UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No.:
CERTAIN POLYVINYL ALCOHOL FROM CHINA, GERMANY, JAPAN, KOREA, AND SINGAPORE	)	731-TA-1014-1018

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Thursday,
September 26, 2002

Main Courtroom, Room 101
U. S. International
Trade Commission
500 E St., SW
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., before the Commissioners of the United States International Trade Commission, the Honorable LYNN FEATHERSTONE, Director of Investigations, Presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Staff:

GEORGE DEYMAN, SUPERVISORY INVESTIGATOR
CHRIS CASSISE, INVESTIGATOR
MARY JANE ALVES, ATTORNEY/ADVISOR
AMELIA PREECE, ECONOMIST
JAMES STEWART, AUDITOR/ACCOUNTANT
LARRY JOHNSON, COMMODITY-INDUSTRY ANALYST

ADDITIONAL APPEARANCES:

In Support of the Imposition of Antidumping Duties:

KATHRYN KAMINS MCCORD, Business Manager, E.I. du Pont
de Nemours & Co.
BRUCE BECKER, Commercial Director of PVA, Celanese Chemicals, Ltd.

RONALD I. MELTZER, Esq.
JOHN D. GREENWALD, Esq.
Wilmer, Cutler & Pickering

In Opposition of the Imposition of Antidumping Duties:

BRUCE MALASHEVICH, Economic Consulting Services
SHANNON E. GROSSMAN, Oxy Vinyl

LAWRENCE R. WALDERS, Esq.
Sidley, Austin, Brown & Wood, LLP

WILLIAM E. PERRY, Esq.
Garvey, Schubert & Barer

ALAN LONGSTREET, Vice President, North American Adhesives, H.B. Fuller Co.
JOEL HEDBERG, General Counsel, H.B. Fuller Co.

PHILLIPPE M. BRUNO, Esq.
Dorsey & Whitney, LLP

B.I. CHO, OCI Chemical, Inc.
STEVE KWON, OCI Chemical, Inc.

LAWRENCE J. BOGARD, Esq.
Neville Peterson, LLP

JEFF SAEGER, Product Manager Surface Chemicals, Buisness Unit Paper, Clariant Corp.

MATTHEY T. McGRATH, Esq.
Barnes, Richardson & Colburn

AL LEE, Director of Business Development, Marubeni Specialty Chemicals, Inc.
DANIEL PETERSON, Executive Director of Thermal Research & Development, Appleton Papers, Inc.
DAVID R. SCHONEKER, Director for Global Regulatory Affiars, Colorcon

ADDITIONAL APPEARANCES:

In Opposition of the Imposition of Antidumping Duties:

FRANCIS J. SAILER, Esq.
JEFFREY B. DENNING, Esq.
LaFave & Sailer, LLP

JOSEPH RABAGLIA, Product Manager, Wego Chemical & Mineral Corp.

W.N. HARRELL SMITH, IV, Esq.
Gardner, Carton & Douglas

GLEN S. RUSKIN, Vice President, Solutia, Inc.
ALLISON JENNINGS, Assistant to the Vice President, Solutia, Inc.
MARK P. GOLD, Manager, Saflex Technology

JAMES R. CANNON, JR., Esq.
HOLLY NYLANDER STUBER, Esq.
Williams Mullen

I N D E X

I N D E X

P R O C E E D I N G S

(9:30 a.m.)

MR. FEATHERSTONE: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigations No. 731-TA-1014-1016 concerning imports of polyvinyl alcohol from China, Germany, Japan, Korea, and Singapore. My name is Lynn Featherstone. I am the Commission's Director of Investigations, and I will preside at this conference.

Among those present from the Commission staff are George Deyman, the supervisory investigator; Mr. Chris Cassise, the investigator; Ms. Mary Jane Alves, the attorney/advisor; Amelia Preece, the economist; and Chip Tias, the financial analyst.

The purpose of this conference is to allow you to present to the Commission, through the staff, your views with respect to the subject matter of the investigations in order to assist the Commission in determining whet her there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury, or that the establishment of an industry in the United States is materially retarded, by reason of imports of the merchandise which is the subject of the investigations.

Individuals speaking in support of the petitions will speak first. Each side has been allocated one hour to present their views.

The Chair may ask questions of speakers of speakers either during or after their statements. However, no cross-examination by parties or questions to opposing speakers will be permitted. At the conclusion of the statements form both sides, each side will be given 10 minutes to rebut any opposing statements, suggest issues on which the Commission should focus in analyzing data received during the course of the investigations, and make concluding remarks.

This conference is being transcribed, and the transcript will be placed in the public record of the investigations. Accordingly, speakers are reminded not to refer in their remarks to business proprietary information, and to speak directly into the microphone. Copies of the transcript may be ordered by filling out a form which is available from the stenographer. The proceeding is also being shown within the building on closed-circuit television.

You may submit documents or exhibits during the course of your presentations. However, we will not accept materials tendered as business proprietary. All information for which such treatment is requested must be submitted to

the Secretary in accordance with Commission Rule 201.6.

Any documents that are letter-size and capable will be accepted into the record of the investigation as an attachment to the transcript. Other documents that you would like incorporated into the record of the investigation should be submitted as or with your post-conference briefs.

Speakers will not be sworn in. However, you are reminded of the applicability of 18 U.S.C. 1001 to false or misleading statements, and to the fact that the record of this proceeding may be subject to court review if there is an appeal.

Finally, we ask that you state your name and affiliation for the record as you begin your presentation.

Are there any questions? If not, welcome Mr. Greenwald, please proceed.

MR. GREENWALD: Thank you, Mr. Featherstone, Commission staff. My name is James Greenwald with the law firm of Wilmer, Cutler and Pickering. We are counsel to petitioners Dupont and Celanese.

The Commission is, and you, individually, are familiar with PVA. In 1996 the Commission reached an affirmative final injury determination in a case that was, in fact, far less compelling than this one.

The 1966 antidumping order was against imports from China, Taiwan and Japan. It lapsed in May of 2001, and

one of the questions you probably have is why did it lapse? At that time, that is, in May of 2001, which is in the period of investigation, the conditions of the U.S. industry were, in fact, already deteriorating.

But since the problems were ones Kuraray's -- expansion in Germany and Singapore, more aggressive marketing of Korean PVA, and lower-priced imports from China and Japan, it made no sense to keep the old order in effect. The only real option was a new case directed at a different mix of imports than was the case in 1996.

As I said, this case is stronger in all key respects than the 1996 case. The general economic environment, and with it demand for PVA, is worse than it was in 1996. The industry is in worse shape than it was in 1996. Prices are lower than they were in 1996. Subject imports are higher in volume -- substantially higher -- than was the case in 1996.

The evidence of under selling by imports is stronger than it was in 1996, and the threat posed by recent and projected increases to global capacity means that the threat that confronts the U.S. industry is greater than it was in 1996.

Finally, the determination of Chinese producers, Kuraray, which is a major Japanese, German, and Singapore exports of Nipongo sui, a Japanese producer of D.C. Chemical

of Korea to expand their position in the United States market is greater than it was in 1996. The most telling, single piece of evidence that we have looked at when preparing this case, and trying to think through the issues, is an announcement made by Kuraray that it alone has set its sights in capturing 10 percent of the U.S. market.

Both Dupont and the Celanese have been seriously harmed by dumped imports. Today's testimony will describe in general terms how each of the two U.S. producers have responded to the dumping problem.

Now as you know, because there are only two U.S. producers, the amount of hard data we can discuss in public is very limited. So much of the give and take that normally occurs in the public session probably won't occur here; but we will be providing very detailed, company-specific information in our written submissions.

As you will see from the questionnaire responses, these two companies have tried to deal with the dumping problem in different ways and at different times, but nothing has worked. Both margins and the volume of sales have suffered. When a company has tried to hold the line on prices, as one of the two and both companies have, they have lost market share. When they have tried to match import prices, their margins have disappeared.

There are, in addition to these core

injury/causation issues, a series of technical issues that we will address in testimony. You will be interested in the definition of the subject merchandise, and you will note that it has changed from the 1996 definition of merchandise because of a different mix of U.S. production.

There is a question which was the subject of considerable attention the last time around, which we would like you to revisit regarding whether or Nipongo sai is a U.S. producer of subject merchandise. Whether or not you decide it is; however, the Commission should, as it did in the last case, focus on merchant market sales.

We think these are straightforward issues and don't intend to devote a great deal of time to them in our direct presentation, but would be happy to answer any and all question we have. In addition, there is a special questions with regard to threat of injury with particular emphasis on Singapore. Kuraray and Nipongo sai have constructed a very large PVA-producing plant in Singapore.

Imports of PVA from Singapore have been growing sharply, but they have also been growing sporadically. In other words, in some months they are significant, and in another month they will be zero. Over the last 12 months, Singapore has counted for less than 3 percent of all imports, and therefore, does not met the deminimus 3 percent test. But the threat of a surge in imports from Singapore

is both real and imminent.

