating and  
19 developing new uses for our products. To support  
20 that, we offer technical support, as mentioned, and an  
21 R&D capability.

22           We also have shifted our internal accounting  
23 and planning systems to SAP modules. And while  
24 frustrating at first, I think it definitely has  
25 enhanced our forecasting and planning capabilities.

1 And also we think has fostered some customer loyalty,  
2 and is probably more consistent with where most of the  
3 industry is moving.

4 We produce fully hydrolyzed materials at our  
5 site in LaPorte, Texas. And we have elected to  
6 purchase and resell, rather than produce, partially  
7 hydrolyzed polyvinyl alcohol. And our supplier of  
8 partially hydrolyzed polyvinyl alcohol has been Chang  
9 Chun Petrochemical since 1987.

10 As you can see, the combination of our  
11 production and our purchases make us a full-line  
12 supplier of polyvinyl alcohol, which many of our  
13 customers view as a critical component in making their  
14 purchasing decisions. These purchases are, thus,  
15 complimentary to our domestically produced material;  
16 and again, allow us to meet the diverse needs of our  
17 diverse customer base.

18 We, in this business, we have seen several  
19 unique watershed-type activities. And the one that  
20 I've seen in my 15 years of experience -- well,  
21 there's actually two. One is the current recession.  
22 But in the summer of 2007, there was a, the shortfall  
23 at Celanese had a significant impact that affected the  
24 supply/demand situation in the United States. They  
25 had a process upset, which was discussed this morning.

1 They did issue a force majeure, in which they limited  
2 the consumption of VAM to 50 percent of requirements  
3 for a period of time. And since VAM, of vinyl-acetate  
4 monomer, is a key raw material for PVOH production,  
5 and use about two pounds of VAM for every pound of  
6 polyvinyl alcohol, they also declared force majeure on  
7 polyvinyl alcohol, and for a period of time limited  
8 the product availability of that product to 50  
9 percent, as well.

10 I have to admit, it caught me by surprise.  
11 I think it caught a lot of people by surprise. But  
12 initially, I thought, a lot of people thought, that  
13 that action was going to have little, if any, impact  
14 on the marketplace in PVOH availability.

15 But as it turns out, it had a bit impact.  
16 And in fact, for again a limited period of time, but a  
17 period of time, polyvinyl alcohol was actually  
18 oversold. And frankly, you got a lot of phone calls  
19 from people looking for material. And if you happened  
20 to have any excess, very often you sold it at list  
21 price, which was almost three dollars a pound.

22 So it was short. It did have an impact. It  
23 was resolved, but it was significant. And it really  
24 was a watershed mark. And what happened from that  
25 point on was that pricing rose dramatically during

1 that period of time, and has continued to do so since.  
2 Again, the understanding was, is the product was  
3 either in balance or maybe even long. And all of a  
4 sudden you learn that it's not in balance; it's  
5 oversold and it's short. And all producers take  
6 actions accordingly.

7 And it also led to a recognition from the  
8 customers that they might need a second source to  
9 support their activities, and that their reliance on a  
10 single source might not be the best pass forward. And  
11 accordingly, they made some decisions to expand that  
12 position, and often would go from 100-percent supply  
13 position to an 80/20, 75/30 position, or whatever, to  
14 meet their future needs.

15 And, understandable, it's not necessarily  
16 the best thing in the world. You sometimes like 100  
17 percent. But it happened. And during that period of  
18 time, the product wasn't available from Sekisui --  
19 Celanese at the time -- it wasn't available from  
20 DuPont. So the customers went out and secured other  
21 sources of product, and in some cases those supply  
22 situations have continued into the future.

23 To me, that was significant. It's simple,  
24 it's straightforward, but what I'd like to do is kind  
25 of conclude by saying that that happened. And then,

1 unfortunately in 2008, and I've heard enough of it  
2 today to fully understand that you all understand that  
3 completely, that we had this global recession. And I  
4 guess it was the worst recession since the Great  
5 Depression.

6 And from my perspective, and I think from a  
7 lot of perspectives, it affected all industries, and  
8 it did affect our PVOH business, as well.

9 Since that time, thank goodness, and there  
10 has been a recovery, and the producers in general have  
11 performed fairly admirably in meeting their demands.  
12 And we've seen the recovery underway, and I guess it's  
13 been announced that that's the case.

14 And on a positive note, we have seen the  
15 recovery. We are in the Performance Chemicals  
16 Division, which is a part which PVOH is a part of.  
17 And on your results, we're up 21 percent. So we do  
18 see things improving for our business and our  
19 industry.

20 And I think that hopefully, the PVOH  
21 supply/demand situation is behind us, and the business  
22 is essentially balanced. And I would guess, because  
23 it's the right thing to do, that any capacity  
24 additions that are made to this business are going to  
25 be made judgmentally, and be made to meet a growing

1 demand that is forecasted into the future.

2 And I've given you some market background.  
3 I think aside from the recession, the market is  
4 recovering, and that imports of polyvinyl alcohol from  
5 CCPC do not injure or threaten the domestic industry.  
6 And I'll be happy to answer any questions at the end.  
7 Thank you.

8 MR. SIM: Thanks, Bruce. Now we have our  
9 next speaker, Mr. Richard Chen, who is the Vice  
10 President or General Manager for Overseas Marketing at  
11 Chang Chun Petrochemicals. Richard.

12 MR. CHEN: Good afternoon. My name is  
13 Richard Chen. I am Vice President of the Overseas  
14 Marketing Division of the Chang Chun Petrochemical  
15 Company, Ltd. I have worked for the company for 37  
16 years, and have been involved in the polyvinyl alcohol  
17 business during all of that time.

18 On behalf of Chang Chun, I appreciate this  
19 opportunity to present our position to the Commission,  
20 and urge that it terminates this investigation with a  
21 negative determination.

22 I will begin with some background  
23 information about our company. The Chang Chun Group  
24 was founded in 1947, '49, by three high school  
25 classmates in Taiwan. Two of them are still active in

1 managing this company.

2 Chang Chun Petrochemical was founded in  
3 1964. Chang Chun is one of the major PVA  
4 manufacturers in the world. We operate modern  
5 facilities in Taiwan and China, and we sell PVA to  
6 every major market worldwide.

7 I know the global immense situation market  
8 price market. I keep track of the capacity change for  
9 the majority of the producers worldwide.

10 Regarding the U.S. market, we sell PVA to  
11 customers such as DuPont, since our PVA complements  
12 Dupont's own PVA production line with hydraulics range  
13 that they cannot produce.

14 We have had dealings with DuPont since 1987.  
15 Chang Chun has also had little experience with Perry  
16 Chemicals since even earlier, in 1978. That  
17 relationship began as a result of a serious shortage  
18 in the U.S. market for PVA in the late seventies. And  
19 the relationship grew from there, over time.

20 We also sell to other U.S. customers a full  
21 range of the products.

22 Through the years, Chang Chun has rarely, if  
23 ever, sold either to Perry or to DuPont all of the PVA  
24 they wanted to buy from us. The main reason why is  
25 that Chang Chun has kept a longstanding business

1 practice of actively managing its participation in the  
2 market so as to maintain a steady market share in the  
3 United States, in line with the forecasted demand.

4 We have followed this market-share  
5 management practice for decades. And that remains our  
6 practice.

7 Fast-forwarding to the most recent decade, a  
8 lot has happened since this case has begun eight years  
9 ago. In 2007 the U.S. PVA market became very tight  
10 because of disruptions caused by Celanese, Sekisui,  
11 and then DuPont.

12 Because of force majeure, many U.S.  
13 customers sought alternative PVA sources. Having  
14 learned through experience the high quality and  
15 reliability of Chang Chun products, these customers  
16 sought us out as an alternative source.

17 As a result, in 2007 Chang Chun decided to  
18 implement the bargaining in our Taiwan production  
19 facilities. We do not take such measures so easily.  
20 We did not increase our production in Taiwan for many  
21 years, since year 2000. By doing so we managed to  
22 increase our production capacity in Taiwan modestly,  
23 and with the aim of supplying increase in PVA  
24 worldwide, particularly in Asia.

25 Chang Chun increased its exports to the

1 United States during 2007 and 2008, only because of  
2 the market disruption which took place in those years.  
3 Otherwise we would have continued to place limitations  
4 on our exports to the United States. Given the long-  
5 term relationship that Chang Chun has with Perry and  
6 DuPont, however, and the unusual circumstances in 2007  
7 and 2008, we shipped more PVA to the U.S. market than  
8 we would have otherwise. This created constraints on  
9 our own capacity in these years.

10 Then the global recession in late 2008  
11 caused a decline in our shipments to the United  
12 States. Our company, like everyone in this industry  
13 and others, endured economic pressures caused by this  
14 downturn in 2008 and 2009. Only in 2010 have we seen  
15 market demand in the U.S. and elsewhere not just  
16 increase to pre-recession levels, but actually above  
17 those levels.

18 Despite this increased demand, however, we  
19 actually anticipate decreasing our shipment to the  
20 United States in 2011, due to increases in our own  
21 captive use in Taiwan. I will explain why.

22 The world economy is improving. We expect  
23 global demand for our PVA product to continue to  
24 increase this year and beyond. PVA demand in other  
25 markets, especially in Asia, has increased.

1                   Increases in demand in China, India,  
2                   Indonesia, and Pakistan have been particularly  
3                   dramatic, and promise to continue in 2011 and beyond.  
4                   Growth in the China market is focused on application  
5                   including construction, textile, automotive glasses,  
6                   auto sales, and PVC industry.

7                   Growth in Pakistan is focused on textile  
8                   applications. And growth in India and Indonesia is  
9                   mainly on adhesive application.

10                  There is increased demand for product, such  
11                  as the PVSM and photovoltaic sales, as well as the  
12                  continued demand from the textile industry around the  
13                  world. Demand in Europe for captive use has been  
14                  increasing since 2010, as well.

15                  All of this means that our product will be  
16                  sought after. We are finding that demand is  
17                  particularly strong in China. Contrary to common  
18                  belief, there is little excess supply in China. The  
19                  actual production capacity in China is much lower than  
20                  the theoretical -- rate capacity estimated by most  
21                  market analysts.

22                  There are several reasons for this, and I  
23                  will touch on them briefly. First, most of the  
24                  Chinese PVA production facilities are older, having  
25                  been built in the late sixties and seventies. Using

1 the much-less-efficient calcium carbide acetylene  
2 production process in the vast majority production  
3 plant, 10 or 12. By comparison, our China plant use  
4 ethylene and acetic acid-based process, a process  
5 which is more efficient and environmentally friendly.

6 Second, these older Chinese plants require  
7 more maintenance; and thus, have more down time. They  
8 also have greater carbon emissions, and thereby  
9 subject to more production limitation than the  
10 ethylene acetic acid process used by Chang Chun and  
11 other major PVA producers worldwide.

12 Also, Chinese authorities force production  
13 cutback from time to time in order to reduce air  
14 pollution.

15 Third, Chinese demand for higher-quality PVA  
16 for for PVB raising sheet and for very high viscosity,  
17 very low viscosity PVA has increased. However, the  
18 income that Chinese PVA producers cannot supply  
19 sufficient PVA to meet those needs. As a result,  
20 Chang Chun, which fell to China and has its own  
21 production facility there, has seen the Chinese PVA  
22 market experience tight supply conditions in the  
23 second half of 2010, and expect this to continue into  
24 2011.

25 On a final note, in light of our

1 expectations, demand for our product will increase  
2 abroad. It might seem odd that we projected a  
3 decrease, and not increase, in our production in 2011,  
4 as reported in our questionnaire response. This leads  
5 to an important point in understanding our reported  
6 production and production capacity figures.

7 We take the term production capacity to mean  
8 that maximum metric capacity of a production line.  
9 However, such capacity doesn't take into account the  
10 time we must spend to reconfigure a production line  
11 for purpose of switching from the production of one  
12 grade to another grade on the line.

13 This is an important point, that time spent  
14 to reconfigure a production line is a necessary part  
15 of the production process. And that naturally affects  
16 the actual PVA production that take place.

17 Chang Chun has the greatest number of PVA  
18 production lines within a single facility worldwide,  
19 and therefore has an ability to produce the widest  
20 range of PVA grades. The reason why we project a  
21 decrease in actual production in 2011 versus 2010 is  
22 because Chang Chun has undertaken some specialty  
23 customers which will require greater time spent  
24 configuring our production lines moving forward.

25 Thus, the difference between Chang Chun's

1 reported productions versus production capacity  
2 figures should not be understood as unused capacity in  
3 the traditional sense. But rather, the result of a  
4 business decision to meet the needs of certain  
5 specialty customers, and on acceptance that this will  
6 create additional time spent on reconfigurations of  
7 our lines for that could otherwise be used for active  
8 production.

9 The production quantity that we reported for  
10 2010 and projected for 2011 represents Chang Chun's  
11 total production capabilities in the two years, given  
12 the two different mixes of production. In other  
13 words, Chang Chun is operating at full capacity now,  
14 in accordance with our planned business objectives.

15 In conclusion, Chang Chun has been involved  
16 in this market for a very long time. Since the  
17 beginning of this case in 2003, the world has changed  
18 significantly. There are expanding markets for PVA  
19 globally, with new applications and expansion of  
20 applications in other countries.

21 We meet this demand by selling quality  
22 products at fair prices consistently with our high  
23 corporate standards, which we have held all along.

24 Thank you again for this opportunity for me  
25 to present Chang Chun's views on this matter in

1 person. Thank you very much.

2 MR. SIM: Thank you, Mr. Chen. In my  
3 opening remarks I left out one person who has actually  
4 been very important to our effort, and that's Mr.  
5 Richard Boyce, who is seated behind in the second row.

6 That concludes our presentation of our  
7 witness testimony. And we now get to what we believe  
8 is the more important part, which is our interaction  
9 with the Commission and Commission staff on your  
10 questions and our answers. Thank you.

11 CHAIRMAN OKUN: Thank you. And let me take  
12 this opportunity to thank all of you for appearing  
13 here, all the witnesses, particularly from industry,  
14 and Mr. Chen for traveling to be with us. We very  
15 much appreciate the effort you made to be here.

16 And we will begin the questioning this  
17 afternoon with Commissioner Pearson.

18 COMMISSIONER PEARSON: Thank you, Madame  
19 Chairman. Welcome to all of you.

20 I'd like to ask a question that might be  
21 answered by more than one person. The domestic  
22 industry has alleged that PVOH from Chang Chun has  
23 been sold at relatively low prices at times in the  
24 U.S. market. Who makes the pricing decisions for  
25 Chang Chun product here in this country? Is it done

1 by Chang Chun, or is it by DuPont? Mr. Brisbon.