If antidumping duties are imposed on Kuraray imports from Japan or Germany, but not Singapore, production will shift to Singapore. If an antidumping duty is imposed on Nipongo sai's exports from Japan, they will simply shift their production to a Singapore platform. The Commission has the authority it needs to cumulate imports from Singapore because the threat is, in fact, imminent and the likelihood of a rise of great than 3 percent of imports over a very short period of time is real.

Finally, let me go back to commercial realities. The commercial realities that should drive the Commission's decision-making in this case have been effectively captured in testimony that an importer of PVA, both from Taiwan, which is not subject to this investigation, and from China, which is subject, has asked us to place on the record.

Mr. Ervin Laub of Perry Chemical has been in the PVA business for, I think, 30 years. His view of what is going on is multi-faceted in a way that no domestic producer or no foreign producer can claim. In addition to being an importer, he also buys material from domestic suppliers. He knows exactly what he is talking about when he describes what has gone on in the past few years in the following terms -- and if you will indulge me, I will quote from testimony Mr. Laub asked us to read.

"Perry Chemical has been in the business of distributing PVA for more than 30 years. Over this period of time, we have established for ourselves a niche in the PVA market where today we are the largest distributor of PVA in the United States of America.

'Historically, PVA prices will fluctuate within a narrow band. However, of the past year, PVA prices in the United States market have plummeted as much as 25 to 30 percent. This fall in prices has been caused by low price imports from China, Germany, Korea and Singapore.

'We have observed aggressive pricing of imports from these countries in each of the major PVA market segments. That is, textiles, adhesives, construction, biodegradable products and paper. The effect of this aggressive pricing has been to leave customers to base their purchasing decisions on price. Price has become the driving force behind purchases in the market.

Customers are now very willing to switch products to take advantage for a low price for PVA imports from China, Germany, Japan, Korea, and Singapore. Other factors, such as the quality of a product, are important to a customer, but only in "breaking the tie." That is, when prices of two competing products are identical."

Now with that introduction, I would like to turn the microphone to Bruce Becker of Celanese.

MR. BECKER: Thank you, Ron. As Ron said, my name is Bruce Becker. I work for Celanese Chemical. I am responsible for all the customer-facing activities in the polyvinyl alcohol business. That includes sales, marketing and our technical service and R&D.

I have six years experience in polyvinyl alcohol -- two with Celanese and prior to that, I spent four years with Air Products running the polyvinyl alcohol business for Air Products. Previous to that, I had 20-years experience with Air Products, and I ran a couple of other businesses for Air Products.

What I would like to do today is give you some background information. I would like to describe the product. I would like to describe the production process. And then, I would like to give you some input or some commentary on the effects of the import and the lower pricing on our position in the marketplace.

Just to give you a feel, first of all, Celanese entered the polyvinyl alcohol business in September of 2000, via the acquisition of Air Products polyvinyl alcohol business. Celanese is a major global producer of vinyl acetate monomer and this was, certainly, a logical extension of their position as polyvinyl alcohol is a derivative of vinyl acetate monomer.

While the integration of the business into the

Celanese family went relatively smoothly, and was successful, on a stand-alone basis, the performance of the business over the first two years has been disappointing. This has been primarily caused by the significant decrease in selling prices due to imports and the downward pricing pressure caused by offers by importers from the subject countries.

To shift gears, the product is a water soluble polymer sold in as white grandual solid. It is classified by two key parameters. One of those parameters is degree of hydrolysis and the other is viscosity. Degree of hydrolysis measures the amount of acetate groups on the polymer chain change that have been replaced by hydroxyl groups. Viscosity means measures, in essence, the thickness of a PVA solution, and it is a good measure of the molecular weight of the product.

These two key parameters determine its applicability in a variety of different applications, and the primary uses, as Ron as mentioned, are found in the textile, adhesives, paper, and polyvinyl butyryl industries. In general the PVA produced by the industry is similar in its performance characteristics and is, largely, interchangeable.

Celanese currently offers commercial grades of polyvinyl alcohol from slightly greater than a 99 percent

hydrolysis level to as low as 83 percent. We currently have developmental grades in the pipeline down to the 80 percent level. The next significant level of hydrolysis currently used by the PVA consuming industry drops down to about 72 percent. That's used, primarily, as a protective colloid in the PVC industry. That is a product right now that we currently don't have the process technology or the equipment to produce.

Since the acquisition from Air Products, as Ron mentioned earlier, last time we went through this process the cut off point in terms of the product line and degree of hydrolysis was 85 percent. At that time, that was the capability of Air Products. Since the acquisition, Celanese has developed a process technology to take that down to the 80 percent level, and that has caused the shift from 85 to the 80 percent level.

In terms of the production process, polyvinyl alcohol, again, is manufactured from vinyl acetate monomer via multi-step process. It's first polymerized into polyvinyl acetate and then, saponified or hydrolyzed to specific hydrolysis levels, as I mentioned earlier. This process, again, is very similar among all PVA producers.

It's a complex process with very high-fixed costs, driven primarily by a high capital investment. Accordingly, profitability is very dependent upon the ability to fully

utilize your assets, and in essence, sell out your facility. So this, again, drives producers to do so. Normal reinvestment is required to maintain the production capability, and of course, keep the assets in a safe operating mode.

Right now, total global demand is about 80 to 85 percent of worldwide capacity. It is somewhat mixed dependent. The majority of the excess capacity today exist in Asia. Hence, their incentive to aggressively export product outside of Asia.

In terms of the impacts and effects on Celanese on the marketplace, right after the acquisition was made, vinyl acetate monomer started to escalate very rapidly, driven by the high natural gas costs in the United States.

And in my previous 24 years at Air Products, and a number of business in the chemical industry, we had always been able to take the higher costs of vinyl acetate monomer, and in essence, at least pass that through to the marketplace and raise our prices to, at least, partially recover these higher costs.

So in the fourth quarter of 2000, we announced a price increase with, of course, the expectation of success. Unfortunately, not only were we not able to get our prices up, but prices declined further. In addition, we did lose some significant market positions in all the markets we

serve.

Eventually, we shifted gears, and we were compelled to meet lower prices to preserve a significantly reduced market position, and unfortunately, did so at dramatically prices.

Frankly, if this situation is left unchecked, I do believe the future of the domestic industry is in jeopardy. The aggressively-priced imports have touched all segments of the market. We have experienced price erosion in all segments -- textiles, adhesives, and paper -- with pricing down on average about 25 percent. Thank you.

MR. GREENWALD: Kathleen McCord from Dupont is the next witness.

MS. McCORD: Thank you. My name is Kathy McCord and I am the global business director for the vinyl business in DuPont. It is the business made up of both vinyl acetate monomer and our polyvinyl alcohol. I have been in this position for about five and a half years. During that time, I have seen considerable change in both the health and the profitability of business.

As you can imagine, being in the business for five and a half years, this is something that is very near and dear to my heart. So I am pleased to be here to take the opportunity to explain what I have seen happening in the marketplace over the last several years.

DuPont has been in the PVA business for more than 30 years. Thirty years alone just at our La Port facility in Texas. We are a domestic supplier of PVA, and we are very committed to the domestic market. That is our strategy and that is our intent.

As Bruce told you, the major market segments for PVA includes textiles, paper, adhesives and PVB. Each of these segments is growing, roughly, at GDP. Some a little bit better, except for the textile industry, which is in serious decline. And we have seen very, very aggressive pricing action by the subject imports in each and every one of these segments.

The textile market in the U.S. is a declining market as production continues to shift overseas, basically, to Asia; and a lot of the mills that used to exist in the U.S. are no longer around. As a matter of fact, in 2001 over 100 mills closed in the U.S. -- most of those permanently.

A lot of the business has shifted overseas, and it is now being supplied -- the PVA that they formally used here in the U.S. is being supplied by these same subject importers in Asia now.

However, this is still one of the largest segments for PVA in the U.S. So it is very important to us and to the U.S. PVA market. I have seen all subject importers very

active in this segment with very low prices.

The paper industry is growing, roughly, a little bit below GDP. They have seen a lot of consolidation and rationalizations over the last several years. We have also seen a lot of activity by the subject importers in this segment.

The adhesive industry is growing about GDP, and competitive activity in this segment, recently, by subject importers has been fierce.

Finally, the PVB segment, which is mostly dominated by automotive sales, but also, to a lesser extent, by a faster-growing architectural segment. It is growing somewhere between 4 and 5 percent, and that industry I have seen very aggressive action by both Kuraray and Nipongo sai.

As subject import volumes have risen, the markets become much more price competitive, and these lower prices have spread, as I have mentioned, to all the different market segments. There are fewer and fewer customers that are willing to pay for non-price factors -- things like technical service, on-time delivery, research and development or just having a domestic supplier.