2 MR. BRISBON: DuPont makes the pricing  
3 decisions for the sales of the Chang Chun product here  
4 in the U.S.

5 COMMISSIONER PEARSON: Okay. And you are  
6 involved in that decision making.

7 MR. BRISBON: That's correct.

8 COMMISSIONER PEARSON: Okay.

9 MR. BRISBON: I would add that the product,  
10 as I said, is purchased for resale. And there is a  
11 somewhat complex contract that cements that  
12 relationship between the two companies. And I'm sure  
13 Edmund will cover that under brief, as it is  
14 confidential. But we know what we're paying for the  
15 material, and then of course make the assessment  
16 thereon on what we can, or will charge for the  
17 material, with a lot of other factors.

18 COMMISSIONER PEARSON: Okay. Mr. Brisbon,  
19 do you also, are you also involved in the sale of PVOH  
20 that's produced by DuPont?

21 MR. BRISBON: Yes, I am, for both the  
22 partially hydrolyzed material that we've purchased for  
23 resale from Chang Chun, and also our internally  
24 produced PVA.

25 COMMISSIONER PEARSON: Okay. But the

1 product from Chang Chun, that is, it's different from  
2 any product that DuPont produces, at least in the  
3 United States, is that correct?

4 MR. BRISBON: Would you repeat that, please?

5 COMMISSIONER PEARSON: It's a different  
6 grade. It's not directly competitive with a product  
7 that DuPont is producing in the United States.

8 MR. BRISBON: That is correct. DuPont can  
9 only produce fully hydrolyzed PVA.

10 COMMISSIONER PEARSON: Okay.

11 MR. BRISBON: And the decisions, again, the  
12 market in question, and I guess it's the U.S. market.  
13 And the U.S. market, I, with Michael and another  
14 gentleman that runs the business, make the decisions  
15 on the pricing that is ultimately offered customers.

16 COMMISSIONER PEARSON: Is there a  
17 relationship between the pricing on the partially  
18 hydrolyzed PVOH made in Taiwan, and the fully  
19 hydrolyzed PVOH produced by DuPont in this country?

20 MR. BRISBON: In the past, maybe. Today  
21 they are all independent decisions. Depending on the  
22 customer and the product. That's a few of the factors  
23 that go into the decision-making process.

24 I know we've talked about pricing in  
25 general, and I've learned a lot in my 15 years. And I

1 have what they call the circular career path. I  
2 started up down here, I was up here, and I'm back down  
3 here again. But I like it very much, I assure you.

4 But we look at the, we look at prices. One  
5 factor in the decision-making process, but of course,  
6 security of supply, terms and conditions, source of  
7 supply, et cetera, et cetera, go into the ultimate  
8 decision. It's not just one thing that dictates how  
9 you buy product.

10 COMMISSIONER PEARSON: Right. But if we  
11 were to look over the past three years, for instance,  
12 at the pricing of the fully hydrolyzed PVOH and  
13 pricing of partially hydrolyzed PVOH, would we see a  
14 close correlation? Perhaps, Mr. Boyce, you're the  
15 person to ask.

16 What would be the R-squared on that, if we  
17 were to --

18 MR. BOYCE: I think you would find a fairly  
19 high correlation because prices are driven, in no  
20 small part, by raw materials cost. And they are  
21 common to both.

22 COMMISSIONER PEARSON: Okay. So in general,  
23 we would expect generally the same trend in pricing,  
24 with variations based on the specifics of the supply  
25 and demand for the individual products? Is that the

1 right way to see it, Mr. Becker?

2 MR. BECKER: To be honest, I'd say they're  
3 independent decisions.

4 COMMISSIONER PEARSON: Oh. I'm not talking  
5 right now about the decision. What would be the  
6 actual, what would --

7 MR. BECKER: It depends on what the realm of  
8 consideration is. If you think within a nickel of  
9 each other is your definition, or is it within 20 or  
10 30 cents of each other.

11 COMMISSIONER PEARSON: I don't know this  
12 market; I have to trust you.

13 MR. BECKER: What I would say is, I think  
14 each one is an independent decision based on a variety  
15 of different factors. And that will be the ultimate  
16 determinant of the price. And they could be, and are,  
17 different.

18 COMMISSIONER PEARSON: Okay. The domestic  
19 industry would give us the impression that, in some  
20 instances, the under-selling of the Taiwanese product  
21 has been so significant that, in effect, you guys have  
22 been leaving money on the table. Not their wording,  
23 that's my wording.

24 What would you say to that? Maybe that's  
25 not the correct way to characterize what they were

1 saying, but, you know, give it a shot.

2 MR. BECKER: What I would personally say is,  
3 as I said, I've learned a lot over my 15 years in the  
4 business. I think the selling function is one of the  
5 important functions in any business, and it's very  
6 critical that, as a salesperson, you report the  
7 dynamics as you see them and understand them. They  
8 are integrated with your internal understanding of the  
9 business, and ultimately you reach a pricing decision.

10 Since we know what we do, but don't know  
11 what our competition does, we always hope, as I'm sure  
12 our competition does, that we are getting fair value  
13 for the product. And that's really where we end up.

14 Would I contest that things are being sold  
15 at below market? Yes, I would. I think they are  
16 being sold at fair market value.

17 MR. BRISBON: Excuse me.

18 COMMISSIONER PEARSON: Mr. Brisbon, go  
19 ahead.

20 MR. BRISBON: Excuse me. I would just like  
21 to add to what Bruce is saying, is that we don't  
22 really see a basis for Sekisui to say that the DuPont  
23 material is being sold into the domestic market at a  
24 below-market price. Based on the feedback from our  
25 customers, that is certainly not the case.

1                   COMMISSIONER PEARSON: Now, you, of course,  
2 won't have access to the confidential pricing  
3 information that we have here; I understand that. But  
4 I can characterize it by saying that it does show more  
5 under-selling of the Taiwanese product than over-  
6 selling.

7                   Do you have observations on that? Have  
8 there been instances when you have been undersold by  
9 the U.S. product, and lost business to Sekisui?

10                  MR. BECKER: We all take our respective  
11 approaches to the marketplace and make pricing  
12 decisions, again, at individual accounts, on the basis  
13 of that understanding. In many cases we may not even  
14 participate together at the same location, so you  
15 can't draw any comparison. It could be 100-percent  
16 supply position, it could be, at very small accounts  
17 or bigger accounts.

18                  So it's hard to see those exact points of  
19 interaction. It happens at times, but I would say  
20 less frequently today than in the past.

21                  COMMISSIONER PEARSON: Okay. But Sekisui  
22 was able, on the record, to give instances where they  
23 believed that they had been, they had lost business to  
24 Chang Chun's product. You are not able, in reverse,  
25 to list, either now or in the post-hearing, talk about

1 any instances in which you might have lost business to  
2 Sekisui?

3 MR. BECKER: We are one vehicle, as Richard  
4 has mentioned, in terms of buying and reselling Chang  
5 Chun product. He works through a direct-sales effort,  
6 which we are not involved in, and he also works  
7 through distribution, which we're not involved in.  
8 But we can't comment on those.

9 COMMISSIONER PEARSON: I see what you're  
10 saying, fair enough. DuPont is not Perry, and Perry  
11 is making its pricing decisions separately. And you  
12 would have no influence over that.

13 MR. BECKER: No input, and we have no input  
14 on the direct sales, as well. So those are  
15 independent decisions, and we have no idea what kind  
16 of job they are doing.

17 COMMISSIONER PEARSON: Okay, fair enough. I  
18 think that that point is now well taken. It just took  
19 me a while.

20 MR. BECKER: Well, me, too.

21 COMMISSIONER PEARSON: Does DuPont provide  
22 technical assistance for the PVOH it imports from CCP?

23 MR. BRISBON: Yes, DuPont provides technical  
24 assistance for its full complement of products, the  
25 fully hydrolyzed and the partially hydrolyzed

1 material.

2 COMMISSIONER PEARSON: Okay. So if you had  
3 a customer buying both, you would serve that customer  
4 the same way for either product.

5 MR. BRISBON: Yes, that's correct.

6 COMMISSIONER PEARSON: Okay, good. Well, my  
7 light has gone to not much time left, and so I think  
8 I'll just stop now. Thanks.

9 CHAIRMAN OKUN: Commissioner Aranoff.

10 COMMISSIONER ARANOFF: Thanks, Madame  
11 Chairman. Welcome to the afternoon panel. We  
12 appreciate you being here with us today to answer our  
13 questions.

14 I want to go back to the issue of 2007, and  
15 the question is supply shortages in the market.  
16 Sekisui's argument that they repeated this morning is  
17 that in the end, they were able to just about meet the  
18 demand from all their customers. But one of the  
19 issues that I think is not so clear on this record is  
20 forecasted demand versus what the customer was  
21 actually asking for at the time.

22 Now, am I correct, Mr. Becker, that your  
23 company, too, works on the basis of forecasted demand?

24 MR. BECKER: Yes, that's very important.

25 And in fact become very important across all American

1 industry, as you know, over the last couple of years.  
2 Because good forecasting makes sure you have adequate,  
3 but not excess, inventories; and therefore, maximizes  
4 your cash position. Which has become very important  
5 in today's world. Not 100-percent sure, because  
6 interest rates aren't very high, but that is the case.  
7 So you're, you're right on.

8 COMMISSIONER ARANOFF: So if a whole bunch  
9 of customers at the same time came to you, saying  
10 listen, I need a lot more than was in my forecast,  
11 would you be able to meet that demand?

12 MR. BECKER: We have been very careful to  
13 manage our commitment. We make commitments, sometimes  
14 on paper, sometimes verbally, and we make sure that we  
15 have -- frankly, as long as we're operating, we have  
16 adequate, an adequate combination of produced,  
17 purchased, and inventoried material to meet those  
18 demands.

19 And we are very careful that we do not go  
20 out and over-commit; and therefore, be unable to  
21 supply. And so no, we can weather the storm, just  
22 like many producers can; we just can't capitalize on  
23 tremendous upsides when things are very short.

24 COMMISSIONER ARANOFF: One of the things  
25 that I'm trying to figure out in this case is, we have

1 this idea that there was this force majeure event in  
2 2007. Customers who like certainty as much as you do  
3 in your planning process got really nervous.

4 MR. BECKER: Yes, they did.

5 COMMISSIONER ARANOFF: And it may be that in  
6 the end they got what they really needed, but they  
7 didn't know that going in.

8 MR. BECKER: Possibly.

9 COMMISSIONER ARANOFF: And so what I'm  
10 trying to, what I'm trying to figure out is, how do I  
11 weigh that? If in the end people mostly got what they  
12 needed, but they didn't know that for some period of  
13 time, is that a perceived shortage that's not a real  
14 shortage? How should the Commission weigh that in  
15 terms of looking at whether or not the market needed  
16 to bring in supply from, you know, other more non-  
17 traditional sources?

18 MR. BECKER: Well, in my opinion, the  
19 shortage itself is very significant. Any force  
20 majeure is significant, and people respond to it  
21 immediately. Whether it's real or perceived.

22 The learning that I took, it may not be  
23 consistent with my colleagues, but the learning that I  
24 took was that the product that initially the force  
25 majeure would have very little, if any, impact on

1 product availability because there was excess supply.

2 I was wrong. There wasn't excess supply.

3 And even though the reduction was a portion of  
4 Celanese's, which is only one player in the grander  
5 market, it did have an impact. And for a very long  
6 period of time. And I have been there a long time.  
7 And frankly, for the last roughly 10 years, there had  
8 been little, if no, capacity addition.

9 And maybe quietly, but growth did take  
10 place. It took place in the United States, as well as  
11 Asia, as we all know. And all of a sudden, I was  
12 personally surprised that it had gotten as big as it  
13 had gotten.

14 So the shortfall was significant. It was  
15 remedied, but it did impact my understanding of the  
16 marketplace, and certainly changed my perspective in  
17 terms of what I saw going forward. With the  
18 realization that a combination of growth and lack of  
19 capacity addition had impacted availability, and we  
20 were tight.

21 COMMISSIONER ARANOFF: Okay.

22 MR. SIM: It was that simple.

23 COMMISSIONER ARANOFF: Okay. I appreciate  
24 that answer. Now, let me address this question, I  
25 guess I'll address it to Mr. Sim, and then maybe

1 there's someone else on your panel who you want to  
2 answer it.

3 Mr. Becker has testified, and justifiably  
4 so, that the product that he, the products that he's  
5 purchasing from Chang Chun are complimentary to what  
6 DuPont can produce in the United States.

7 But in your brief you extrapolate from that  
8 point, to argue that product that's coming in from  
9 Taiwan is complimentary to the production of the  
10 domestic industry in general. And I wanted to give  
11 you an opportunity to support that extrapolation,  
12 because I'm not sure I really see it. Even though  
13 DuPont doesn't produce the products that it's  
14 purchasing from Taiwan, Sekisui obviously does.

15 MR. SIM: We are not making that assertion  
16 on a qualitative basis. Obviously, Chang Chun  
17 product, except to the extent that it does not make  
18 PVB, I mean export PVB-grade PVA, Chang Chun product  
19 is more or less interchangeable with most, almost all  
20 forms of PVA.

21 Our point was simply that as an alternative  
22 source, in order to relieve some of the market  
23 perception, market -- as Mr. Becker was just talking  
24 about after 2007/2008, you had a market which had  
25 experienced basically some form of trauma,

1 psychologically. And so the presence of Taiwan PVA  
2 helped companies deal with both the immediate  
3 shortfall and with dealing with the revised  
4 expectations of purchasing in the market.

5 In other words, you had, you revised plans  
6 on how you wanted to set your forecast of purchasing  
7 for that time period. And so by being in the market,  
8 Taiwanese PVA served as another source. That's what  
9 we meant. It's a quantitative approach rather than a  
10 qualitative approach.

11 MR. BOYCE: May I add to that?

12 COMMISSIONER ARANOFF: Certainly.

13 MR. BOYCE: When we use the word  
14 complimentary, we mean in fact that the increased  
15 sales of one product will increase the sales of the  
16 other product.

17 You have heard in answer to Mr. Pearson's  
18 question, I believe it was, that DuPont provides  
19 technical service, and along with that R&D, for both  
20 fully hydrolyzed and partially hydrolyzed products.

21 To the extent that their imports of  
22 partially hydrolyzed PVA, coupled with their R&D and  
23 technical support, increased the demand for PVA in the  
24 United States; it is not just a zero-sum game between  
25 Sekisui/Celanese and DuPont.

1           MR. BECKER: Excuse me. I'm not sure this  
2 is even the question, so if I'm on the wrong path,  
3 just tell me to shut up.

4           But very simply, a lot of customers, as it  
5 was mentioned earlier, you sell polyvinyl alcohol  
6 based on usually hydrolysis and viscosity. And a  
7 fully hydrolyzed material, just in rough terms, is  
8 about 99-percent hydrolyzed. Which means that, in  
9 very simple terms, the alcohol functionality replaces  
10 the acetate functionality 99 percent of the time.

11           The partially hydrolyzed is the other  
12 product. And that is 89-percent hydrolyzed. Very  
13 often you get the customer base buying both products  
14 concurrently. Sometimes it's one or the other, but  
15 many times it's concurrently.