Our customers expect us to meet the low prices of the foreign imports, first and foremost. Then we are also expected to continue to supply the tech service and R&D and delivery that we have always provided. Many of these

customers have been long-term DuPont customers or long-term Celanese customers. We have worked closely with them to help them develop their formulations, customize their processes, et cetera.

However, when they are offered PVA at very low prices, I believe they feel compelled to trial that material, and as a result, we are forced to meet that price in order to retain our business so that we can continue to operate our plants near full capacity; and therefore, our unit costs. This has had a very negative impact on our profitability because it is basically a double hit. We've got lower price, and we are continuing to experience the cost of tech service and R&D, et cetera.

For many years, price was only one of a number of factors involved in a customer's sourcing decision. Our tech service, our delivery, our research and development, and all these non-price factors were very important. And also, crafted with pride in the USA was very important to customers; especially, to the U.S. textile market.

This is no longer the case. By far, the single most important factor is price and then price and then price again. Once we meet the subject import price, these other non-price factors may become a tie breaker in a buying decision by our customer. Our customers have told us, we want to buy from you DuPont. We want to buy from you, but

you have to meet this lower price in order for us to do that. You have to do that.

We have pursued a strategy of meeting foreign producers prices in order to maintain our business. As a result, our prices and our margins have deteriorated significantly. For example, with in the span of two months at three different accounts in the paper industry, I was forced to lower my price by up to 30 percent -- 30 percent just to maintain the business; and I had to continue tech service and R&D. Each of these was as the result of a subject importer's low priced offer.

These subject importers didn't gain a single pound of business from me at those accounts, but I took a serious impact as a result, both in my price and in my profitability. So even though, in some case import volumes may not look like they are going up, it's because of my response in the industry; but I have been seriously injured as a result of that.

I have numerous examples of this, not just in one market segment -- not just a couple of customers. It is pervasive in every single market segment that we serve in the U.S. I think there are really four principal factors that have changed since the onset of the previous dumping order. Basically, we have had, as Bruce Becker referred to, this dramatic rise in raw material prices.

We have Kuraray's global presence in the PVA market. We have had the expiration of the previous dumping order, and we've had a declining economy. With regard to the dramatic increase in raw materials, the major raw materials and utilities for PVA -- it's a very capital-intensive industry, but it's a very energy-intensive industry or natural gas and effane (phonetic). In January and February of 2001, natural gas was four times its historical high. It was running at $10 per million BTU.

As a result, we were experiencing variable costs that I have never seen in my time with the business. These variable costs were significantly higher, and we will provide the precise number in the post-hearing brief, but significantly higher than we have ever seen.

We attempted three price increases over a span of roughly 12 months and were very unsuccessful in each of those increases because we would have faced loss of business if we did not continue to maintain or lower our prices just to retain our business due to the low price offers from subject importers. It is basically just a classic price cost squeeze. We couldn't do anything about it.

With regard to Kuraray, they are now a very global force in the PVA market. They have added significant capacity through their JVN in Singapore and through their acquisition of Clariant plant in Germany. They have an

announced strategy -- a public strategy that we have all had access to where they say their intent is to gain 10 percent of the U.S. market.

They have moved away from their high-price specialty producer role, to an aggressive marketer using low price to gain share in the U.S. Continued expansion by Kuraray, by Nipongo sai and by the Chinese have resulted in over capacity in Asia, which has prompted them to seek markets, such as ours, to unload their excess capacity.

Since expiration of the previous dumping order in May of 2001, we have seen very aggressive pricing action from Kuraray and Nipongo sai. As I mentioned earlier, within months of the expiration of that order, we were forced to respond to several different customers. This resulted in an almost 30 percent reduction in price at multiple customers.

Finally, the declining economy has put tremendous pressure on the price of our customers in making that a determining factor in their sourcing decision for PVA. These changes in economic conditions have resulted in such low margins for the domestic producers of PVA that we can't continue to invest in the PVA business; to continue to offer R&D, tech service, et cetera. Our capital investment now is focused only on basic safety, health, environmental, and whatever it takes to basically keep the plant running.

We are not able to expand, and we are certainly not able to reinvest in new capacity or create new U.S. manufacturing jobs. A multi-business company such as ours or Celanese, we compete, internally, for capital and resources.

If our PVA business doesn't meet certain corporate financial requirements for new investment, then we will not be given that capital. If our PVA business continues as it has in the last year, I think the viability of this business in the United States is in question. Thank you.

MR. GREENWALD: Let us close the direct presentation with a couple of words on threat.

MR. MELTZER: Yes. My name is Ron Meltzer from Wilmer, Cutler and Pickering, representing petitioners. I want to talk about the importance of threat considerations in this case.

Threat is an important concern because, as you have heard, of the significant amount of unused capacity in Asia because of the imbalance of supply and demand in that region, and because of the large amount of new capacity or planned new capacity that has been added in almost every subject country, but threat is also a key issue in this case with respect to the inclusion of Singapore.

As John mentioned earlier, the volume level of imports from Singapore is currently below the de minimus

level. For the second quarter of 2002, it was at about 2 percent. So its below the 3 percent de minimus threshold that you have for accumulation.

However, there are strong grounds to believe that the imports from Singapore will imminently exceed the 3 percent level in the near future. This is because the import volume has sharply increased from 2001 to 2002 second quarter.

It is a sporadic amount. Sometimes its months are very low shipments. Other months are higher shipments, but if you look at the second quarter of 2002 in comparison to the annual of 2001 data, you will see that it went from .6 percent of total imports to 2 percent of total imports.

But more importantly, it's critical for the Commission to understand the PVA production facility that has been built and that exist and that is being expanded in Singapore is owned by Kuraray and Nipongo sai. That is, there is common ownership of PVA production facilities in Japan, in Singapore and in Germany.

In practical commercial terms, as you know, companies export products. Companies engage in dumping, not countries. So here it is virtually certain that if antidumping duty orders are instituted against imports from Japan and imports from Germany, as a result of these investigations, Kuraray and Nipongo sai can, and can easily,

switch their sourcing of PVA to the U.S. from those other sites to production in Singapore.

So obviously, then, without the inclusion of Singapore, in this case, there is a significant potential for a very large loophole in this case. A loophole that the Japanese have, both the capacity and, as you hear for Kuraray the stated intent, to take full advantage of in getting the type of market share that they are seeking in the U.S. market.

Kuraray is very well positioned to increase exports from Singapore. It has a lot experience in making shipments from Asia to the United States, and it has a very significant selling presence in the United States through related-party importers. It knows the U.S. market. It can sell in the U.S. market, and I think you will see from the record in this case, many times customers and also, DuPont and Celanese talk about imports from Kuraray.

They talk about those because the imports from Japan; the imports from Germany; and the imports from Singapore are interchangeable. Many times, they don't know what the origin is. They know that it is a Kuraray project. So it would be easy for Kuraray to switch production to Singapore and increase shipments from that country to source customers in the United States.

So because there is every reason to believe that

imports from Singapore will imminently account for more than 3 percent, the ITC should cumulate imports for Singapore with those of the other four countries. Even if, as we believe the ITC should in this case, find that the other imports constitute a cause of present injury.

The ITC has authority to do this accumulation of Singapore so long as the record can show that there is an overlap of competition between the subject imports from Singapore, the subject imports from other subject countries and the domestic-like product. I think, you will find when you examine the record that there is this extent of competition. This extent of interchangeability and this overlap.

It also has authority, if there is no wide variation in volume and price trends between the subject imports from Singapore and the other subject imports. In this case, I think the record will show that trends are parallel. Imports volumes are moving in the same direction. Pricing trends are moving in the same direction. I think the record will support that.

The threat, as we said, is a very important consideration in this case, not only with respect to Singapore, but also as a general problem facing the domestic industry. Let me give you some sense of the proportion of the problem. As production and demand were dropping in

Asia, producers, nonetheless, in the subject countries were expanding capacity levels. Public records show that, for example, Sichuan Vinylon is adding 15,000 new tons of PVA production due for completion next year.

The Pulvo (phonetic) plant, this joint venture between Nipongo sai and Kuraray in Singapore is adding 20,000 tons. Nipongo sai is adding 50,000 tons, and Kuraray has recently added 4,000 tons in its newly-acquired plant in Germany. Together, these capacity expansion amount to almost 90 million tons, which is about two-thirds of the entire U.S. market.

When you take this amount of unused capacity, and when you add to that the amount of inventory that are available in the subject countries for shipment to the United States, you have an indisputable amount of excess capacity that poses a significant likelihood of increased imports and market penetration in the future.

The same kind of trends exist with respect to the likelihood of future price suppression. I believe that the data in the record will show that the trend in price levels and the extent of underselling and in the aggressive pricing by the subject imports will support, again, the conclusion that there is a significant likelihood of future price suppression going forward. Thank you.

MR. GREENWALD: That concludes our direct

testimony. We are ready to answer any questions you may have.

MR. FEATHERSTONE: Thank you, Mr. Greenwald and the witnesses for your presentations. Mr. Cassise?