16           And so therefore, when I say complimentary,  
17 that customer oftentimes wants to one-stop shop, and  
18 wants to make sure that you handle all the grades.  
19 And we have chosen to buy, resell a portion of that  
20 offering to compliment our fully hydrolyzed  
21 production.

22           COMMISSIONER ARANOFF: Okay. No, I  
23 understand, I understand that part.

24           MR. BECKER: I didn't, I'm sorry.

25           COMMISSIONER ARANOFF: No, I appreciate

1 that. And I probably would never tell a witness to  
2 shut up.

3 (Laughter.)

4 COMMISSIONER ARANOFF: Maybe one of the  
5 lawyers, but not a witness.

6 (Laughter.)

7 MR. BECKER: That's the beauty of getting  
8 older; you're not so hesitant to speak your mind.

9 COMMISSIONER ARANOFF: Well, I guess I'll  
10 pick up again in my next round. Thank you, Madame  
11 Chairman.

12 CHAIRMAN OKUN: Commissioner Pinkert.

13 COMMISSIONER PINKERT: Thank you, Madame  
14 Chairman. And I thank all of you for being here today  
15 and helping us understand what's happening and what's  
16 likely to happen in this industry.

17 I want to begin with a question about the  
18 increase in consumption in interim 2010. In your view  
19 is that due in large part to purchasers replenishing  
20 inventories that had become depleted during the  
21 recession?

22 MR. BRISBON: In my view, I don't believe  
23 that it's solely replenishing inventory. I do believe  
24 that their businesses have improved, also, their  
25 sales.

1           So it is actual sales, not just rebuilding  
2 inventory.

3           COMMISSIONER PINKERT: Thank you. Now,  
4 looking at the merchant market, it appears that the  
5 domestic industry gained a small amount of market  
6 share in interim 2010, as compared to interim 2009,  
7 while subject imports lost market share.

8           Do you have an explanation for why this  
9 happened? And how much reliance should we be placing  
10 on interim 2009, 2010 data?

11           MR. BECKER: I would say we probably want to  
12 respond in the brief. The only thing I would say is  
13 that, again, you have fully hydrolyzed and partially  
14 hydrolyzed products, and you have different  
15 industries. And as we all know, and I'm sure you guys  
16 see a lot of these things every year, some industries  
17 have done very well, and some industries have done  
18 very poorly. In fact, I have a friend who's looking  
19 for a job as a result.

20           And if you could be aligned with the growing  
21 segment or the growing industry versus that not  
22 growing, and you could be the beneficiary, an industry  
23 could be doing better than others, and you could be  
24 the beneficiary or the loser.

25           So it's not as simple as simply the overall

1 industry. But where you're aligned, what your  
2 customer base is and how they are doing. So I think  
3 that has impact, personally, in the ultimate  
4 situation.

5 MR. BOYCE: Mr. Pinkert, I am looking at our  
6 table on page 26 of our prehearing brief. And you see  
7 the trend in imports from Taiwan.

8 You heard a witness testify that they manage  
9 their participation in the U.S. market. They  
10 increased their exports to the United States, very  
11 deliberately, in reaction to a clear need caused by  
12 problems with a U.S. domestic producer.

13 They have reduced their exports. And the  
14 witness also said that we rarely, if ever, give DuPont  
15 and Perry Chemical what they want.

16 There is a reason why these imports fell. I  
17 think it is very clear on the record you have heard.  
18 The fact that the domestics got back some of that,  
19 whereas you can again see on our chart on page 26,  
20 what happened to SVW's market share is also very  
21 clear. And we can speculate as to the reason why  
22 SVW's market-share trend is as it is.

23 COMMISSIONER PINKERT: Thank you. Now, can  
24 you respond to the information on pages 49 to 51 of  
25 Petitioner's brief, regarding their inability to

1 implement announced price increases? And how does  
2 that comport with your understanding of the domestic  
3 industry's ability to implement price increases?

4 MR. BECKER: I'd say it's totally  
5 inconsistent. Totally.

6 COMMISSIONER PINKERT: Mr. Boyce?

7 MR. BOYCE: On, let's see, page 17 of our  
8 brief, we have one chart on the unit of revenue  
9 conversion. The thrust of their argument is that  
10 they've put out price increases -- and if you look at,  
11 you can look at the packages that DuPont submitted as  
12 well as this -- frequently the reason for the  
13 announced price increase is to react to a materials  
14 price increase.

15 The trends in the unit revenue conversions  
16 gives very direct evidence as to the extent to which  
17 their announced price increases have been able to  
18 cover, and perhaps more than cover, increases in raw  
19 materials costs. And I'd invite you to look at the  
20 table on page 17.

21 COMMISSIONER PINKERT: Are you saying that  
22 the announced price increases are able to cover those  
23 costs? Or are you saying that the implemented price  
24 increases --

25 MR. BOYCE: Implemented price increases.

1       What you see in these data is the effect of what  
2       actually happened in the marketplace.

3               COMMISSIONER PINKERT: Thank you. Now,  
4       there have been several references today to the zero  
5       rate for SVW. And I'm wondering, and I think is  
6       really a question for the lawyers, what are we  
7       supposed to make of the zero rate in a case that is  
8       not part of this proceeding? Is that an issue that  
9       goes more to a Bratsk-type analysis about the non-  
10      subject imports? Or are you trying to make a  
11      different point?

12              MR. SIM: What we are saying is you have a  
13      company which has a zero deposit rate, which means it  
14      could be subject to review and adjustment.

15              As we've submitted in the brief, the product  
16      coming in from that company is low-priced; it's coming  
17      in at higher quantities. Yet the domestic industry  
18      has not to request the review of that company.

19              So our point is that this company has  
20      increased its market share. It has lower prices, and  
21      has done so more or less with the acquiescence  
22      implied, I mean our view is implied. Whether you want  
23      to go beyond that, we have to discuss under APO. But  
24      there seems to be some sort of acquiescence by the  
25      domestic industry of the market presence of this

1 particular company.

2 Now, whether we go to Bratsk or not go to  
3 Bratsk, in our view, you get to the same place. You  
4 have a company which seems to be pricing lower than  
5 other people, at higher quantities, with larger market  
6 share, and nothing is being done.

7 And so it's another condition of  
8 competition, another competitor that is existing in  
9 this marketplace with the indirect, or whatever,  
10 support of the domestic industry.

11 COMMISSIONER PINKERT: Perhaps this follow-  
12 up question is more perfect for the post-hearing, but  
13 do you, do you have any understanding of why that  
14 company is being given this acquiescence, as you  
15 referred to it?

16 MR. SIM: Again, publicly I don't know. I  
17 think, beyond that, I think we need to discuss this in  
18 the post-hearing brief.

19 MR. BOYCE: We invite you to follow up on  
20 the contents of footnote 91 on page 32, and what it  
21 refers to in the sunset review report.

22 COMMISSIONER PINKERT: Thank you. Now, does  
23 this panel agree with Petitioners' characterization of  
24 PVA production as a capital-intensive production  
25 process? And if so, what conclusions should we draw

1 with respect to the issues in this case?

2 MR. BOYCE: I certainly characterized it as  
3 a high-fixed-cost industry in 2003, and I'm not going  
4 to back away from that at this time.

5 The implications are that unit fixed costs  
6 are sensitive to production rate. Okay? During the  
7 trial of the recession and after, production rates  
8 were down in DuPont's case, because they are highly  
9 dependent upon their production for internal  
10 consumption of PVB. To one extent or another their  
11 financial performance, their unit costs are sensitive  
12 to production either for the merchant market or the  
13 captive consumption.

14 So yes, I believe it is a high-fixed-cost  
15 industry, and the unit fixed costs are sensitive to  
16 operating rates.

17 COMMISSIONER PINKERT: Thank you. My red  
18 light has gone on, so I'll wait until the next round.

19 CHAIRMAN OKUN: I'm back to pick up on that  
20 with respect to another issue that we covered with the  
21 Petitioners this morning. That is, with regard to the  
22 high level of exports in this industry, and how we  
23 should take that into account in our analysis.

24 Do you believe that the high-fixed-rate  
25 nature of this industry accounts for why the export

1 levels are so high? And how should we take that into  
2 looking at past utilization rates and volume issues on  
3 impact?

4 MR. BOYCE: I'm hesitant to say that you  
5 should be looking at the existence of export primarily  
6 because of the high-fixed-cost nature of it.

7 There are various supply-demand imbalances,  
8 continent by continent. One of the pieces of data  
9 that were available in the sunset review report, which  
10 are not available in this investigation -- at least  
11 not that I could find readily -- is the breakout of  
12 exports to a related party, versus open-market  
13 exports.

14 So those data are not available in this  
15 staff report. And so I don't know what, what  
16 happened, vis-a-vis open versus --

17 CHAIRMAN OKUN: I do believe this was  
18 requested this morning. I think we are seeking that  
19 data.

20 MR. BOYCE: Okay, fine.

21 MR. BECKER: There's one add-on to that. I  
22 think every producer, of course, has a cost structure.  
23 Some of them sometimes are high, some of them are low.  
24 So you have to constantly look at not only your fixed-  
25 cost component, but your variable-cost component, and

1 make decisions on how you want to manage that.  
2 Oftentimes that is also consistent with what the  
3 business demands and what you can afford, so you make  
4 decisions there.

5 And then as far as exporting, there is  
6 strategy for each one of these businesses. And Chang  
7 Chun's may be different than DuPont's, and Sekisui's  
8 may be different from DuPont's and Kuraray's, et  
9 cetera.

10 And you look at exports, at least I do, in  
11 two veins. You look at them as one strategic need:  
12 do you want to participate in selected markets, and  
13 over time, and you make that decision. And then, of  
14 course, if you have product that at one point in time,  
15 as Richard has mentioned, that you produce more than  
16 you sell, you may elect to opportunistically sell that  
17 product into the marketplace.

18 So there's a variety again of different  
19 factors that influence your decision. But in this  
20 global economy that we all exist in today, exports  
21 have definitely become a way of life in most  
22 businesses that I'm associated with. So there is some  
23 level of participation, but the factors influencing  
24 that sometimes are factors at that point in time, and  
25 sometimes are related to your long-term intents.

1           CHAIRMAN OKUN: Okay. And I'm not sure if  
2 it's fair or comparable to ask you, would you prefer  
3 to sell in this market, and do you have a sense of the  
4 global, you know, the prices ascribed in the charts  
5 presented this morning by Petitioners indicating that  
6 markets, other markets are, have lower prices, and  
7 therefore they indicated the preference for shifting  
8 around if they had the ability. Do you think that's  
9 an accurate description?

10           MR. BECKER: All I would say is, again, and  
11 you have all been there, too, you make decisions at a  
12 point in time. And at that point in time there are  
13 different factors that weigh heavier or lighter on  
14 that decision. And it's somewhat ironic, and  
15 certainly I've been frustrated at times, maybe you  
16 too, where I've made a decision in year one, and in  
17 year five people say how could you be so stupid and  
18 make that decision? And very quickly say you've got  
19 to listen to me, it was different back then. And  
20 that's why I made this decision.

21           And I think that aside from the strategy,  
22 that has an important factor on your decision making.  
23 So you look at the variables at the time, and -- and  
24 pricing, too, can be variable in all these markets.  
25 And if you look back over history, at points in time

1 you've seen pricing lower in the United States and  
2 higher in other markets.

3 So what's true today isn't necessarily going  
4 to be there 10 years from now. Now, I don't have to  
5 worry about that, because I'll be retired. But it  
6 will be different. So you've got to be adaptable, in  
7 my opinion, at least.

8 CHAIRMAN OKUN: Okay. I have some questions  
9 about differences from one as in the prelim. But I  
10 wanted to turn to Mr. Chen while I'm thinking about  
11 exports and prices. Because you, in your testimony,  
12 had described your participation in other growing  
13 markets around the world, Asia mentioned particularly.

14 Can you give us a sense of how you see  
15 prices in the other regions? And how that relates to  
16 demand for your product?

17 MR. CHEN: Yes. The price varies in each  
18 continent. I just want to give a very simple example.

19 As Bruce has testified that the prices in  
20 America isn't necessarily lower or higher than other  
21 continents. Remember that in year 2006/2007, when the  
22 Euro value was as high as 1.5 to 1.65, at that time  
23 the European price for PVA was 10, 20, 30 percent  
24 higher than America.

25 It happened at the time America has been

1 suffering from a consecutively two years of a PVA  
2 shortage. I hate to say a shortage because of the,  
3 the first one is the Celanese acetic acid problem, the  
4 second one is the so-called hurricanes phenomenon.  
5 DuPont is suffering from a force majeure.

6 At that time, we see clearly that the price  
7 should be very, very high in America. But  
8 unfortunately, the European price, thanks to the Euro  
9 value, was higher than America.

10 In Asia, the price unfortunately has been  
11 low, because of the competition among producers.  
12 There are so many producers in Europe, in Asia. There  
13 are 14 in China, there are five in Japan, one in  
14 Korea, one in Taiwan. You can see that the  
15 competition is very fierce.

16 The price generally in Asia is not as good  
17 as the price that you can see in America, as well as  
18 in Europe. Recently that situation has undertaken  
19 some change because of the sudden change in the  
20 Chinese policy toward environment control and CO-2  
21 emission. Some of the mills utilizing the so-called  
22 high energy, some mills consuming lots of energy has  
23 been ordered to do something in adjustment.

24 So you see some of the mills who are forced  
25 to shut down their plants. And therefore, as I

1 reported in the testimony, in the second half of 2010  
2 we experienced a shortage in China, as well as Asia.  
3 The price has gone up subsequently.

4 So this is why I say the price is now, it's  
5 equal, and over the continents it varies from one  
6 continent to the other continent. And we had to be  
7 interested in this, realistically, because that's the  
8 life of the PVA business. Thank you.

9 CHAIRMAN OKUN: Thank you. And then  
10 perhaps, I know there has been information put on the  
11 record, but with regard to the specifics of this  
12 change that you're describing in the Asia price and  
13 the China price. If there's any specific information  
14 that you could submit, this is proprietary information  
15 of course, we would appreciate, I would appreciate  
16 seeing that in the record.

17 MR. CHEN: Yes, we can do that.

18 CHAIRMAN OKUN: Okay. And then, let's see,  
19 it looks like my light is going to change, so I will  
20 come back to my next question.

21 Vice Chairman Williamson.

22 VICE CHAIRMAN WILLIAMSON: Thank you, Madame  
23 Chairman. And I, too, want to express my appreciation  
24 to all of you for coming this afternoon.

25 Just to continue with the Chairman's

1 question, Mr. Chen, I realize the exchange rate  
2 differences, government policies in China. How does  
3 that affect your company's decisions about where it  
4 wants to sell its product because some of these  
5 exchanges, particularly exchange rates, they go up and  
6 down.

7 MR. CHEN: Yes. I think we sell the PVA  
8 where it is needed. That's very important. We see it  
9 in China. There's a growing demand for the polyvinyl  
10 alcohol in spite of the fact there are quite a large  
11 of the producers already there. Our product is  
12 produced from a very modern facility both in Taiwan  
13 and China. Our product versus the Chinese material  
14 has had some of the apparent advantage to the  
15 customers.