MR. CASSISE: Good morning, everyone. Chris Cassise, Office of Investigations.

I have just a couple of questions. The first one being about the import data, and directed just to Mr. Greenwald. In the petition you had stated volume and value of U.S. imports using the official Commerce statistics. However, in a footnote you then state that there may be certain problems with those official statistics.

Now it appears that those discrepancies may be minor, but my question to you is, are you comfortable with the staff using unmodified Commerce statistics to show U.S. imports?

MR. GREENWALD: Yes, is the short answer. The longer answer is you may now have no choice. Obviously, it depends on what you see in the questionnaire responses -- their completeness, et cetera. I would only be able to give you a harder answer after I have looked at what has actually been submitted. But the short answer is we're comfortable with that.

MR. CASSISE: Okay, if that answer changes, then

you can put that in your post-hearing brief. Thank you.

My second question is directed to either Ms. McCord or Mr. Becker, and this is an issue that will probably be revisited. This is an issue from the prior investigation and that is, the difference between the PVA that is internally consumed to make PVB and then the dry PVA that is consumed in the merchant market. If we could get some background information on the differences between these two products. Is there differences in the manufacturing process, aside from just the drying and packaging process? Are there different specifications; different raw materials -- if you could address some of those issues, that would be helpful.

MS. McCORD: I can go ahead and respond to that because we do have some internal consumption. There are -- basically, PVA is PVA. There are slightly different specifications as we product to all the different market segments. For example, textiles may require slightly different specs than adhesives, which would require different specs than the PVB market.

But, for example, when we produce our PVA for the PVB market for our internal consumption, that material is packed out because our PVB plants are located on the East Coast, and our production for PVA is in Texas.

So it's actually packed out in a rail car and

shipped to our downstream product. The raw materials are all exactly the same. The process is the same. The specifications may be a little bit different than they would be for textiles or some other application, but we do use virtually that identical product in sales to, for example, the paper industry.

MR. CASSISE: But that is still wet. You keep it wet? You don't dry it out and ship it.

MS. McCORD: No, it's dried out. It is not wet. It is a finished PVA product when it is put, either in a rail car to go for use at our plants in West Virginia or North Carolina or it is put in a bag, for example, when it's sold to another customer for a different application.

MR. CASSISE: Thank you. I do have one other question. Unfortunately, I think that I risk the chance of revealing business propriety information, so Mr. Greenwald, I will e-mail you the question to be addressed in the post-hearing briefs.

MR. GREENWALD: I am sorry that the dialogue here has to be concaded in this manner. It's just a function of two producers.

MR. CASSISE: No, I understand. I will get that question to you. I have no further questions at this time.

MR. FEATHERSTONE: Ms. Alves?

MS. ALVES: Good morning. Mary Jane Alves of the

General Counsel's office.

As you have already discussed this morning, there are some differences in terms of the scope of the petition in this case as oppose to the earlier case. The petition now includes copolymers, and it also includes products that had been hydrolyzed between 80 and 85 percent.

What impact does the new definition of the scope in this investigation have on the Commission's domestic-like product inquiry. For example, should the Commission examine whether or not copolymers should be a separate domestic-like product. You might want to start with your answer to this question by giving a brief layman's explanation of what copolymers are as oppose to other types of PVA.

MR. GREENWALD: I think, once again, the short answer is, it should have no impact. In fact, your domestic-like product should be co-terminus with the scope for proposes of the subject imports. There are, I believe, clear instances where a copolymer, for example, will compete directly with an imported PVA.

I think we were discussing one yesterday, weren't we. So I can't give you the specifics in public context, but maybe more generally are the DuPont affiliate to address the issue.

MS. McCORD: Actually, we, DuPont, produce copolymers, which we develop specifically to compete other

types of PVA, and copolymers are very often supplied, for example, to the textile market, can be supplied to the adhesives market and go head-to-head with other non-copolymer products in the 80 to 99 percent hydrolysis.

MS. ALVES: Perhaps, in your post-conference brief, you could describe some of the physical characteristics that they have in common and some of the applications that they have in common. Are the same production facilities used to make both, or are there additional processing involved for the copolymers?

MS. McCORD: The exact same production facilities are used to make both, yes. There is just an additive line, which we could draw out for you in the post-conference brief.

MS. ALVES: That might be helpful.

MS. McCORD: But, yes, it's the exact same production facilities.

MS. ALVES: And customers perceive them to be comparable to one other in certain applications as well?

MS. McCORD: Yes.

MS. ALVES: Are there any pricing differences? You may need to comment on that in your post-conference brief. If you could talk about; perhaps, differences in terms of, both production costs and the ultimate prices of these products.

MS. McCORD: I guess I can comment in general that most -- within a segment, it tends to be pretty much, or really PVA prices are pretty much identical across the board. There are differences because it's a copolymer. If it goes into a specific application, then it just goes into a specific application -- whether it's a copolymer or a homopolymer or different viscosities. That is just how it is sold. But we can comment on the costs in a separate write up.

MS. ALVES: Then if you could address similar questions with respect to the 80 to 85 percent hydrolyzed --

MR. BECKER: I would be happy to comment on the hydrolysis levels. Basically, again, during the last petition, Air Products, at that point in time, was the owner of the business and only had the capability -- and frankly, to a degree, commercial interest -- to produce to the 85 percent level.

Since that point in time, there are new uses that have been developed; and concurrent with that, under Celanese's ownership, we have developed the capability in the same equipment, same process to produce down to the lower hydrolysis level. It's as simple as that.

The products are totally interchangeable with import product as well as competitive domestic offerings.

It really is a technology investment -- process technology investment, not an equipment-related activity.

MS. ALVES: Also, just a point of clarification, you indicated in your petition that there was some disagreement with the determination that the Commission made in the last investigation, and your comments this morning echoed that. Can you be particular in where you think the Commission erred with it in their definition of the domestic-like product or the domestic industry?

MR. GREENWALD: In brief, and again, I have to watch what I say because confidentiality, or what we understand to be confidentiality. In brief, the issue is whether or not you have a stream of production from point A to point B, which is uninterrupted, and therefore, while at some point in the process, you could look at that and say, well, isn't that PVA.

In fact, that point is fleeting, and of no commercial significance. To me, to say that a producer of PVB that goes through you could look at -- I'm not seeing the process, so I'm speaking of it as I envision it -- so you could look at a pipe and say, gee, maybe there is PVA up there, but you don't ever deal with it in a commercial sense, or even ad DuPont might.

It's very difficult for me to see how you can say, seriously, that, that is a producer of PVA, but again, in

the most fleeting, and the most technical sense. My disagreement with the Commission's decision is because it seems to be off-centered in a real world application. Now I can speculate on why I think the Commission reached the decision it did, and probably will in the post-conference brief. But what I would urge this Commission to do, and this staff to do, is to focus much more on the -- again, the commercial realities of production processes, et cetera.

MS. ALVES: Not having a background in this particular area, help educate me a little bit. Is it possible, Ms. McCord, for someone to isolate PVA in a liquid form and store it for any length of time? Would that result in chemical degradation; effects on the ultimate products that it could be used for? If I am treading on confidential grounds, and you're not comfortable answering that, that's fine. But it's something that I don't have an understanding of myself, not being familiar with this industry.

MR. GREENWALD: We will give you our understanding of what happens, and what doesn't happen. What can and what can't happen in the post-conference brief.

Again, I've been sort of treading gingerly on this issue. It may be that witnesses this afternoon are perfectly comfortable discussing in great detail what their companies do. In that case, there will be something out there in much harder form that we can respond to. That will

be non-confidential.

MS. ALVES: Thank you. Does anyone else in the United States produce copolymers or some of the newly added hydrolyzed PVA?

MS. McCORD: No, that I am aware of at all. No, just DuPont and Celanese. That's the two producers.

MS. ALVES: Okay. This morning Chris Cassise was asking you about the HTS codes that are involved in this case. Looking simply at the public information from Commerce statistics, and the average unit values of the products coming in from some of the non-subject countries, I was hoping you could clarify for us what the composition may be coming in from the non-subject countries.

And in particular, there seems to be some difference in average unit value. Some of the imports coming in from some of the non-subject countries are very high average unit values in comparison to the subject countries. But there are also other countries, such as, for example, Taiwan, that seem to be coming into the United States with similar average unit values.

As a bit of a follow up to that, if you could identify for us -- Taiwan, obviously, was included in the last case, and it is not included in this case. Is there a difference in terms of the product mix that is coming in from Taiwan or perhaps you could give us a bit of an

explanation of that.

MR. GREENWALD: The Taiwan issue is easy. It's not a product mix issue there. It is a question of us having no evidence of dumping against Taiwan. What we have seen, and what you see in the testimony that Ervin Laub asked us to read, is a view of the major importer of material from Taiwan.

We believe him when he says that he has walked away from business because he has been unwilling to meet the prices of a Sichuan Vinylon or a Kuraray. Our interest here is not sweeping people into a case that are not, in our view the cause of the problem. So in Taiwan you are not dealing with a product mix issue.

In contrast if you look at imports from the U.K., for example, you will see, I believe, very high unit values. We believe that is non-subject merchandise either because of very low hydrolysis or something else.

Yes, in fact, a number of the producers have the capability to go beyond the hydrolysis that, certainly, Celanese has the capability to today to do. Kuraray and Nipongo sai can produce below 80 percent. A producer in the U.K. also produces below 80 percent, and those products will come in at a much higher value. They have a much higher selling price than the products in the 80 to 99 percent plus hydrolysis range.

MS. ALVES: What should the Commission be looking at in terms of non-subject imports then, to the extent that there maybe imports that are not within the scope of this investigation coming in under some of these other countries under the same HTS code. Perhaps, in your post-conference brief, you might be able to give us an estimate of the percentages coming in from some of those other countries or some other way of measuring?

MR. GREENWALD: What we will do is try and give you our best estimate of subject/non-subject on a country-by-country basis.

MS. ALVES: Okay.

MR. GREENWALD: When I say subject/non-subject, I mean subject merchandise/non-subject merchandise from each of these countries.

MS. ALVES: Thank you. That's what I am also trying to get to. In your view, Mr. Greenwald or Mr. Meltzer, what is the legal significance of the automatic revocation of the dumping orders in this case? Also, are there any cases that you would recommend that the Commission look to involving similar situations or in other situations.

MR. GREENWALD: In our view, it should have no legal significance. I'm trying to recall a cause that I was involved in where I think that was the -- it certainly was not a legal issue. I believe magnesium for Russia, China

and the Ukraine, maybe.

MS. ALVES: Israel?

MR. GREENWALD: Israel -- that's right. There was an earlier titanium -- I'm sorry, magnesium case. As far as our clients went, they were the Russians. The Commerce Department got it right. There wasn't any dumping. So we didn't really participate much in the ITC determination. But that is the one case that springs to mind. And honestly, I don't recall -- I can't imagine the statutory issue. I don't recall the Commission doing anything other than addressing the facts as they existed during any new period of investigation.

So again, the short answer is I don't think there is any legal significance.

MS. ALVES: There has been some mention, both this morning and in the petition, about the capital-intensive nature of this industry. Without speaking to a specific producer, but more towards producers in general in this industry -- not only the United States, but also the subject or on-subject countries, what ability do producers have if prices, for example, in PVA are low, to instead focus their efforts on their BAM production or to produce PVB or other types of products?

MS. McCORD: Well, PVA is a raw material for PVB, but you will produce it and then, lower it downstream; but

it would depend on whether or not -- what the market is for PVB, and also, what your capacity is to produce PVB as to whether or not you would shift more in that direction.

With regard to BAM, we, DuPont, run our facilities as close to capacity as we can to minimize the unit cost. So there is only so much BAM we can make, and then, you are out of capacity. So you're either going to sell that or you are just going to convert it to PVA.

But if we are not converting it to PVA, we are going to have a very, very significant asset that is not running. So the unit cost for whatever PVA we are producing, obviously, get considerably higher.

MR. GREENWALD: If I can try and put your question, and Katherine's response, in more of a traditional context, there is, obviously, a lot of capital that is devoted to the production of BAM. There is also a lot of capital that is devoted to the production of PVA.

MS. ALVES: I think that's where I'm headed.

MR. GREENWALD: So you can't shutdown the PVA side and simply switch to BAM production without taking a very large financial hit because of an idle asset.

On the PVB side of the equation, the issue is simply what are PVB prices relative to PVA, and what is PVB demand.

MS. ALVES: Is the equipment that is used to

manufacture PVB also very capital-intensive? Does it also need to be operated a fairly high capacity utilization levels, for example.

MS. McCORD: Yes. If it can be, yes. Again, these facilities are located in completely -- across the country from one another.

MR. BECKER: Just one other point of clarification. The polyvinyl alcohol production facilities, and the case of Celanese, there are two. And the mono-acetate monomer facilities are separate and distinct facilities. They are not integrated.

In fact, they are dedicated facilities. You can't shift the production of those facilities to produce another chemical. So if you don't have the demand on polyvinyl alcohol, you either run at reduced rates or you shut the facility down.

MS. ALVES: Is that the case globally as well that PVA production facilities can only be used to produce PVA?

MR. BECKER: At this point in time, that would be my understanding.

MS. ALVES: The final question I have for you is something I would like for you to address in your post-conference brief, and it's whether or not you believe that there are any domestic producers who are related parties. That is, that they are importing or purchasing

significant quantities from a particular importer. If so, whether or not there are appropriate circumstances to exclude any of those producers from the domestic industry.

MR. GREENWALD: We will do that.

MS. ALVES: Thank you. That's all I have at this time.

MR. FEATHERSTONE: Thank you. Ms. Preece?

MS. PREECE: I am going to try to be asking questions, and they are from a little different standpoint. I'm trying to get a general feel for this industry. I am feeling a little discombobulated still, and not clear as to how things are done. So if you can answer here in sort of a general way. You don't have to give away any secrets. I don't want them.

Maybe you want to put them in the brief if they help, but basically, a general -- I am trying to get a general understanding of the industry.

We have all these PVA things that are used in different ways. Are they priced -- if you are using PVA, say, for textiles, is that going to be priced different from the PVA you're going to use to make PVB?

And if so, what are you doing differently that is going to change the price? Is it that you are putting it in different inputs -- different time in the machine? What's the difference.

MS. McCORD: There has been, basically, a migration of the prices of PVA in textiles, which for a long time was a lower-priced segment because in some respects the demands for the product were less than perhaps in some of the other segments. But those prices have migrated throughout the different segments in the PVA markets.

So now you may have a little different price at one account in textiles than at this account in adhesive, but they are all coming to the same low price based on the competitive activity from the subject imports.

Again, there are different specifications within a segment for different grades, but it's all, in essence, PVA. So we have seen that price migrate down across all the segments.

MR. BECKER: One of the key differences in pricing between the segments that still exist today is a function of how much technical service, application assistance that is required in the relative customer's formulations. Of course, it costs money to provide those services, and they are passed through in terms of higher cost for product in those cases where that is required. So that is one of the determinates in terms of the variability of the pricing between the relative segments.

MS. PREECE: So what you are saying is it's research and development. There is a difference between the

price of textiles versus the price of PVA for PVB, is that the main difference?

MR. BECKER: Research and development -- not really research and development because that is more product focused and looking to future products. What I'm talking about is applications development and technical service. Technical service is really helping the customers use the existing products in their formulation. So using it in their formulations, rather than developing new products, to provide benefits for the customer.

MS. PREECE: So it's skilled labor would be the difference? So it's not something that's in the machines. It's not that you are throwing out the -- you want it to be more homogeneous, so you're throwing out more stuff or something?

MR. GREENWALD: There are difference in product. Let me let you in on a conversation without revealing any names that we had yesterday, where a domestic producer has lost almost all of its position at an account because of price.

At that account, this domestic producer still sells a particular low-volume grade at a significantly higher price than the price at which this customer purchases the bulk of its material. Why is that? It could be that there is a qualification requirement for that particular end

use. It could be that there is a particular application that needs a particular twist on the formulation.

There is a concept, which I am hesitant to throw out, but I think probably goes further to explaining this, or at least as far, than costs issues would, which is value in use. In the textile industry it maybe viewed as much more of a commodity--type product.

In another sector, or certainly, in applications within that sector, there maybe particular twists that allow a product made to a particular specification to be sold at a higher price than a more commodity grade product. To give you an illustration of the interplay between technology, production process and again, essentially, value and use.

Were you all involved in the windshields case? PVB is used in windshield. It's got to be clear, and it can't distort any vision. So there are requirements for PVA to be used in PVB that are different, as I understand it.

I am no expert in this, but as I understand it, that are different from the requirements of a PVA used in a textile application -- clarity, again, is an easy illustration.

I have not looked over the data, but my guess is that there is a premium that is attached to PVA that meets this particular specification. My guess, also, is that as the market for PVA drops as a producer of PVB knows that

prices are dropping, generally, there is strong downward pressure on the price of PVA for use in PVB processing. So that's the dynamic at work. That is a concrete illustration.

There is a second element in the dynamic here. Kathy explained the importance of the migration of pricing across the different market segments, but there is another phenomenon, which the erosion of the importance of tech services in this environment. Sure, domestic producers, like any producers, want to be able to provide technical services to help their customers make maximum application of their product and to get the best value out of that product.

But I think what Celanese and DuPont has been finding in this environment is that it is tough to be able to get price premiums for those technical services when they're facing price gaps of significance between their products and the subject imports. So there is the element of technical services. It still applies in some of the segments within the market, but that is eroding over time in this kind of competitive environment.