16 We produce a lot of the viscosity, which is  
17 on the higher side and the lower side, on the two  
18 sides of the viscosity spectrum, and this is not seen  
19 quite often in China. Therefore, we are able to sell  
20 our PVA quite comfortably in markets that our product  
21 has advantage.

22 VICE CHAIRMAN WILLIAMSON: Okay.

23 MR. CHEN: In Europe, as far as we know, the  
24 production capacity is far below the actual  
25 requirement. Therefore, Europe imports a lot of the

1 PVA, and this induces the interest of the local  
2 producers we call the Kuraray. Kuraray, that's a  
3 producer's name.

4 VICE CHAIRMAN WILLIAMSON: Okay.

5 MR. CHEN: They are the largest producer  
6 worldwide. The announced a project to expand the  
7 capacity by 24,000 metric ton to be on stream three  
8 years from now, so you can see that in Europe, there's  
9 a serious shortage right now, and there's a strong  
10 demand for PVA mainly to two areas. One area is to  
11 satisfy the growing demands for the solar cell in  
12 Europe. There are three producers in Europe. They  
13 all increased their capacity for the solar cell use,  
14 polyvinyl butyral or call it PVB, and that is based on  
15 PVA. That's where we see the demand growth in Europe.

16 The paper mills are also recovering from the  
17 recession. In general, we see that the European  
18 demand has been fully recovered, not only fully  
19 recovered, I should say it this way, but also  
20 exceeding the pre-recession level because of the  
21 additional requirement for the solar cells. In  
22 America, we address the same things. The solar cells  
23 business as well as the extra demand in the so-called  
24 diminished inter-layers that go through the safety  
25 glass for automotive as well as the architectural,

1 which has been very, very strong right now.

2 We see that the worldwide demand has been  
3 coming back from the year 2007 or 2008 level, and on  
4 top of that, we see because of the solar cells  
5 increased demand, the current consumption, if not  
6 substantial, should be higher than the level we have  
7 experienced before, so Chang Chun wants to sell the  
8 product where it is needed. Today, we see that our  
9 market is in China.

10 Remember that we built the plant in China.  
11 We are not building the plant in other places. We are  
12 not building in America, not in Europe. Asia is the  
13 place where we see the growth, a growth rate  
14 substantially higher than other areas if not as close  
15 as the GDP growth, it will be so similar to the GDP  
16 growth. That's tremendous volume for PVA.

17 VICE CHAIRMAN WILLIAMSON: Now, how do you  
18 think the opening of the plant in China is going to  
19 affect your exports from Taiwan to China?

20 MR. CHEN: Yes. We build a plant in China.  
21 We want to satisfy or ship the PVA from our Chinese  
22 plant to our customer over there in China. That would  
23 replace a part of our Taiwanese capacity.

24 VICE CHAIRMAN WILLIAMSON: And where would  
25 that now extra Taiwanese capacity --

1           MR. CHEN: Yes. I think as I indicated very  
2 clearly, there is so much growth in Europe and other  
3 parts of Asia. We see our markets over there in that  
4 part. We see demand growth, that means our customers  
5 profiles, mainly from the solar cells as well as the  
6 safety glass that goes to the automotive and  
7 architectural.

8           VICE CHAIRMAN WILLIAMSON: Okay. Can you  
9 characterize how significant do you see the solar cell  
10 growth because this morning Sekisui sort of implied  
11 they didn't see any changes that would materially  
12 affect demand in the future. I think those are the  
13 words they used, but you seem to be implying that the  
14 solar cells are going to be quite --

15           MR. CHEN: It's interesting to see that  
16 Sekisui is talking about something which is not as  
17 promising as we have seen. We see this as a most-  
18 promising new, I cannot say new, increased demand area  
19 for the polyvinyl alcohol. They are producers who  
20 increasing their demand at least in Europe, two  
21 companies, to megasize company announce the increased  
22 capacity for the solar cells and directly that affects  
23 their merchant sales of the PVA.

24           For example, Kuraray Europe, they had to  
25 divert a lot of the PVA to keep to use in the

1 production of the PVB that goes to inter-layer safety  
2 glasses, and that can also be used for the solar  
3 cells.

4 VICE CHAIRMAN WILLIAMSON: Okay.

5 MR. CHEN: Now, that demand has been growing  
6 substantially. I have to say it this way.

7 VICE CHAIRMAN WILLIAMSON: Now, you're  
8 saying this is immediate growth in demand?

9 MR. CHEN: Yes.

10 VICE CHAIRMAN WILLIAMSON: Or is this  
11 something like a year from now?

12 MR. CHEN: Yes. It's been started already  
13 one or two years ago.

14 VICE CHAIRMAN WILLIAMSON: Okay. Good.

15 MR. BECKER: Yes, I would say I think the  
16 Commission is suspect. I mean, everybody's suspect.  
17 We're business people, so we hear it, but until we see  
18 it, we don't believe it. We're from St. Louis, but --

19 VICE CHAIRMAN WILLIAMSON: I am from St.  
20 Louis.

21 MR. BECKER: Are you from St. Louis? But  
22 anyway, the projections are big. The opportunity is  
23 big. We are starting to see the positive impact, but  
24 we, like you, of course will fully believe it when it  
25 is totally materialized, but as Richard has said, the

1 signals are promising. Although, technology changes  
2 all the time. There is no doubt that this country and  
3 the President has put a lot of money behind it, and  
4 we're going in that direction. The exact technology  
5 is probably somewhat in question, but we know that  
6 PVOH through PVB is going to be a participate to some  
7 degree. We all hope it's greater rather than lesser.

8 VICE CHAIRMAN WILLIAMSON: Okay. And if  
9 there's anything you can provide us post-hearing that  
10 kind of helps us document this so that we can properly  
11 assess it, I think that would be helpful, and the  
12 Petitioners are also free to offer any evidence.  
13 Let's see. I was wondering, DuPont and Perry both  
14 sell PVA that is imported from Taiwan. Does this mean  
15 that DuPont and Perry compete with each other  
16 differently than Sekisui competes with Perry?

17 MR. BECKER: They're a competitor, okay?  
18 They're a competitor, and they're offering --

19 VICE CHAIRMAN WILLIAMSON: They're being  
20 Sekisui and Perry?

21 MR. BECKER: Yes, they're both competitors.  
22 Everybody brings a slate of product offerings to the  
23 table.

24 VICE CHAIRMAN WILLIAMSON: Okay.

25 MR. BECKER: And as we mentioned, price is

1 one of those, secure to supply, terms and conditions,  
2 production points, et cetera, and then ultimately  
3 certainly, I hope, that the decision is made and  
4 DuPont is the supplier, and hopefully my relationship  
5 and such gets me there, but it doesn't happen all the  
6 time I would say, but they have a similar type  
7 situation where they bring an offering to the table,  
8 and in some instances they get selected over us or  
9 Sekisui, but it's no different than any other  
10 business.

11 Oftentimes, I buy an LG TV or Samsung or  
12 whatever, and price is one of those factors, but the  
13 store close by is one of those factors, is it easy to  
14 hook up, et cetera, et cetera, et cetera, so I don't  
15 see it as dramatically different from the decisions we  
16 make every day.

17 VICE CHAIRMAN WILLIAMSON: Okay. So  
18 everybody is competing with everybody else. Okay.  
19 Thank you. My time has expired.

20 CHAIRMAN OKUN: Commissioner Lane?

21 COMMISSIONER LANE: Good afternoon. I'd  
22 like to welcome you to the afternoon panel. At pages  
23 16 and 17 of the pre-hearing brief, Petitioners argue  
24 that the Commission should increase its estimate of  
25 elasticity of substitution between used-produced PVA

1 and subject imports to a range of six to eight. Mr.  
2 Boyce, I guess this is a question for you. Do you  
3 agree with that, and if so, please explain?

4 MR. BOYCE: I disagree. Polyvinyl alcohol  
5 is produced in a wide range of characteristics,  
6 homopolymer, copolymer, fully hydrolyzed, partially  
7 hydrolyzed, lots of different characteristics. We  
8 know that it goes into various applications, and as  
9 you can see from the price variability on our chart on  
10 our page 29 that different prices exist for the same  
11 grade at the same time within the market.

12 Apparently, a simple either the cross-price  
13 elasticity or substitution elasticity is hard to pin  
14 down the market of this type, and so I would say if  
15 anything, it should be at the low end of your  
16 estimate.

17 COMMISSIONER LANE: So you're basically  
18 agreeing with the staff report?

19 MR. BOYCE: Yes, low-end of the staff report  
20 would be fine.

21 COMMISSIONER LANE: Okay. Thank you. This  
22 question is for Mr. Chen. When did Chang Chun's  
23 sister PVA plant in China become operational?

24 MR. CHEN: We started the planning of the  
25 plant in the year 2004, and the first 40,000 tons

1 plant was put on stream in 2006.

2 COMMISSIONER LANE: Okay. What is your  
3 antidumping margin for PVA that you produce in China  
4 and export to the United States?

5 MR. SIM: The company has not exported in  
6 the United States, so therefore, if hypothetically it  
7 were to export to the United States, it would be  
8 subject to the all others rate for China, which is a  
9 very high number as we discussed in the brief.

10 COMMISSIONER LANE: So you are saying that  
11 Chang Chun has not shipped anything Chinese-produced  
12 PVA to the United States?

13 MR. CHEN: That's correct. I would like to  
14 add that when our plant was on stream in 2006, already  
15 the Chinese polyvinyl alcohol has been subject to a  
16 very high antidumping duty.

17 COMMISSIONER LANE: Okay. Do you produce  
18 PVB-grade PVA in China?

19 MR. CHEN: In Taiwan we do produce PVA that  
20 goes to PVB industry, PVB grade.

21 COMMISSIONER LANE: But you don't produce it  
22 in China?

23 MR. CHEN: Not yet. I think we can produce  
24 because today our plant in Taiwan is capable of  
25 producing such grade. Our customers purchase from

1 Taiwan. We do not require to produce today in China,  
2 but once it's needed, I think we can anytime produce  
3 that in China.

4 COMMISSIONER LANE: Okay. Thank you. Mr.  
5 Sim, this is probably for you. How should the  
6 Commission treat unrebutted lost sales and lost  
7 revenue allegations? Should the Commission's pricing  
8 that be relevant in deciding what weight, if any, the  
9 Commission should give to lost sales and lost revenue  
10 allegations that staff was unable to confirm or deny?

11 MR. SIM: I'll let Mr. Boyce answer that  
12 part first, and then I'll follow up.

13 COMMISSIONER LANE: Okay. Thank you.

14 MR. BOYCE: Well, ultimately I believe it is  
15 a legal question, but logically, relying on an  
16 unsubstantiated allegation, giving it any weight  
17 whatsoever strikes me as being counterintuitive.

18 MR. SIM: I would say this. There is  
19 competition in this market at all levels, and we did  
20 explain in our pre-hearing brief why we feel that the  
21 pricing data are, to put it in a public term,  
22 problematic, and I don't want to get into a discussion  
23 of that in the open hearing. Now, with regard to the  
24 lost sales, lost revenue, I have always viewed those  
25 as being anecdotal, and to the extent they are

1 established, then the Commission, under the statute,  
2 is entitled to give it weight.

3 To the extent that it's just out there, then  
4 it should be given considerably less weight, but our  
5 own view is that you have to look at the entire range  
6 of data on the pricing, and if you look at the entire  
7 range of data on pricing, that includes not just the  
8 problems that we have identified in the underselling,  
9 overselling data. It also refers to the AUVs.

10 It also refers to the pricing of the Chinese  
11 supplier who we identified in the brief, and it's a  
12 large number of factors, so in other words, it's not  
13 determinative, and I think it should be one of many  
14 factors and pricing that you should consider in an  
15 overall basis.

16 COMMISSIONER LANE: Okay. Let me stick with  
17 you and ask you a followup question. I think you were  
18 asked this before, sort of, but you talk about in the  
19 brief that the Chinese PVA is undercutting all other  
20 prices in the U.S. market, but I would like for you to  
21 look at Appendix D in the staff report, which shows  
22 that China oversold U.S. and Taiwan PVA in 77 of 100  
23 comparisons, and I would like for you to tell me I'm  
24 missing something or explain that?

25 MR. SIM: When we're saying that the Chinese

1 prices are lower, we're referring to AUVs, and we're  
2 not referring to the underselling, overselling data,  
3 and that's how we are coming up with that. In other  
4 words, the AUVs are a coverage of all product from  
5 China coming in, and so there's of course an overlap.  
6 Where we find our support for that statement comes  
7 from our AUV analysis.

8 COMMISSIONER LANE: Okay. Thank you. At  
9 page 41 of your pre-hearing brief, you argue that a  
10 simple regulatory change mandating the use the  
11 laminated safety glass and architectural applications  
12 would boost demand materially. Has this regulatory  
13 change occurred, and if so, please explain and provide  
14 supporting documentation?

15 MR. BOYCE: That's just a hypothetical. I  
16 know it has been considered. I don't know that it is  
17 under active consideration at this time.

18 COMMISSIONER LANE: Okay.

19 MR. BECKER: There are some regulations in  
20 which safety glass is required. If you move into the  
21 hurricane-prone areas or the tornado-prone areas, and  
22 you now have to put safety glass. I know in a  
23 residence it's a requirement in new residences in  
24 Florida, and with a 2,000 square-foot home, I think  
25 you're into the tune of about \$2,500 extra, but it is

1 a requirement, so the old ones are grandfathered, but  
2 the new ones aren't.

3 Whether it's good, bad or indifferent, if  
4 there is a regulation edicting the use of the product  
5 we happen to be involved in, it does provide a nice  
6 boost in the short term, but there is that regulation  
7 in architectural. There is not that regulation in  
8 automotive. There is a hope, and I'm sure my brethren  
9 in those other businesses that insert and  
10 applications, that does happen.

11 COMMISSIONER LANE: Okay. Thank you. Thank  
12 you, Madam Chair.

13 CHAIRMAN OKUN: Commissioner Pearson?

14 COMMISSIONER PEARSON: Thank you, Madam  
15 Chairman. This morning, I asked the domestic industry  
16 whether they viewed the PVA market in the United  
17 States as being a demand-pull market for imports or a  
18 supply-push market. How do you see it? Have the  
19 imports from Taiwan increased because of aggressive  
20 competitive selling by Chang Chun, or have they  
21 increased because somebody in the United States wanted  
22 to buy product and looked around for the best place to  
23 find it?

24 MR. BECKER: Well, I mean, I can comment on  
25 that. First of all, it is a global market, and that's

1 tough to learn sometimes when you're not used to  
2 competing in a global market because the product does  
3 travel fairly easily. There is cost associated with  
4 doing that, so you're always, in my opinion, better if  
5 you're closer to home than far away, but it will  
6 travel to alternative locations and potentially could  
7 be used in those applications if there is not some  
8 unique requirement that makes you have to supply  
9 domestically.