MS. PREECE: Okay, I think we've talked a lot more on this than I wanted. It has gone in a direct that I really -- we'll see the prices with the price data. Really, what I am interested in is why would there be differences; but we have talked about that. So we're fine.

Now if you are running this plant, which you are, and you run PVA for one purpose and then you have to change the hydrolysis or the density or whatever it is, and run PVA for another purpose, what happens?

You are running a continuous line, do you just sort of -- is there a period where there is sort of a mix or can you have one instance you're going one type and another instance you're going another type. What is happening there?

Do you close the plant to change between -- how do you make those shifts and what happens at the time that you're shifting it? How much of that stuff is somewhere between the two that you're making?

MS. McCORD: I am sure Bruce can probably respond, too, because our processes are slightly different; but yes, when you produce -- if we are changing grades from one grade to another -- and again, some of these grades do cross over and can be used in adhesives as well as textiles or in paper as well as PVB.

But as you're changing over, what you will get some of what we would refer to as transition material. We try to minimize that transition material, but for the most part we have found customers that are able to use that transition material.

As our processes have improved and as our quality

controllers continue to improve, we get less and less of this material all the time, and the material is such that you are able to use it in what I would refer to as first quality applications.

So there isn't -- it's not like you have to shut the plant down and then start another grade up. You do it on the fly. It's a continuous operation.

MR. BECKER: Yes, I think that is a very adequate explanation. I mean, these are continuous campaign facilities. We run campaign to campaign. You do what you can in your production process to match your transitions properly so, as Kathy said, you have very little of this transition material.

MS. PREECE: That's really a question just trying to lead me up to what capacity utilization you expect -- I mean, what is the ultimate capacity utilization if you have holidays. I don't know how these plants are working, but I see chemical plants working 24-hours a day, seven days a week. But is 100 percent what you're really looking for or is it 97 percent. What kind of capacity utilization is what you think is going to be the most profitable and reasonable for your facilities in general terms?

MR. BECKER: Very simply, we're driving toward what we call "entitlement." I don't know if you are familiar with the 6 syma process, but we are driving toward

entitlement and entitlement is 100 percent capacity utilization. We are doing everything in our process to drive toward that objective.

MS. McCORD: The plant does operate, basically, 365 days a year, 24 hours a day. But what happens is we, DuPont, will take what I would call, roughly, an annual shutdown, and that may not be every 12 months -- maybe it's very 14 months or something, but, roughly, on an annual basis where you shut the entire operation down. Nothing is produced and you do your maintenance that you need to do. You do that annual maintenance. So other than that, we would expect to be running as Bruce described all the time.

MS. PREECE: If you can, when you do your briefs, can you give me what the capacity utilization that you are providing in the data to us, and then, compare that to what happens when you have -- the factory is down for one week a year. Is that 100 percent in one or is it in the other? Where is that?

Otherwise, I'm saying, okay, their capacity utilization is 52 percent, and they want to have it at -- well, 99 percent is the real reasonable capacity utilization. This is just to fill in my little blanks so that it makes a coherent argument. I am not trying to pull you out anywhere.

In a similar way, what is your ideal inventory

level -- your producing all these different things. You are going through, saying, okay, we will produce this one. And the next one that's the logical one to produce after that is "X." So in order to have these things, and be able to sell them as they are demanded, there must be some inventory level. Again, that's probably not public information. I'm happy to have that propriety.

Do you export the same products you sell in the United States?

MS. McCORD: With regard to the inventory question, yes, that would be propriety. So we will respond to that in our post-conference brief. With regard to export, again, we view ourselves as a domestic producer and a domestic supplier and our major strategy is to supply the domestic market. The exports that we do sell are, basically, what I would call on an opportunistic basis. That means that if I can't sell them in the U.S., and I can't sell them as a result of low-priced imports having taken business, then I will sell them overseas.

The bulk of the material that goes overseas would be -- is basically the same as what is sold here. It may be more specific to one industry segment than another, such as, for example, textiles.

MR. BECKER: We export our products worldwide, and they are the same products.

MS. PREECE: You have talked briefly about some of the reasons why people might prefer U.S. product, including the tech support. Other things that have come up in lots of cases are lead time, security supplies. And you've also said that the imports have driven down your price.

Now that's perfectly -- I mean, I understand that, but given the benefits of buying from U.S. producers, a lot of the time there is some sort of price premium that people are willing to pay. The fact that imports are driving down your prices is completely relevant of this.

This is just to say, okay, I can get 2 percent more than the importer because they want to buy from me because I give tech support or because I give this or I give that. So if you can briefly say what you can provide that maybe superior to the imports, and then, what kind of price premiums because I'm not interested in the price level. I'm only interest in the price premium.

MS. McCORD: We did use to get premiums for being able to supply that, but now that price has become really the single most important factor in a buying decision of most customers, we rarely see a premium versus subject imports. We rarely see that. That's used, I believe, in the tie breaking decision. If I can meet that price, then they will give me the business because they want the tech service. They want these other things, but they won't pay

any more -- not everyone, but for the most part, will not pay any more for that tech service. They will not pay a premium.

MR. BECKER: I think the harsh reality is, is that our customers are under as much pressure as we are. And unfortunately, can't afford to pay a premium for products like maybe they were in better and healthier times. So I agree with Kathy.

The bottom line is maybe it's a tie breaker in terms of our ability to secure the business. But we've got to be at the levels offered -- at the lowest levels offered because that's the motivation and the driver for their business decisions as well.

So basically these services don't have any real value to your customers that aren't willing to pay for them.

I mean, that would be what an economist would say. They don't have any real value, because otherwise, they'd be willing to pay for them. Is that what you're saying?

MR. GREENWALD: I don't want to put words in Ms. McCord's mouth. What she said was not all of the customers are willing to pay for tech services, view the value of tech services, or are willing to pay a premium. There are some that still do. Again, we can't go into details; we can't go into specifics.

MS. MCCORD: It's the tiebreaker. So if I can get the business and keep my plant running and minimize my unit costs by keeping it running closer to full capacity, but I have to meet that lower price.

MS. PREECE: Why has worldwide demand fallen? I mean, I understand the U.S., with textiles moving abroad; but people are still buying PVA, I would assume, to do the textiles. So that would be merely a shift. What's happened; why is it that the worldwide demand has fallen?

MS. MCCORD: I believe it's basically just a slowdown in the overall worldwide economy. So everyone has kind of hunkered down, and there is just less demand for everything.

MS. PREECE: I don't have any more questions;

thank you.

MR. FEATHERSTONE: Mr. Yost?

MR. YOST: Charles Yost, Office of Investigations -- I do have a couple of questions. First, I'd like to thank you for your appearance here today, as well as for the help the various companies have given me, thus far.

What I've noticed in the aggregated data is an increase in the category of "other factory costs." And I'd like to ask you, in your post-conference brief, to address that increase, the reason or reasons for the increase between 2000 and 2001.

Specifically, in 2001, there was an increase in that category, and that's on the basis of dollar value, as well as percentage and unit value; as well as to fill in a couple of the gaps in the other information that I've already requested directly from the companies.

So thank you very much. I don't think we need to get into that question right here.

MR. FEATHERSTONE: Mr. Deyman?

MR. DEYMAN: Good morning, I'm George Deyman, Office of Investigations.

The public version of the petition, Volume 2, Exhibits I-1 and I-2, presents press clippings indicating that Celanese and Dupont were going to increase their PVA prices in the United States by five cents per pound,

effective June 1st and June 15th, respectively.

Did you, indeed, increase prices on or about those dates? Were the price increases across the board, if they occurred; and have the price increase stuck?

MR. BECKER: We tried, and the price increases did not stick.

MS. MCCORD: That's correct.

MR. DEYMAN: So you attempted to increase prices across the board on all your PVA products, but the prices did not stick? Is that correct?

MR. BECKER: Yes.

MR. DEYMAN: On examining the official import statistics on PVA, I noticed that there are substantial differences in the unit values among the imports of the subject countries. Do the differences in the units values reflect any product mix differences; and if so, what does this mean for the Commission's cumulative decision?

MR. GREENWALD: They do affect -- they are driven by, we believe, product mix differentials.

In the case of Japan, in particular, we believe that the average unit value data is misleading to the extent that it is materially affected by what we believe to be small values of very high spec, high price material.

For purposes of your cumulative data, however, I think you will see in questionnaire responses, as they are

submitted, that there is a substantial overlap of competition.

That is, if I can go back to the example of Japan, a very small volume of the total has a disproportionate shift on the average price which masks a substantial overlap in the bulk volume, in volume terms, of the material shipped in and overlapped with material from other countries.

MR. DEYMAN: But it is your contention, of course, that the imports from each of the five countries are cumulatable, or whatever the words is -- that they should be cumulated --

MR. GREENWALD: They must be cumulated.

MR. DEYMAN: -- because the product differences are not substantial.

MR. GREENWALD: No, that's absolutely right. Again, the great bulk of imports from all subject countries compete with one another and compete with the domestic product.