10 I think every producer is out there trying  
11 to solve particular problems, sometimes in a similar  
12 chemistry, sometimes in an unlike chemistry with the  
13 hope that you might supplant your chemistry for the  
14 existing one, so therefore you have stimulated growth  
15 through your internal development and R&D efforts, but  
16 as far as simply bringing product to the marketplace  
17 and getting people to buy it regardless of source, I  
18 don't think it happens.

19 I think you have to either have developed  
20 the requirement, or you need the product, and then you  
21 look at the variables that I see every day, again  
22 price, availability, security of supply, location, et  
23 cetera, and then you make your purchase decision.

24 COMMISSIONER PEARSON: Sure, but we have on  
25 the record at least some people think this is a

1 commodity product and that price is important in the  
2 sale, and so if imports are competitively priced from  
3 Taiwan or any other source, one would think they might  
4 compete successfully in this market on the basis of  
5 being a competitively priced commodity product.

6 MR. BECKER: Again, I look at my own wallet,  
7 and I have TVs in my house where I paid \$100 or \$200  
8 more for a thousand-dollar TV simply because I wanted  
9 to buy them from Best Buy who was two miles up the  
10 road versus bringing them in from Amazon where  
11 theoretically I got the same produce, and I think  
12 every industry has probably experienced that, and you  
13 hope that the factors you bring to the equation are  
14 the ones that make a positive decision in your case.

15 There will be cases where others elect to  
16 buy simply on one of those factors, and it could be  
17 price, but in my experience and history, there's a lot  
18 of factors that go into the decision, and it's been  
19 somewhat of a learning.

20 COMMISSIONER PEARSON: Mr. Boyce, you had  
21 something to say?

22 MR. BOYCE: I believe your question strictly  
23 was with respect to the increase in imports from  
24 Taiwan was that demand driven or basically pushed.

25 COMMISSIONER PEARSON: Yes.

1           MR. BOYCE: And looking again at the data on  
2 my chart on page 26, first of all we see fairly steady  
3 market shares. There is a blip from '07 to '08. We  
4 know full-well based on the testimony from both  
5 parties that was demand pull. There was a shortage in  
6 the United States. You heard Richard testify to his  
7 conscious decision to supply more than he normally  
8 would have. Otherwise, the amounts that are coming in  
9 are apparently demand-limited because Richard Chen  
10 testified that he does not provide all that is asked  
11 for, so demand-driven increase from '07 to '08.  
12 Following that, supply-limited after that.

13           COMMISSIONER PEARSON: Okay. For purposes  
14 of the post-hearing, if there's other information on  
15 the record that would help us to understand your view  
16 of why this is not a supply-push market, go ahead and  
17 elaborate on that if you would?

18           MR. BOYCE: I would be happy to.

19           COMMISSIONER PEARSON: Mr. Sim, do you have  
20 a view of non-subject imports and the role they play  
21 in the market? Are we at some risk of attributing to  
22 subject imports the potential for market effects that  
23 should be attributed at least in part to non-subject  
24 imports, or is that a red herring?

25           MR. SIM: No. I think to the extent the

1 term non-subject imports includes the Chinese imports  
2 from the supplier Sichuan Vinylon, we would argue that  
3 the Commission be very careful not to consider the  
4 role of that supplier in the market. It is increased  
5 market share. Prices are low, and as I said, some  
6 form of acquiescence by the domestic industry, so if  
7 you look at the increase in non-subject, it's sort of  
8 tied to that particular supplier, and the confidential  
9 records bears that out.

10 COMMISSIONER PEARSON: Okay. Again, if  
11 there's more we should know for the post-hearing, by  
12 all means, let us know. If we look at this record,  
13 the domestic industry encourages us to find injury by  
14 reason of subject imports, and they don't see the  
15 recession as being so significant that it overwhelms  
16 the effect of subject imports, and I may not be saying  
17 exactly what they said, but that's my impression, how  
18 do you see this record?

19 I mean, why as we look at it shouldn't we  
20 find that subject imports have had a negative effect  
21 on the domestic industry? We do have an increase in  
22 subject import market share. We have indications of  
23 decline for the domestic industry. Was is there, if  
24 anything, that breaks the causal nexus between subject  
25 imports and injury? Mr. Sim? Mr. Boyce?

1           MR. SIM: I think the point is that if that  
2 you look, I mean, again going to the data, again to  
3 put into context, '07 and '08 you have an increase in  
4 shipments because of the supply tightness, and then in  
5 '09, we have the global recession. The global  
6 recession affected both companies in the domestic  
7 industry to a heavy extent. I guess the point is if  
8 you look on an aggregate basis, the actual data, the  
9 absolute numbers, it goes down.

10           Conversely, if you look under relative  
11 basis, the market share for Taiwanese-origin PVA is  
12 relatively stable as Mr. Boyce has stated, so if you  
13 had an increase in market share in 2009, which if you  
14 look at it, we don't see anything. We see a stable  
15 market share. In other words, we see a stable market  
16 share in 2009. If there was a sharp increase, in  
17 other words as I think someone has pointed out before,  
18 if it was so low-priced, how come it didn't increase  
19 market share to a huge extent?

20           In our view, the fact that it didn't  
21 increase market share to a large extent is indicative  
22 of a lack of causal link.

23           COMMISSIONER PEARSON: Mr. Boyce?

24           MR. BOYCE: Okay. DuPont has testified that  
25 its imports of PVA from CCPC in Taiwan do not injure

1 it. It does not see any linkage. It doesn't see any  
2 causal link between those imports and its condition,  
3 okay?

4 COMMISSIONER PEARSON: Right. But DuPont  
5 isn't the Petitioner, and they're only part of the  
6 domestic industry, too.

7 MR. BOYCE: That is correct. However, the  
8 data that you are analyzing, I'm assuming that when  
9 you look at these changes that you are looking at the  
10 data for the domestic merchant market, which is to say  
11 DuPont plus Sekisui, okay? If we separate out DuPont  
12 and we look at Sekisui and then we look at these  
13 market shares, again the market share increased, that  
14 is to say CCPC's market share increased from '07 to  
15 '08. That increase cannot be a cause of injury.

16 You can conclude whatever you want. If I  
17 were sitting where you are, I could not conclude that  
18 increase was caused by anything other than their  
19 difficulties and DuPont's difficulties, which, by the  
20 way, were characterized as unprecedented. In fact,  
21 from 2000 to 2006, the domestic suppliers were as  
22 reliable as one could wish for. There's no, at least  
23 in DuPont and I believe in Celanese and Sekisui, they  
24 did not report any supply disruptions in their  
25 questionnaire responses from the sunset review of this

1 review, and I looked at DuPont's for the prelim.

2 Complacency was the name of the game, okay?

3 The unfortunate events happened. Market share  
4 increased very deliberately, demand-pull due to the  
5 domestic industry's problems. Okay.

6 COMMISSIONER PEARSON: Complacency with  
7 regard to the red light here because I'm running over.  
8 Are you concluding your comment?

9 MR. BOYCE: I have a few more seconds. I  
10 can save it until later until somebody else --

11 COMMISSIONER PEARSON: A few more seconds?  
12 Please proceed.

13 MR. BOYCE: You'd like me to proceed? Okay.  
14 You heard Bruce testify that consumers woke up to the  
15 fact that the risk management strategies perhaps  
16 needed to be reviewed, and you heard that customers  
17 who reached out in 2008, some of them stayed on. Some  
18 of them maintained their relationship, their stronger  
19 relationship with CCPC, okay? The fact that the  
20 market share at the end of the period is slightly  
21 higher than at the beginning of the period I think can  
22 be attributed solely to the change in perspective by  
23 customers in light of the events of 2007 and 2008.

24 COMMISSIONER PEARSON: Okay. Thank you.  
25 For purposes of the post-hearing, I know you've done

1 this in the pre-hearing, go ahead and redo causation  
2 based on what we've discussed today and make sure that  
3 your view of causation is crystal clear in the post-  
4 hearing. Thank you, and, Madam Chairman, thank you  
5 for your incredible indulgence.

6 MR. BOYCE: Thank you for your tolerance.

7 CHAIRMAN OKUN: Those few seconds.  
8 Commissioner Aranoff?

9 COMMISSIONER ARANOFF: Mr. Chen, are  
10 personally familiar with the various production  
11 facilities in China that you've describe to the  
12 Commission?

13 CHAIRMAN OKUN: To a very great extent, we  
14 agree we understand the situation in China, especially  
15 the producers.

16 COMMISSIONER ARANOFF: Have you been to  
17 visit a number of the plants that you've described to  
18 us as old and using an outdated technology?

19 CHAIRMAN OKUN: No. It is based on the  
20 report.

21 COMMISSIONER ARANOFF: Based on the report?  
22 Have you ever been to SVW's plant?

23 MR. CHEN: We were invited, but I am not one  
24 of the visitors.

25 COMMISSIONER ARANOFF: Do you know whether

1 that plant is one of these old and outdated ones with  
2 1970's technology?

3 MR. CHEN: They received the technology from  
4 the Japanese back in 1960.

5 COMMISSIONER ARANOFF: So you think it is an  
6 old plant?

7 MR. CHEN: Their plant is quite old.

8 COMMISSIONER ARANOFF: You're not aware that  
9 they've put in any modern production processes?

10 MR. CHEN: I did not personally witness  
11 that.

12 COMMISSIONER ARANOFF: Okay. Okay. Thank  
13 you. One of the things that I'm trying to do, and  
14 maybe you can help me, is to reconcile the argument  
15 that you've made that the stated capacity available in  
16 China is overstated with the evidence that the  
17 Petitioners have particularly at page 63 of their pre-  
18 hearing brief they cite to the chemical economics  
19 handbook, which talks about large ongoing expansions  
20 in Chinese PVA production capacity.

21 Even aside from whether what's already there  
22 is old and whether it can operate efficiently, is  
23 there any response that would suggest that I should  
24 discredit what the chemical economics handbook says  
25 about expanding capacity in China, or do you think

1 they're talking about your plant?

2 MR. CHEN: According to the report, I think  
3 there are several reports reporting different capacity  
4 in China. We have seen reports that indicates the  
5 Chinese capacity up to 2009 in the range of 680,000  
6 metric tons. I think in our brief, we are indicating  
7 five percent or 10 percent higher as the Chinese  
8 capacity. The other reports are giving much higher  
9 capacity up to 2009, but more precisely we believe the  
10 700,000-ton morays is an adequate figure because all  
11 of the articles indicating that our figures, morays,  
12 reflect the so-called theoretical manpray capacity  
13 versus the real capacity.

14 I think real capacity means how much they  
15 really produced, so with this, we perfectly understand  
16 that the 700,000 metric tons could be the more precise  
17 figure for the year 2009. Based on this figure, a  
18 capista figure, and given the fact that the Chinese  
19 capacity of the plant are relatively old, we do  
20 believe that production, which was recorded in the  
21 year 2009 as 510,000-metric ton morays will be already  
22 on the high side. At 2010 --

23 COMMISSIONER ARANOFF: I'm sorry. I guess  
24 I'm interested in what you have to say about current  
25 capacity, but what about these reports that there are

1       expansions that are going on in China?

2               MR. CHEN:   Okay.  You mean the capacity  
3       expansion forward?

4               COMMISSIONER ARANOFF:  Yes.

5               MR. CHEN:  Okay.  We heard of that from time  
6       to time.  We are unable to identify whether the plant  
7       is under construction, on course to be completed.  I  
8       think we will wait and see because there's a tendency  
9       in China that for a certain reason one of them, a so-  
10      called pre-empt strategy.  That means that you  
11      announce that you want to expand the capacity trying  
12      to fighting away the other small guys or someone else  
13      to refrain from building a plant, but we do believe  
14      some of them will be going ahead with an expansion.

15              Their plant has been quite old already, and  
16      some of the mills are expanding their raw material  
17      production.  For this reason, we believe some of the  
18      mills, especially the Sichuan Vinylon, will very  
19      likely add that capacity.  The new capacity, how much  
20      according to newspaper, according to articles?  They  
21      say it is 100,000 metric tons.

22              COMMISSIONER ARANOFF:  Okay.  But not to  
23      come online in 2011?

24              MR. CHEN:  Hard to say.  I think we should  
25      see whether they really put out the plant producing

1 operations.

2 COMMISSIONER ARANOFF: Okay. Okay. I  
3 appreciate that. Can you describe for us for the  
4 record the expansion project that your own company  
5 undertook during our period of investigation? I've  
6 heard it described as a de-bottlenecking, but I've  
7 also heard it said that there was a new production  
8 line added. What exactly did you do to your facility?

9 MR. CHEN: Taiwan we have one 20,000-ton  
10 addition that took place in the year 2009. In China,  
11 we have one expansion that has been completed last  
12 year. That's what happened to our company.

13 COMMISSIONER ARANOFF: As so the expansion  
14 in Taiwan, did you add a new production line, or this  
15 was achieved through de-bottlenecking?

16 MR. CHEN: It's a new line, yes.

17 COMMISSIONER ARANOFF: It is a new line?

18 MR. CHEN: Yes, it's a new line.

19 COMMISSIONER ARANOFF: Okay. Could you put  
20 on the record for us for the post-hearing because I  
21 assume you don't want to tell us publicly what the  
22 company spent on that expansion?

23 MR. CHEN: In Chang Chu's expansion?

24 COMMISSIONER ARANOFF: Yes, in Taiwan.

25 MR. CHEN: How much in Taiwan?

1 COMMISSIONER ARANOFF: Yes, yes.

2 MR. CHEN: And how much in China? I think  
3 we will report it.

4 COMMISSIONER ARANOFF: Okay. Thank you very  
5 much. Mr. Becker, you were talking about the fact  
6 that unlike some of your competition who are  
7 distributors, your company can provide various  
8 services in connection with the product. Can you  
9 explain to me how, if at all, these services are  
10 included when you set the price for your product? I  
11 mean, do you offer customers that you can buy it at  
12 the Perry Chemicals price with no services, or you can  
13 buy it our price, and here's what we'll do for you?

14 MR. BECKER: First of all, it's a constant  
15 question. It's been looked at in a variety of  
16 different ways. I have been involved in a situation  
17 where, and I will say in most cases, we experimented  
18 with providing the product and charging for the  
19 service. There's other experiments where we provided  
20 the product, embedded some charges for the service in  
21 the cost of the product, and then there's some other  
22 experiments where you simply price the product and  
23 provided the technical service as needed, so we've  
24 been in different companies at different places.

25 I would say basically today, as been

1 mentioned before, you look at the supply dynamics, and  
2 you make decisions on that factor and other factors,  
3 and of course, you make logical ones in terms of the  
4 potential need for service because there are some  
5 customers that require absolutely no service, and then  
6 there are some customers that are at the other extreme  
7 where they want you to help develop next generational  
8 products.

9           It is a combination of all those factors  
10 right now that determines how you do that, so I would  
11 say I personally do not price the service incremental  
12 to the rest of the package, but at the same time, we  
13 are, as a company, selective, to whom we offer that  
14 service based on our perspective of their potential  
15 and their actual potential.

16           COMMISSIONER ARANOFF: Is there like a free-  
17 rider problem where a customer could buy some amount  
18 of product from you in order to benefit from your  
19 services, and then once they've sorted out whatever  
20 their production problems are, they can turn to a  
21 supplier who doesn't provide those services?

22           MR. BECKER: You hit the nail on the head.  
23 That certainly happens, and it's not again unusual in  
24 this industry alone.

25           COMMISSIONER ARANOFF: Are there particular

1 end uses that are just so well-established that they  
2 don't care, they don't need any help?

3 MR. BECKER: It's produce that over time has  
4 become more widely used, and in many cases, the user  
5 understands the product and its use in that  
6 application better than you, the supplier, do, and so  
7 over time, the level of service in my experience has  
8 declined. You provide more service either to new  
9 customers or knew applications, but it is all part of  
10 a judgment, and as you can well imagine, we say no on  
11 occasion, we're not going to do this.

12 We say no to customers because they're not  
13 buying our product, and we say yes in other instances  
14 because of a variety of factors, so it's just hard to  
15 say there is one hard, cold and fast rule because we  
16 don't have one at the moment, but what you mention has  
17 been considered on multiple occasions and tried at  
18 times.

19 COMMISSIONER ARANOFF: Okay. All right.  
20 Thank you very much for those answers. Thank you,  
21 Madam Chairman.

22 CHAIRMAN OKUN: Commissioner Pinkert?

23 COMMISSIONER PINKERT: Thank you, Madam  
24 Chairman. I'm wondering whether this panel agrees  
25 with Petitioners that the domestic industry

1 experienced a cost-price squeeze in the first six  
2 months of 2010?

3 MR. BOYCE: It is difficult to compare the  
4 data for first half 2010 for Sekisui to earlier times  
5 because of the change in ownership and their cost  
6 structure.

7 COMMISSIONER PINKERT: Well, for the post-  
8 hearing, if you could take a look at those numbers and  
9 analyze that issue for us, I think that would be  
10 helpful. Now, this is more or less of a legal  
11 question, but it has a factual component to it as  
12 well. Would non-subject PVA imports have replaced  
13 scope PVA imports in the U.S. market during the period  
14 of examination if the scope PVA imports Taiwan had  
15 exited the market?

16 MR. BOYCE: Well, again, you see in the data  
17 that in fact scope PVA imports did gain market share  
18 as imports from Taiwan lost market share from '08 to  
19 2010. At some level, it is speculative, but you do see  
20 gains as we have pointed out repeatedly, particularly  
21 from WEGO, that is the distributor of SVW material in  
22 the United States, over this period.

23 COMMISSIONER PINKERT: Thank you. Now, what  
24 evidence do we have that might contradict the  
25 Petitioners' argument that producers in Taiwan have an

1 incentive to export to the United States because they  
2 can obtain a higher price in the U.S. market than they  
3 can in third-country markets?

4 VOICE: Richard Chen?

5 MR. SIM: Yes, Richard Chen. I think Mr.  
6 Chen just spoke about this with regard to Europe. I  
7 think we'll just go back and explain this again.

8 MR. CHEN: As I have indicated earlier, I  
9 think the price in America is necessary be go higher  
10 than other region all the times. There are times that  
11 the American price is lower. There are times American  
12 price is high. I'll just give another example that  
13 occurred in 2006 and 2007 where the Euro value as been  
14 as high as 1.5 or 1.55. You see that the price of PVA  
15 to Europe is 20- to 30-percent higher than what is  
16 shipped to America.

17 Today, the Asian price is coming up, so  
18 American price as far as we understand is more closer  
19 to the other part of the world.

20 COMMISSIONER PINKERT: And looking to the  
21 future for purposes of a threat analysis, we have to  
22 look to the imminent future. Where do you see that  
23 going?

24 MR. CHEN: We see the situation will  
25 continue for one very important reason. The world is

1 not having too much a surprise of the PVA today. The  
2 economy is recovering. Demand for PVA is increasing.  
3 There's no substantial capacity increase except the  
4 one that we had heard to be implemented in China, but  
5 as I indicated just a little bit earlier, we do not  
6 know whether they are for sure to bring out the  
7 capacity in February or in March of next year.  
8 There's no indication that they can really follow the  
9 time. The records show this way.

10 The earliest potential expansion is to be  
11 implemented by Kuraray. As I indicated a little bit  
12 earlier, Kuraray announced a project to increase  
13 24,000 metric tons to be on stream in 2013, so that's  
14 very far away from today's perspective.

15 COMMISSIONER PINKERT: Thank you. Now,  
16 staying with this matter of the threat analysis, how  
17 should we look at domestic industry vulnerability? In  
18 your view, if we look at a snapshot of the condition  
19 of the industry presently, would you say that this  
20 industry is in a weakened state?

21 CHAIRMAN OKUN: Make sure your microphone is  
22 on, please?

23 MR. BRISBON: Yes. It's on. I would say  
24 that the domestic PVA industry in DuPont's view is not  
25 threatened CCPC imports of course. We believe that

1 our production capacity at LaPorte, Texas, would be  
2 sold out. We think that the PVB markets are  
3 recovering. The automobile industry is doing better,  
4 so we don't think that the entire domestic market is  
5 in jeopardy of being threatened or harmed by the  
6 presence of CCPC material.

7 COMMISSIONER PINKERT: I understand your  
8 position on threat, but I'm trying to get at the  
9 question of vulnerability, which I imagine there are  
10 different views about what constitutes vulnerability,  
11 so I'm trying to focus your attention on the question  
12 of whether the domestic industry is in a weakened  
13 state if you're just taking a snapshot of the current  
14 condition of the domestic industry?

15 MR. BRISBON: I would say the domestic  
16 industry is improving. I would say that it's in a  
17 better than a weak state, but I think there's room for  
18 growth, and there's room for improvement, not to get  
19 weaker.

20 MR. BOYCE: If I could put some words in Mr.  
21 Brisbon's mouth that we discussed earlier? What I  
22 understood him to say is that demand has rebounded so  
23 much in the merchant market for DuPont, and by the way  
24 there are some data on the rate of growth year over  
25 year, and I don't know what page it's on. It doesn't

1 matter. Remember, about half of DuPont's production  
2 goes for the use, internal consumption, in PVB  
3 manufacture. If their PVB usage rate was at a normal  
4 level, they would be oversold in the first quarter of  
5 2011. That is not a vulnerable industry vis-à-vis the  
6 merchant market sales.

7 COMMISSIONER PINKERT: Mr. Sim, how should I  
8 look at vulnerability? Is the weakened state an  
9 adequate criterion for that, or should I be looking at  
10 something else?

11 MR. SIM: No, I don't think you should be  
12 looking purely at the weakened state, and as our panel  
13 just discussed, we don't think the industry is in a  
14 weakened state. I mean, obviously after the recession  
15 everyone had a deterioration in economic performance.  
16 That's 2009. 2010 it's improved. 2011, it is  
17 continuing to improve, so we would not characterize  
18 the industry as being in a weakened state, and with  
19 that regard, we don't think the industry is  
20 vulnerable.

21 The other point is that even if, going to  
22 the next other factor of threat, you look at what we  
23 projected for the company for Taiwan in 2011, we  
24 projected a decrease in exports to the United States.  
25 We projected that exports would be going to other

1 markets for the reasons that Mr. Chen discussed given  
2 that the markets have a strong demand, and you have  
3 increasing prices in the world market, especially in  
4 Asia.

5 COMMISSIONER PINKERT: Thank you very much.  
6 Thank you, Madam Chairman.

7 CHAIRMAN OKUN: Thank you again to all the  
8 witnesses for all their responses thus far. Mr. Sim,  
9 I'll start with you but would appreciate other  
10 testimony on this as well, which is when I asked this  
11 question of Petitioners this morning, I was saying  
12 again we've had this odd situation where the prelim  
13 years ago voted negative on remand by a vote of  
14 negative.

15 The final comes in, and we have a different  
16 record, and obviously that's the record that I'm  
17 looking at, but I guess I would find it helpful for  
18 you to give me your view of whether the theory of the  
19 case that I used in my vote earlier still applies, why  
20 or why not and what I should focus on, so I'm going to  
21 give you an opportunity to do that, but I will start  
22 with one of the issues that Petitioners raised, which  
23 is if you look at the pricing data on this record  
24 versus the prelim record, much greater instances of  
25 under-selling.

1           I know you take issue with the pricing data,  
2           but my question is why these differences? Is it just  
3           those issues just showed up on this record and were  
4           not present in the long-ago record in the prelim?

5           MR. SIM: Well, again, to repeat, we do take  
6           issue with aspects of the pricing data. We think that  
7           the Commission's analysis of the pricing data should  
8           look beyond the underselling, overselling data, and  
9           the other point is, what I said earlier at the  
10          beginning of this panel, we think the focus has to be  
11          on the last three years, and rather than an extended  
12          POI, extended by seven or eight years, and so as a  
13          secondary issue comparing prelim data and the final  
14          data is also problematic given the long period and  
15          shift in time of seven years.

16          MR. BOYCE: I'm looking at the chart we put  
17          in on page 29, and I want to thank the staff for  
18          asking the question on giving the ranges of prices  
19          within a quarter for each product. How I would have  
20          loved to have had that in Copper Pipe and Tube. At  
21          any rate, we have it here, and it is fascinating. I  
22          draw your attention to our sentence that says, "Note  
23          also that Sekisui's low price is 'blank' than DuPont's  
24          low price in 'blank' of the 10 product quarter  
25          comparisons."

1           Now, one can view that as a measure of  
2 underselling, and you get a different conclusion than  
3 that than if you use other measures, okay? That was  
4 comparison of low prices. We can do a comparison on  
5 high prices. You happen to do your comparisons on  
6 average prices. Which of those three choices is most  
7 probative of what is going on in this market? You  
8 have DuPont, which is a full-service supplier with a  
9 bundle that they offer.

10           You have Perry Chemical, which is a  
11 distribution who adds none of these value-added  
12 services. Given the nature of pricing, given the  
13 evidence here, I have a hard time concluding that  
14 standard average underprice analysis is reliable in  
15 this case, and for the same reasons is why I would  
16 have loved to have had these data in Copper Pipe and  
17 Tube where you looked at average prices where there  
18 were long legs between when the price was established  
19 because of the nature of the contract vis-à-vis  
20 cathode.

21           When it finally showed up on the doorstep,  
22 where you had approximately a three-month lag or more  
23 for the foreigners, or at least the Chinese, a couple  
24 of months for the Mexicans and maybe one or two months  
25 for the United States with materials cost gyrating all

1 over the place. A different set of facts, but the  
2 same kind of problem. I forgot what the question was.  
3 The bottom line is that the pricing data, your usual  
4 analysis based on your usual average prices is not as  
5 authoritative as you might want it to be or you might  
6 expect it to be in a commodity product. This is not a  
7 commodity product.

8 CHAIRMAN OKUN: Okay. If we were looking at  
9 AUVs, and in some of your presentations you did use  
10 AUV data, your assessment of AUV versus the pricing  
11 data, are there problems with the AUVs as well?

12 MR. BOYCE: Well, at least the AUVs are  
13 telling you the price at which the material is  
14 entering the U.S. market, okay? Whatever constraints  
15 WEGO is under, okay, as it marks that up in the U.S.  
16 market, and whatever constraints Irving Loud is under  
17 as he marks it up in the U.S. market, we don't know  
18 for sure, and we don't know how much of this extra  
19 markup.

20 We do know that Perry's markup is less than  
21 DuPont's, because he is offering a different bundle.  
22 But there are problems with AUVs, and there are  
23 problems obviously with the reported prices by  
24 customers.

25 CHAIRMAN OKUN: Okay. I think, Mr. Sim,

1 when you started your panel, you may have  
2 affirmatively addressed a couple of the DuPont  
3 statements that were introduced by the Petitioners  
4 from the Sunset Review. Could you just briefly remind  
5 me on the one about the importance of price, and what  
6 your response was on that?

7 MR. SIM: Yes. That is Slide Number 5, is  
8 the price by price. The client has informed me that  
9 this is referring to the company formerly known as --  
10 or the factory formerly owned by Celanese. So they  
11 are referring to the other -- to the Petitioner, their  
12 predecessor of the Petitioner.

13 CHAIRMAN OKUN: Okay. So just that is  
14 clear, if you would just submit what they have  
15 actually said in context so that I can make sure that  
16 I understand that. And then I don't know if you have  
17 been asked this question this afternoon, but one of  
18 the questions this morning was just what differences  
19 in the conditions of the competition with SSCA's and  
20 acquisition of Celanese PVA operations, both the  
21 United States, and then globally.

22 And I think that they had responded that it  
23 would be a useful thing to ask you, Mr. Chen, or you,  
24 Mr. Becker, do you see any difference in how they  
25 approach business, or supply and demand issues, than

1 under the predecessor company?

2 MR. BECKER: Well, obviously it is an  
3 interesting question, and then one that we would all  
4 likely answer to, and I assume they know it better  
5 than we do frankly. I mean, we are always curious in  
6 what the approach will be under the new management.

7 To date, I can't say that I have seen  
8 anything substantive, but there is always the question  
9 given their internal requirements, and given their  
10 relationships with other customers and suppliers, are  
11 they going to change. But we have not seen anything  
12 to date.

13 CHAIRMAN OKUN: Okay. So nothing different  
14 with respect to contracts that have been -- that may  
15 have been negotiated where you were in competition,  
16 and nothing different in their approach in these  
17 different offers, or options that they --

18 MR. BECKER: I wouldn't note any  
19 differences.

20 CHAIRMAN OKUN: Okay. Mr. Chen, I am not  
21 sure --

22 MR. CHEN: That is some of our feeling, and  
23 to understand that Sekisui, the Sekisui Company, that  
24 prides itself as a company of the first-class PVB  
25 raising and ship producers, and suppliers.

1           PVA is a raw materials PVB, and -- with a  
2 very, very clear and transparent attempt that they  
3 wanted to use the PVA producing the previously selling  
4 facility to supply to their PVB reason and PVB film  
5 operation.

6           By this sense, we can measure that within a  
7 short period of time -- years or maybe months -- that  
8 the Sekisui would start to use the PVB produced in  
9 America for their own private use. This amounts to a  
10 very, very large volume. This will substantially  
11 reduce the PVA price in the merchant markets in  
12 American.

13           We are not able to understand or be aware of  
14 which years this change would occur. We can only  
15 presume and anticipate that one day that it will take  
16 place.

17           CHAIRMAN OKUN: Thank you. Yes, and just  
18 briefly since my light is on.

19           MR. SIM: And on a related point, you did  
20 ask Sekisui for other aspects of change, and both the  
21 Commission and Secretary mentioned the raw material  
22 supply, and we would just note that the impression in  
23 the market is that there was some sort of legal  
24 foundation, or some sort of arrangement for the supply  
25 of VAM from Celanese to Sekisui.