MR. DEYMAN: All right, I have no further questions. I would like the other two members of your panel to identify themselves, their names and their titles, just for the record.

MR. WELCH: I'm Jack Welch, and I'm the Vice President of the Vinyls Enterprise at Dupont. I have these businesses, plus the PVB business in Dupont.

MR. MANDRONA: Yes, Bill Mandrona, Marketing Manager, Polyvinyl Alcohol, with Celanese.

MR. DEYMAN: Thank you; I have no further questions.

MR. FEATHERSTONE: Ms. Alves?

MS. ALVES: You had indicated in your testimony today that you would give us some additional information about the composition of the imports coming in from the various countries, including the non-subject countries.

Could you also comment, as well, either or in your post-conference briefs, on the level of competition between the non-subject imports, the domestic like product, and the subject imports, as well?

MR. GREENWALD: Yes, if we may, there are some proprietary issues that enter there. We would do that in detail in the post-conference brief, if that's acceptable.

MS. ALVES: That's fine; thank you.

MR. FEATHERSTONE: And Mr. Greenwald, in your response to Mr. Deyman's questions about the product mix within the official statistics, I guess, that was all in the context of subject merchandise, though, right?

MR. GREENWALD: Well, yes -- yes, but -- and the "but" is, there may be some below the hydrolase level, coming in from Japan, in particular.

MR. FEATHERSTONE: Right.

MR. GREENWALD: So the Japan data may actually reflect non-subject merchandise, as well.

MR. FEATHERSTONE: And that would be relevant to our use of official statistics, and perhaps also, your imports from U.K. So to the extent you have any help on that issue, that would be appreciated, also.

MR. GREENWALD: We will do our best on that.

MR. FEATHERSTONE: And I think, to the extent those producers are present, they may be able to provide their export data to us.

Just a couple of real quick notes on the capacity questions that you were going to provide additional information on -- if you keep in mind our definitions in the questionnaires, when you report them, things like scheduled maintenance are supposed to be netted out to begin with -- okay, you understand that.

And then there was some discussion, Mr. Becker, on your company's adding, I guess, the lower hydrolyses level products. We didn't hear anything from Dupont on that, and if it's proprietary, please don't add anything. But I was just wondering whether you also had expanded into that lower area or not.

Well, we thank you again for your presentations and answers to the staff's questions. We'll take a ten minute break, I guess, and resume by the clock in the back

of the room at 10 minutes after 11:00. Thank you very much.

(Whereupon, a brief recess was taken.)

MR. FEATHERSTONE: Could we resume the conference, please?

Welcome to this panel. Mr. Cannon, please proceed.

MR. CANNON: Thank you; on behalf of Solutia, our presentation will be made first by Glenn Ruskin.

MR. RUSKIN: Good morning, my name is Glenn Ruskin, and I'm Vice President of Public Affairs, which includes external affairs, government affairs, and regulatory affairs for Solutia.

Thank you for permitting us to be here this morning. Solutia is appearing to oppose the anti-dumping petition submitted by Celanese and Dupont with the U.S. Department of Commerce.

I'll start off with, contrary to and with all due respect to our industry colleagues, there is a big difference between PVA quality. So it's not all the same.

This is a thumbnail. Solutia was created in 1997. We were spun off from Monsanto Company. We took the specialty chemical business with us. We're about a $3 billion international company, and we've got about 9,000 employees.

Our opposition against the position is basically

predicated upon three points. First, Solutia is both a domestic manufacturer and consumer of polyvinyl alcohol. Secondly, the grade of PVA that Solutia manufacturers and purchases is of a unique quality, and in Commission parlance, a separate like product.

We use our PVA to manufacture polyvinyl butyryl and until I joined Solutia, I would never have had an idea of what that was. So I brought a sample with me.

We make this flexible durable sheet, that I'll be happy to pass down there. That is then pressed between two panes of glass, so that sheet is in between the panes of glass, and you can see that it becomes perfectly clear. In short, there are dozens of grades of PVA, and we need a very unique high quality to make that type of laminated glass.

Thirdly, any injuries suffered by Dupont and Celanese, at least in the PVB market, cannot be attributed to imports. There are no commercial imports of PVA for use in polyvinyl butyryl production.

The depression of prices, in our opinion, in the PVB market and the negative impact on all of our operating margins, are largely resulting from the auto industry. Auto makers leverage their stupendous buying and sourcing power, and have been relentless in their pressure on suppliers to lower the cost of their goods.

Let me elaborate on Solutia's use of polyvinyl

butyryl, as it has tremendous safety, security, and energy attributes, which I think underscores the requirements for a very unique and specific type of PVA that we need to make our product.

First of, laminated glass windshields were Federally mandated decades ago as a safety requirement, and generally it is now universally accepted as the standard in automotive production.

The PVB in windshields must be strong enough to resist a passenger ejection, something going through that windshield, or a rock hitting it and cracking the window.

But it also has to be flexible enough to give, so that if somebody is unfortunate enough to be propelled into the windshield, it won't result in severe head or other bodily injuries. So it's meant to retain you in the vehicle. Worldwide, we're a leading provider of PVB for windshields.

Secondly, the National Highway Traffic Safety Administration is currently considering a rulemaking, where they're going to evaluate proposing a rulemaking for occupant retention for side and rear windows.

They are looking at the attributes that the windshield provides to safety in a vehicle, and they are also now going to consider a rulemaking to performance standards for side and rear windows of vehicles. We think

that that rule could greatly expand the market for certain grades of PVB, and therefore, PVA.

Other applications for PVB include laminated glass in building construction, and certainly, architectural glass imparts many energy saving attributes. But laminated glass and building construction imparts a far more important attribute, and that is added safety in the event of a bomb blast attack.

Given the horrific events of 9/11, much greater attention has been focused on the use of laminated glass in building construction.

After the 1998 bombings of U.S. embassies in Nairobi and Dar es Salaam, the U.S. State Department consulted with Solutia about using laminated glass in all new embassy construction and major renovations, and that has been put into practice.

The lessons learned was that the majority of deaths and injuries in those African bombings were largely attributable to thousands of flying shards of glass, that reigned down from the buildings as a result of the explosion.

Additionally, we're very proud of the fact that our PVB inter-layer is being used in the re-encasement of the U.S. Constitution, the Declaration of Independence, and the Bill of Rights, by the National Archives. They need a

very high quality PVB and specialized glass, that's being used in those cases, which are designed to last 100 years.

As you can appreciate, however, to produce optically clear laminated glass, the PBV must be perfectly clear. Meeting such standards requires PVA that is manufactured to extraordinarily tight specifications.

For this reason, the PVA used in manufacturing PVB is a unique product, and a separate like product, as that term is applied in this case. With that, I'd like to now turn the floor over to Mark Gold.

MR. GOLD: Good morning, my name is Mark Gold. The past 25 years, I've worked in the polyvinyl alcohol (PVA) and polyvinyl butyryl (PVB) business for Monsanto and now Solutia.

In the 1996 anti-dumping investigation I appeared before the Commission as a manager of Monsanto. Today, I again appear, now on behalf of Solutia, to address the product and market segments in which PVB grade material was used.

Glenn identified the quality and safety requirements imposed by our customers, as well as Government regulations, codes, and standards. We'll submit the specifications for the PVA that's used to manufacture PVB in our brief to the Commission.

The major factor distinguishing PVB grade material

is the extremely low ash content, because ash interferes with the ability of PVB to adhere to glass.

In addition, PVB grade material must have a low resin color, to meet the demanding optical perfection requirements of PVB for glazing inter-layer applications.

Unique chemical characteristics of PVB grade polyvinyl alcohol are not easy to achieve. As a PVB producer, Solutia must subject PVA to rigorous testing.

Starting with no less than 10 tons of test material per iteration -- and we usually require four to six iterations -- we use the polyvinyl alcohol to produce qualification quantities of PVB sheet.

This sheet, fabricated into windshields, must then follow the rigorous pre-production approval process required by automobile suppliers, prior to their approval of this alternate PVA supply.

During this process, the windshields undergo up to two years of testing, and then we perform these tests for every grade of PVB we make.

You can appreciate that in order to qualify an alternate PVA supplier, we make a substantial investment, purchasing a large quantity of PVA, interrupting our commercial production, and conducting the tests ourselves.

Currently, there are only a handful of multi-national PVA producers that are capable and qualified to

produce PVB grade material. For these reasons, the Commission should find that PVB grade PVA is a distinct like product.

Next, I'd like to address the conditions of competition in our market segment. It will be obvious from the record that imports have not had any impact on the U.S. market for PVB grade PVA.

There simply have not been any imports of PVB grade material, except for testing. Our imports for testing were not sufficient to even complete the qualification process.

According to a 1999 study by SRI International, the PVB market is "the fastest growing market for PVA in the United States." It's also the largest market for PVA, accounting for $100 million pounds per year.