1           Again, that is just the market sentiment.  
2           We hope that Sekisui's counsel will submit something  
3           so that that record can be complete.

4           CHAIRMAN OKUN: Thank you. Vice Chairman  
5           Williamson.

6           VICE CHAIRMAN WILLIAMSON: Thank you, Madam  
7           Chairman. The Respondents have pointed to a  
8           contingence that because of the disruptions in 2007  
9           and 2008 that CCP really can increase its sales to the  
10          U.S.

11          And I was wondering if you could give direct  
12          examples or document specific examples where a  
13          purchaser in the U.S. shifted from Celanese or DuPont  
14          to imports in response to this short supply?

15          MR. SIM: There are examples in the  
16          prehearing brief which are under the APO, and which we  
17          referred to. There are some specific instances which  
18          we list and quoted verbatim from responses of  
19          purchasers and importers.

20          So we can go through that again in the post-  
21          hearing brief, but it is already on the record at the  
22          prehearing.

23          VICE CHAIRMAN WILLIAMSON: Okay. Well,  
24          maybe you can just remind us of where those cites are,  
25          and also were those cases where they had not before

1 purchased from Sekisui.

2 MR. SIM: No, it's a mix, because I remember  
3 what you asked Sekisui earlier. You know, it is a  
4 combination of new customers coming in, and it is also  
5 people who are saying, okay, I had this mix going in  
6 until I got scared by the situation. So I am going to  
7 change up my mix for the following year.

8 I mean, that is my point earlier about the  
9 2007-2008 affected the market's psychology. It  
10 affected expectations of what people could get from  
11 the domestic industry for following years, and as a  
12 result, expectations of and buying patterns changed.

13 And so it is not just a matter of new  
14 customers. It is also a matter of existing customers  
15 changing the mix, and increasing stuff that they  
16 purchased from Taiwan, and decreasing what they  
17 purchased, or the ratio of what they are purchasing  
18 from domestic industry.

19 VICE CHAIRMAN WILLIAMSON: Any way to  
20 characterize most of them, one way or another?

21 MR. SIM: Personally, I don't know how I can  
22 do that without getting into specifics of what we  
23 submit under the APO.

24 VICE CHAIRMAN WILLIAMSON: Okay.

25 MR. SIM: So, I will have to -- we will have

1 to reserve that for at least post-hearing.

2 VICE CHAIRMAN WILLIAMSON: Well, post-  
3 hearing is fine, and also whether or not that was  
4 like, okay, yeah, we did this in 2008 and 2009, but to  
5 see if we are going back to their old habits before.

6 And then I was wondering that I know that  
7 there is some debate about the pricing data, but if  
8 you had these shifts, and then people are coming to  
9 CCP because of the short supply, why do we have this  
10 record of underselling? Any explanation for that?

11 MR. SIM: I think you have again, as we said  
12 before, we have -- the issue in this industry, and I  
13 think we tried to get through that the companies are  
14 pricing in a range of different products, and it is  
15 not necessarily based on -- it is based on what the  
16 situation they have with that particular customer.

17 So the pricing data that you have on the  
18 record have a very wide range, and that reflects the  
19 fact that individual relationships, or individual  
20 sales, are skewing the results to a large extent.

21 So to the extent that somebody who is a new  
22 customer, and is showing up on the doorstep for the  
23 first time asking for supply, you know, they are going  
24 to show up at one part of the spectrum, and somebody  
25 who has been an old time customer who is reliable, and

1 buys a lot in bulk, is going to show up in a different  
2 part of the spectrum.

3 So it is really hard to say where that  
4 pricing data -- you know, the relationship between the  
5 pricing data at least on the industry overselling, and  
6 what we are talking about with regard to the increase  
7 due to the supply disruption.

8 The flip side is this. If it was really all  
9 coming in at a low price, why wouldn't the market  
10 share have increased to a much larger number than we  
11 see in the staff report, and what actually the Sekisui  
12 submitted this morning as an attachment under the APO.

13 If it was really all low priced, and it was  
14 really being put in, then why wouldn't more people buy  
15 it? The reason is that as Mr. Chen has said earlier,  
16 Chang Chun tries to be a responsible corporate  
17 citizen.

18 Chang Chun manages its exports because it is  
19 looking at a long term basis of doing business in the  
20 United States and elsewhere. It has been doing  
21 business with DuPont since 1987, and it has been doing  
22 business with Perry since 1978. The owners of Chang  
23 Chun are like 84 and 86.

24 MR. CHEN: 84.

25 MR. SIM: 84. I mean, these are -- well,

1 they have a very long term view, and that is my point,  
2 is that you have a classic example of people selling  
3 at a very low price are going to get market share,  
4 that is not what you have here. That is not what you  
5 have here.

6 VICE CHAIRMAN WILLIAMSON: Okay. Good. I  
7 appreciate that. Is there anything that you can sort  
8 of add post-hearing that would help cement that, and  
9 make it more concrete for us, and just substantiate  
10 it, we would appreciate that.

11 MR. SIM: Okay.

12 VICE CHAIRMAN WILLIAMSON: Thank you. I was  
13 wondering. How has Commerce's preliminary anti-  
14 dumping determination affected both DuPont's imports  
15 of PVA from Taiwan, and also CCP's exports to the  
16 U.S.?

17 MR. BRISBON: So far I can say that the  
18 Commerce Department, their imposition of a duty has  
19 not impacted DuPont's purchases of CCPC material at  
20 all. It has not changed it, and it has not influenced  
21 it at all.

22 VICE CHAIRMAN WILLIAMSON: Okay. Mr. Chen?

23 MR. CHEN: We are not feeling any changes so  
24 far.

25 VICE CHAIRMAN WILLIAMSON: Okay.

1           MR. CHEN: On the orders, as well as the  
2 shipments.

3           VICE CHAIRMAN WILLIAMSON: Okay. So it has  
4 not upset your customers in any way? Okay. Thank  
5 you. In the staffing report on page Z-8, showed that  
6 almost half of the reporting purchasers quote  
7 competing prices in their negotiations.

8           Is this an indication that purchasers use  
9 one supplier's prices to shack lower prices from the  
10 other? Mr. Becker.

11          MR. BECKER: I think one of the very  
12 important factors again in any business -- and this  
13 one is no different -- is that I have seen it from  
14 both sides of the equation, is a clear understanding  
15 of what is taking place.

16          There is no doubt in my mind that if you are  
17 not clear, you will not understand the situation, and  
18 you will under-estimate, I guess is the right term,  
19 the price. If you clearly understand the situation,  
20 and all the constraints associated with that  
21 situation, you might find things a lot different.

22          And that's where I believe selling is very  
23 important, but we probably don't have a hundred  
24 percent of the sellers doing all that homework. So, I  
25 think that things can change, and I think purchasers

1 in some cases certainly don't have to make it crystal  
2 clear for you to understand those situations. And as  
3 you reach some inaccurate, but favorable conclusions  
4 from their perspective, they are not going to stop  
5 you.

6 VICE CHAIRMAN WILLIAMSON: So in other  
7 words, if you don't negotiate, then you probably would  
8 get hurt?

9 MR. BECKER: As one supplier once told me,  
10 you know, if you are the one laying the X on the  
11 table, and I am paying X-plus, I am not going to tell  
12 you that X is bad, okay? So I think that you have  
13 to -- that one of the things here again is that price  
14 is part of the bundle, and you have to do your  
15 homework.

16 And it is one of the constant challenges  
17 that every business person faces, and you are always  
18 questioning the veracity of your supplier's  
19 statements, and your sales people's statements, and  
20 trying to make a judgment accordingly, and sometimes  
21 you make good decisions, and sometimes you make a bad  
22 one.

23 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
24 This has probably already been raised, but I don't  
25 know whether or not you have given -- any of the

1 companies have given projections on U.S. demand for  
2 2011 and 2012. And if you have some maybe you could  
3 provide them post-hearing.

4 MR. SIM: Yes, we can do that.

5 VICE CHAIRMAN WILLIAMSON: Okay. Thank you.  
6 My time has expired. So, thank you.

7 CHAIRMAN OKUN: Commissioner Lane.

8 COMMISSIONER LANE: Mr. Boyce, I have two  
9 questions for you. In answer to an earlier question,  
10 you said average to average price comparisons based on  
11 quarterly pricing for our underselling analysis, and  
12 this is what you referred to as price variability.

13 However, in arguing that Chinese PVA is  
14 underselling all other prices in the U.S. market, you  
15 cite annual average unit values. Please confirm that  
16 this is your argument, or explain the apparent  
17 inconsistency?

18 CHAIRMAN OKUN: I don't think your  
19 microphone is on.

20 MR. BOYCE: Well, I think what I said in the  
21 following paragraph is --

22 COMMISSIONER LANE: Are you talking about on  
23 page 29?

24 MR. BOYCE: No, I'm actually talking about  
25 the top paragraph on page 33. That the Commission

1 must decide whether it will analyze prices in their  
2 section of this market as if PVA were a commodity  
3 product, and whether the value in use pricing, and the  
4 importance of specialty products, and distinctions  
5 between contract and spot customers, make the  
6 interpretation of underselling and lost revenues  
7 problematic.

8           Ultimately the Commission cannot have it  
9 both ways. Its sales are sensitive to prices, and  
10 injury is caused by a few cents per pound of  
11 underselling, and then the Commission cannot ignore  
12 the fact that the imports through SVW are the lowest  
13 priced imports that are available in substantial  
14 quantities.

15           I am not saying that you should average or  
16 view any values, but I am saying that the averages  
17 that you have in your underselling analysis reflect  
18 lots of differences, not the least of which is the  
19 price variability, and the very important  
20 circumstances that Mr. Becker just talked about. The  
21 fact that Mr. Laub doesn't add much value, it is not  
22 easy, and that is your job.

23           COMMISSIONER LANE: Okay. My final question  
24 is before page 29 of the brief, could you complete the  
25 price variability table, and include the years 2007,

1 2008, 2009, interim 2009, and interim 2010?

2 MR. BOYCE: I don't believe I can, because I  
3 think that the questionnaire only asked for these data  
4 for 2010 in that record, and not for all years. Only  
5 2010. I'm sorry, but I cannot do -- I cannot provide  
6 '07 through '09.

7 COMMISSIONER LANE: Okay. Thank you. Madam  
8 Chair, that's all that I have.

9 CHAIRMAN OKUN: Commissioner Pearson.

10 COMMISSIONER PEARSON: Madam Chairman, I  
11 have no additional questions, but I would like to  
12 thank this panel for its efforts this afternoon.

13 CHAIRMAN OKUN: Commissioner Aranoff.

14 COMMISSIONER ARANOFF: Thank you, Madam  
15 Chairman. I do have one final question. Mr. Chen has  
16 testified that it is his company's policy, and has  
17 been his company's policy for many years, to limit its  
18 participation in the U.S. market to a fairly constant  
19 market share.

20 One could argue back and forth whether the  
21 volume data that we see support or don't support that  
22 proposition, although I understand that it is not  
23 something that one could do with mathematical  
24 precision, even if one tried.

25 But I guess my question is this. Obviously

1 the Commission is going to have to assess the  
2 credibility of Mr. Chen's testimony on this point. If  
3 there is anything that you can provide to us post-  
4 hearing that would bolster his claim that this has  
5 been a company policy for a long time -- and I don't  
6 know if they would have ever said something like that  
7 in an annual report, or in a non-public document that  
8 they would be willing to supply.

9 Believe it or not, we have had companies in  
10 the past who have been able to provide documentation  
11 that was not prepared for litigation purposes that  
12 made this kind of point.

13 MR. SIM: Well, what we could do -- one  
14 thing that comes to mind which we talked about is we  
15 have correspondence of client customers of Chang Chun,  
16 with please send me more, and please send me more, and  
17 the response is no.

18 And no because we don't want to -- we want  
19 to control the quantity coming over to your country,  
20 and so we can check our files and see if we can get  
21 you that. I mean, that is not a financial statement  
22 or any report language, but it is nuts and bolts  
23 stuff.

24 COMMISSIONER ARANOFF: Okay. Well, if you  
25 can provide something like that, that would certainly

1 be helpful. Now, let me turn to Mr. Becker. Mr.  
2 Becker, Mr. Chen has said that his major customers in  
3 the U.S. always want more than he is willing to give  
4 them. If you can tell me now, is that in fact true?  
5 Has he been unwilling to sell you as much as Dupont  
6 would like to buy?

7 MR. BECKER: Well, yes, that is accurate.  
8 That is an accurate statement, and of course DuPont,  
9 as others, makes decisions based on strategy in  
10 pricing, and sometimes business is pursued, and  
11 sometimes it is not based on pricing.

12 That is why the unilateral statement of low  
13 pricing is not true, because most suppliers that I  
14 know, and I have been involved with three, pass on  
15 business on a regular basis because they don't like  
16 the pricing.

17 COMMISSIONER ARANOFF: Okay. I am not sure  
18 if I am understanding.

19 MR. BECKER: They could turn us down, and we  
20 could turn him down.

21 COMMISSIONER ARANOFF: Right. Well, I  
22 understand that you could turn him down, but his  
23 testimony is that his major U.S. customers have  
24 consistently asked him for more than he has been  
25 willing to supply, and I guess I am asking you to

1 either confirm or deny that in the case of DuPont.

2 MR. BECKER: Well, I don't know CCPC's  
3 approach on a direct basis, and so I can only tell you  
4 what the interaction is with DuPont, and in fact,  
5 Michael is more involved with that than I am.

6 COMMISSIONER ARANOFF: Okay. Well, if there  
7 is anything else that you want to add post-hearing in  
8 order to just help me understand whether your company  
9 really has consistently asked for supply that has not  
10 been forthcoming, then that would be helpful. You are  
11 suggesting that it is more of a price issue, as  
12 opposed to a sorry, but this is all that we are going  
13 to send to the U.S. issue, and that is --

14 MR. BECKER: Well, I am just very hesitant  
15 to quell it down to one variable, because I think that  
16 there is a lot of variables that play into the  
17 equation, and I think that we all know that sometimes  
18 you look at numbers, too, and unless you understand  
19 what is behind the numbers, and the build up, they can  
20 be misleading.

21 COMMISSIONER ARANOFF: Okay. Well, if there  
22 is anything that DuPont would like to share with us  
23 confidentially about why they might have wanted  
24 additional volume from CCPC, and what they would have  
25 done with it, I think that would be helpful to fill

1 out the record.

2 MR. BECKER: Will do. Thank you.

3 COMMISSIONER ARANOFF: Thank you very much.  
4 With that, I want to thank the witnesses, and I have  
5 no further questions.

6 CHAIRMAN OKUN: Commissioner Pinkert.

7 COMMISSIONER PINKERT: I, too, thank the  
8 witnesses, and I look forward to the post-hearing  
9 submissions.

10 CHAIRMAN OKUN: And I also have no further  
11 questions. So, thank you. Vice Chairman Williamson.

12 VICE CHAIRMAN WILLIAMSON: The same here. I  
13 also thank the witnesses for their testimony.

14 CHAIRMAN OKUN: Commissioner Lane.

15 COMMISSIONER LANE: Let me turn to the staff  
16 to see if the staff have questions for this panel.

17 MR. DEYMAN: I am George Deyman, Office of  
18 Investigations. The staff has no questions.

19 CHAIRMAN OKUN: Do counsel for Petitioners  
20 have questions for this panel?

21 MR. GABBERT: No, I don't believe we do,  
22 Chairman. Thank you.

23 CHAIRMAN OKUN: All right. Well, before we  
24 turn to the closing statements, let me take one more  
25 opportunity to thank the witnesses for being here and

1 for traveling, and for also the post-hearing  
2 information that you will provide, and for your  
3 continued cooperation in the investigation.

4 We will just take a couple of moments for  
5 the witnesses to go back, and then we will turn to our  
6 closing. And just to recap, the Petitioners have 8  
7 minutes on direct, and 5 minutes for closing, for a  
8 total of 13 minutes.

9 The Respondents have 24 minutes remaining  
10 from direct, and five for closing, for a total of 29.  
11 For counsel, it has been our practice that we combine  
12 that time, and you can just address it at once, and if  
13 there is no objection to that, we will proceed in that  
14 manner. Okay. We will give you a couple of minutes,  
15 and then have the Petitioners present their closing  
16 and rebuttal.

17 (Brief recess.)

18 CHAIRMAN OKUN: Mr. Secretary, can we  
19 proceed.

20 MR. GABBERT: May I proceed?

21 CHAIRMAN OKUN: Yes, please.

22 MR. GABBERT: Thank you. Thank you again  
23 for your time today. First of all, I would like to  
24 begin by addressing a piece of housekeeping. I just  
25 want to clarify for the Commissioners that our quote

1 of Ms. McCord's statement during the 2003  
2 investigation is in fact not about Celanese's  
3 performance, but clearly about DuPont's.

4 And I would direct your attention to pages  
5 24 and 25 of the transcript from that proceeding, and  
6 it is clear. I mean, the entire context. She  
7 mentions that she is describing DuPont's perspective  
8 on critical issues in the PVA market, and lists these  
9 as including rising subject imports, rapidly declining  
10 price, and price is a single key determinant in the  
11 sourcing decision.

12 On page 25, again, she describes DuPont's  
13 tech service, and on time delivery, and how these  
14 factors used to be important, but by far the most  
15 important factor today is price, and then price, and  
16 then price again.

17 And in the next sentence, she says once that  
18 we meet the subject import price. None of this is  
19 about Celanese. This is about DuPont, and that we  
20 fundamentally agree that they supply to Celanese as  
21 well at the time, and it does today. The conditions  
22 of competition in this respect have not changed.

23 Moving into the main content of my rebuttal,  
24 I would like to make a formal request that the  
25 prehearing -- or note that the prehearing report, we

1 believe, should include and incorporate preliminary  
2 phase investigation data on the record.

3 Now, we have had a good deal of discussion,  
4 and back and forth, about the reason for this, and  
5 fundamentally, we just would point the Commission to  
6 the governing regulation, which describes one  
7 investigation with two phrases, and we are happy with  
8 the data from the final phase of the investigation.

9 But what the two phases allow the Commission  
10 to do is to look at the way the market has changed  
11 over the past nine years. This is a rare opportunity  
12 for the Commission. The data is already on the  
13 record, and there is no reason to throw that data  
14 away, and particularly when it shows clearly the  
15 effect of the continued and indeed increased frequency  
16 of underselling by the subject importers.

17 On the question of the Commerce margin and  
18 the POI, again, we don't know what the final POI, or  
19 what the final -- I'm sorry -- margin, dumping margin,  
20 will be. But I do want to emphasize to the  
21 Commissioners that we took a look at the regulation,  
22 and the regulation would be 19 CFR 351.204, where it  
23 clearly states that Commerce has no discretion in  
24 selecting the POI.

25 Or in other words without good reason does

1 not, and if we look at the regulation, and it says  
2 that the POI for Commerce will, absent good reason, be  
3 the most recent four quarters as of the month  
4 preceding the month in which the petition was filed.

5 Now, consider the case from SSCA's  
6 perspective. We have been going at this for six years  
7 now. The last thing that we want to do is jeopardize  
8 our case on appeal. We don't want to give the CIT or  
9 the Federal Circuit any reason to invalidate any  
10 remedy that we might achieve.

11 We took the conservative course of action,  
12 and that is what drove our selection. We simply note  
13 that the underselling data as you know has increased,  
14 and this is suggestive of the greater dumping margin  
15 in more recent years.

16 As we said in our opening remarks, and then  
17 as our panel discussed, really what we have here is a  
18 price case. The situation has changed from the  
19 preliminary phase POI, and although volumes have  
20 increased substantially, what is particularly  
21 remarkable is the increase in the frequency of the  
22 underselling.

23 The Respondents have tried to make a big  
24 deal out of the imports from China, and specifically  
25 from Sichuan Vinylon Works, and have attempted in what

1 is basically a red herring to get the Commission to  
2 look at and glance at the Petitioners for not going  
3 after Sichuan Vinylon Works, and trying to get their  
4 zero deposit rate increased.

5 As I mentioned during our panel  
6 presentation, we will address that in the post-  
7 hearing, but I do want to note that this accusation  
8 alone -- and the zero deposit rate, the alleged  
9 acquiescence of the Petitioners, tells you nothing  
10 about the injury caused by Taiwan.

11 In order for it to do so, there would have  
12 to be some link between the imports from Sichuan  
13 Vinylon and the pricing issues that we see in this  
14 case. But as we have explained repeatedly the pricing  
15 data shows consistent overselling by Sichuan Vinylon  
16 Works.

17 There is no basis at all to make the jump  
18 from the imports from China to a break in the causal  
19 link between Taiwan's dumped imports and the domestic  
20 industry's woes. So if we look at the domestic  
21 industry, the pricing issues that we have faced have  
22 led to under-performance in 2007 and 2008, and  
23 continued under-performance in 2010.

24 So regardless of what happened in 2009, on  
25 either end, you have periods that book-ends the

1 recession, and that show that the domestic industry is  
2 under duress, and that all indicators that this is due  
3 to low priced imports from Taiwan.

4 The key here, of course, is the large volume  
5 of imports from Taiwan, coupled with the very low  
6 prices, we maintain completely overwhelms any effect,  
7 and no effect has been shown of the imports from China  
8 on our pricing.

9 In other words, the underselling as Dr.  
10 Button pointed out in its magnitude, intensity, and  
11 timing, has worsened between the preliminary phase and  
12 final phase, and during the final phase.

13 On the question of force majeure, this again  
14 is something that the Respondents have raised time and  
15 again, and I believe that they are raising it for two  
16 main reasons; to justify volumes, increased volumes on  
17 the part of Taiwan, and to explain the sorry state of  
18 the U.S. industry.

19 But I think that it raises two other  
20 questions that the Commission should consider  
21 carefully. First is that if this was such a ground  
22 breaking event, why do we see an increase in volumes  
23 between 2001 and 2007, if as the economist for the  
24 Respondent said that the performance of the domestic  
25 industry was flawless during this period, why do we

1 see this increase in volume.

2           And, second, why do we continue to see  
3 underselling. It seems to me that the fundamental  
4 rules of supply and demand would suggest that if there  
5 is short supply, and that if a supplier comes in  
6 responding to that short supply, that the seller, if  
7 the seller is a profit maximizing entity, will seek to  
8 extract a premium for coming in and ameliorating that  
9 condition.

10           There has been talk of panic buying. Again,  
11 in a market characterized by panic buying, we  
12 typically don't see sellers offering things at lower  
13 than market prices. But that is what we see here, and  
14 again I would emphasize that according to our best  
15 estimates, the shortfall, not against forecasts, but  
16 against actual orders by customers, is in the range of  
17 3 percent.

18           We will submit more information in our post-  
19 hearing on this issue, but from what we can tell,  
20 there was a period of perhaps 30 days in which our  
21 volumes of production in shipment dropped markedly  
22 during that force majeure period. On the whole, they  
23 held steady, and we performed as our customers  
24 expected us to perform.

25           Finally, in addressing the points raised by

1 the Respondents, I want to turn to the question of  
2 growth of the market. I would direct the Commission's  
3 attention to the brief and the testimony that you have  
4 heard today.

5 It is clear that all of this growth is  
6 hypothetical. The Respondent has mentioned now two  
7 technologies that we are able to discuss. One is  
8 solar cells, and the other is LDCs. Solar cells  
9 -- and we will address this in more detail in our  
10 brief, but there are two alternative technologies that  
11 may be used in solar cells, and one is PVB, which is  
12 again a derivative product.

13 It is a product that will develop derivative  
14 demand for PVA. The other is EVA, and right now my  
15 understanding, based on conversations with our client,  
16 is that the market is at a fork in the road.

17 It may go with the EVA, and it may go with  
18 PVB, and we don't know which way it is going to turn  
19 yet, but this illustrates that this growth, while it  
20 is potential, it is by no means a sure thing, and it  
21 is certainly nothing that we can count on in the short  
22 term.

23 On the question of LCD demand, while growth  
24 in this area is a possibility, currently LCD demand  
25 accounts for perhaps one or two percent of global

1 demand for PDA. So we are talking about rapid growth,  
2 but from a very, very small base.

3 And finally on the issue of regulatory  
4 change, the Respondents during their presentation  
5 mentioned, for example, residential requirements for  
6 certain forms of safety glass. As far as we know, we  
7 would need more details, but as far as we can tell,  
8 what they are talking about is material that has been  
9 required for many years now. That is not a regulatory  
10 change.

11 It is not clear to us what regulatory change  
12 that they are speaking of. So, in conclusion, I would  
13 just like to recap some of the points that we have  
14 made so far. First, is the current injury, and the  
15 evidence is really striking if you compare the  
16 preliminary phase POI with the final phase POI.

17 And, second, the threat factors as the  
18 Commission raised in its questioning of the  
19 Respondents, are buttressed by the fact that the  
20 Respondents have a clear incentive to ship additional  
21 product to the United States, protests to the contrary  
22 notwithstanding. Again, I thank the Commission for  
23 their time and attention today.

24 CHAIRMAN OKUN: Thank you. You may proceed.

25 MR. SIM: Okay. How much time do I have?

1                   CHAIRMAN OKUN: You have a total of 29  
2 minutes.

3                   MR. SIM: Okay. All right. Don't worry. I  
4 won't take all of it. Again, I just want everyone to  
5 think about the passage of time; 2003, 2004, 2005,  
6 2006, 2007, 2008, 2009, 2010. During all that time,  
7 if Sekisui was injured by reason of imports from  
8 Taiwan, why did they not file another petition? Why  
9 did they go through this process?

10                   At any stage of the process, they could have  
11 stopped the appeal of your own decision. They could  
12 have filed in effect, and arguably they could have  
13 still filed another petition even during the pendency  
14 of the other appeal.

15                   Be that as it may, the point remains that  
16 during this time period there was no effort to do  
17 anything other than to go to seek fresh relief on an  
18 expedited basis, and instead, we have been going  
19 through this process for seven or eight years.

20                   That is something that I talked about in my  
21 opening, and I just want as part of my closing to  
22 bring this up again. Now, again, to reinforce, we are  
23 here combined as DuPont as part of the domestic  
24 industry, a domestic industry that produced -- the  
25 domestic producers were actually on a rated basis,

1 produces more than Sekisui in the United States,  
2 together with Chang Chun, which is a worldwide  
3 producer, based in Taiwan.

4 And again the point that we have tried to  
5 make in our brief, and today, is that we have been in  
6 the market as Taiwan. We have been supplying the U.S.  
7 market on a constant basis. We have provided a  
8 relatively steady stream of exports in the last three  
9 years.

10 It went up during a period when there was  
11 arguably psychological effects from the force majeure,  
12 and yes, maybe within -- and as some of the questions  
13 have brought up, maybe within a month everyone got  
14 their stuff, but during that one month period, there  
15 was uncertainty.

16 It goes back to, you know, watching football  
17 this weekend. If you have a first string quarterback,  
18 and you know that he has a bad knee, or you have a  
19 scare during a run in the playoffs, and then he  
20 reinjures his knee, and he is out half a game, aren't  
21 you going to get another quarterback, a second string  
22 quarterback, who can step up to the plate?

23 Now, if you are the Bears, probably not, but  
24 at the end of the day, it is the same psychology. You  
25 would think that the trauma, whether or not it is

1       lingering, and whether or not at the time, the trauma  
2       that resulted from this force majeure in 2007  
3       lingered.

4                 That trauma affected the purchasing  
5       expectations and decisions of the U.S. market, and  
6       that is why I am sure that next year, I am sure that  
7       the Bears will try to get a different quarterback, or  
8       some other backup, or whatever. That is part of or  
9       that is how people act in the business world, and in  
10      sports, or whatever. We act according to our  
11      expectation.

12                And frankly in 2007 and 2008, people's  
13      expectations were not met. People had to go out and  
14      seek different alternatives. Maybe increase or adjust  
15      their purchase ratios for different companies. That  
16      is what happened in 2007 and 2008.

17                Again, 2009, the recession. Call it what  
18      you may. You can call it the Lehman Brothers  
19      recession, or the global recession, depression like,  
20      whatever. The point is that it is not reasonable in  
21      our view to actually see the reflects of the recession  
22      to -- you know, that were inflicted upon the domestic  
23      industry, to wrongly issue those effects to imports  
24      from Taiwan.

25                And finally with regard to threat. Again,

1 as Chang Chun has testified, it manages its exports.  
2 It is looking at increasing demand worldwide,  
3 particularly in Asia, and looking at increased prices,  
4 particularly in Asia, and it has been projected to  
5 decrease exports to the United States.

6 So in that regard, given everything that has  
7 happened, we don't see an industry vulnerable. We  
8 don't see an industry that is threatened with material  
9 injury. So the main thing is that if you look at the  
10 record, we believe that this should result in a  
11 negative injury and negative threat determination that  
12 puts an end to this proceeding. Thank you very much.

13 CHAIRMAN OKUN: Thank you. Post-hearing  
14 briefs, statements in response to the questions, and  
15 requests of the Commission, and corrections to the  
16 transcript, must be filed by February 1, 2011.

17 The closing of the record, and final  
18 release, and date to the parties, is February 16th,  
19 2011, and final comments are due February 18th, 2011.  
20 With no other business before the Commission, this  
21 hearing is adjourned.

22 (Whereupon, at 4:31 p.m., the hearing in the  
23 above-entitled matter was concluded.)

24 //

25 //

**CERTIFICATION OF TRANSCRIPTION****TITLE:** Polyvinyl Alcohol from Taiwan**INVESTIGATION NO.:** 731-TA-1088 (Final)**HEARING DATE:** January 25, 2011**LOCATION:** Washington, DC**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:** 1/25/11

**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:** Micah J. Gillett  
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:** Christina Chesley  
Signature of Court Reporter