When I was here in 1996, Air Products was then operating a relatively new PVB plant in Pasadena, Texas, that they built in response to the projected growth of the PVB industry.

Although PVB consumption has grown since that plant was built, it did not grow enough to fully utilize that plant's capacity. Celanese has purchased and now operates that plant.

Well documented price pressure from the automotive industry squeezes profit margins on PVB, and inevitably

forces PVA producers to reduce margins on PVA.

Dupont and Celanese unquestionably face the same pressures that we do, as part of the automotive supply chain; and because no imports supply PVB to this business, imports cannot be a cause for any downward trend in industry performance; at least not in the PVB sector.

At the same time, all PVA and PVB producers have experienced high and increasing energy and raw material costs. As you heard this morning, the price of vinyl acetate monomer, the key raw material in PVA, is directly related to the cost of natural gas.

At the same time, pressure on PVB prices by the world's automobile manufacturers does not permit us to recoup our PVB cost increases.

In short, we have a great deal of sympathy for Celanese and Dupont, because we participate in the same industry, and face an even greater impact of the economic conditions and market forces.

However, at least with respect to the 100 million pounds of PVA used to make PVB, declining performance cannot be attributed to imports.

We also believe that in markets other than the PVB market segment, Petitioner's performance cannot be attributed entirely to imports.

Celanese and Dupont are both exporters of PVA.

U.S. export statistics show that exports from the United States amounted to 70 million pounds in 2002.

PVA exports to Brazil were at 63 cents per pound in the first six months of this year. U.S. exports of PVA to Korea were at 64 cents a pound, and exports to Taiwan were at 62 cents per pound. Even exports to Germany averaged 73 cents a pound.

These U.S. exports are the production of Dupont and Celanese. They are far lower than the average price of Japanese imports, at $1.22 per pound; and the average price of German imports, at 95 cents a pound.

We raise this issue because the Commission should consider that the poor prices in export markets, as well as price pressures in the PVB market, are entirely unrelated to dumped imports.

The Commission, for these reasons, should not attribute the performance of Celanese and Dupont to U.S. imports.

Thank you for your attention.

MR. CANNON: That concludes Solutia's direct presentation.

MR. FEATHERSTONE: Thank you.

MR. WALDERS: Thank you, Mr. Featherstone; for the record, I'm Lawrence Walders of the law firm of Sidley, Austin, Brown & Wood. With me are Maria DeJulian and

Jennifer Halworth-McCandliss, of Sidley, Austin; and Bruce Malashevich of Economic Consulting Services.

We're appearing on behalf of all of the Japanese producers and exporters of PVA in this preliminary injury investigation.

Mr. Malashevich will present our economic testimony, and he will be followed by Shannon Grossman of Oxy Vinyl, a company that is a major purchaser of Japanese PVA.

Our time is limited, and there are many who wish to speak on the Respondent's side. So I'd just like to make two points, and then turn the microphone over to Mr. Malashevich and Ms. Grossman.

The first point is causation. The courts have made it very clear -- the Court of Appeals for the Federal Circuit, and also WTO panels -- that the Commission has to find a direct causal link between imports and injury, or threat of injury.

In doing so, the Commission has to examine all of the factors that are present in the market, and that includes non-subject imports.

There's one major player that missing from this proceeding, that was a very big factor in the previous case, and that is Taiwan.

Now when Mr. Greenwald was asked about this, in

his testimony, he forgot to point out that Dupont is a major importer and seller of the polyvinyl alcohol that is produced in Taiwan, to Dupont's specifications, and sold in Dupont bags.

I have here a sample, which is polyvinyl alcohol, sold by Dupont. And it says at the bottom, "made to Dupont specifications in Taiwan."

Now that is a factor that is important in this case. It's a factor the Commission has to consider in deciding if there is injury, where does it come from, and to what extent is Taiwan, selling through Dupont, a cause of the injury that has been alleged today?

Mr. Malashevich's testimony will demonstrate that considering imports as a whole, there is no basis for a finding of causation. But in addition to that, it's important to know that these imports are not a single, undifferentiated mass of product, all of which competes with everything else, as was asserted this morning.

There are many specialized grades, particularly imported from Japan. Domestic producers do not manufacture these grades. The Commission should not, in making its causation analysis, treat these specialized grades as being a cause of injury, when the product is not even manufactured here.

The second point I'd like to discuss briefly is

negligibility. We believe the law requires the Commission to terminate this investigation now with respect to Singapore, because those imports are negligible, and there is no imminent threat that they will exceed the negligibility level.

Imports from Singapore have consistently been below three percent, and there's no reason on this record and no evidence has been submitted, other than conjecture, for the Commission to conclude that they are imminently likely to exceed three percent.

This issue is considered legally in the context of a threat analysis. And as we know in the case of threat, the threat of injury must be real, it must be imminent, and it cannot be based on mere supposition or conjecture. However, that is all that you have been provided by the Petitioners; supposition and conjecture, not fact.

Petitioners claim that if an anti-dumping order is imposed on imports from other countries, then the imports from Singapore will surge into the market to fill the gap. Well, first of all, there is no dumping order now, and we trust there never will be one.

But even if an order is imposed, it probably won't happen for at least a year. That's hardly something that is imminent in the imminent future.

And in any case, there is no evidence that a surge

in imports from Singapore is imminent, likely, or even possible. Singapore was a negligible factor in the American market, when the previous anti-dumping order was in place. It continued to be a negligible factor when the order was revoked.

By the way, it was revoked with the permission of the domestic producers, who did not take the trouble to get it extended.

The plant was established in Singapore to supply the Asian market, and the vast majority of Singapore's exports have been directed at the Asian market.

The Asian market did go into a slump; but that slump is over, and there is now tremendous growth in that market. The recent data on Singapore exports, which we will provide in our post-conference brief, demonstrates that they are not running at a record level in Asia.

Furthermore, the Singapore plant would not have had the capacity to supply a surge of imports into the United States, if an order were issued on other countries. The plant is operating at nearly full capacity now, and it's capacity will remain at this level for several years to come.

The law, as I said, requires evidence of a real and imminent threat. There is no such evidence in this case. Therefore, the investigation regarding Singapore

should be terminated now. Thank you.

MR. MALASHEVICH: Good morning, Mr. Chairman, I'm Bruce Malashevich from Economic Consulting Services.

I'd like to start with just a few simple facts. The last anti-dumping case brought by this industry was initiated seven years ago against imports of PVA from Japan, Taiwan, China, and Korea, and resulted in orders against all countries, other than Korea.

On September 29th, 2000, shortly before those orders were due for sunset review, Petitioner Celanese, nonetheless, paid $326 million to acquire Air Products' PVA assets.

That sum did not reflect a distressed sale. Rather, it resulting from a bidding war for Air Products with Kuraray, and the final purchase price was $120 million in excess of Air Products' book value.

Less than seven months later, on April 17th, 2000, the Petitioners in this investigation, Celanese and Dupont, allowed the 1996 orders to expire without a sunset review. Excuse me, that was April 17th, 2001.

Consequently, the order was revoked on May 3rd, 2001. Celanese, which is believed to be the U.S. producer most dependent on sales in the merchant market, obviously was not discouraged by the approaching sunset review when purchasing Air Products' PVA business.

It would have cost little to participate in the sunset review, and preserve the existing orders for another year or so, at least. But Celanese chose to let the orders expire, notwithstanding having made a major investment in Air Products.

Now only 16 months later, it has joined with Dupont to file a new petition, aimed at the same countries as before, excepting Taiwan, for reasons Mr. Walders indicated, plus Germany and Singapore. During the POI, Taiwan was the single largest of imports of PVA.

These facts should cause the Commission to question Petitioners' overall credibility in bringing this new investigation. In any event, should the Commission look further, it will find no evidence of significant volume effects attributable to subject imports in the 16 months since Petitioners expressed no interest in retaining the previous orders.

Petitioners assert the subject imports "surged" in response to revocation of the U.S. anti-dumping order on May 3rd, 2001. Facts show otherwise. Please see Exhibit 1 before you.

China and Japan are the only currently subject countries, that were also subject to the anti-dumping order that was revoked in May.

Imports from these countries accounted for 74

percent of currently subject imports in 2001. Their trend during the year following revocation was distinctly downward; the only exception being the second quarter of this year.

To the extent that this single quarter might demonstrate a surge, Exhibit 1 also shows the peak was well below previous peaks in the third quarter of 2000 and the first quarter of 1998, during which times the old anti-dumping order was still in effect. A change in one quarter does not signal a trend in this industry.

Please turn to Exhibit 2. It shows that subject imports generally over the POI, in fact, behave very similarly to imports from Taiwan, which are largely controlled by Dupont, and presumably reflect what Petitioner might call natural market forces.

The petition claims volume effects because imports fell less than did U.S. shipments and, consequently, gained the market share allegedly at the domestic industry's expense.

But that, too, is not the case. Only two U.S. producers serve the merchant market, in which subject imports are present. Their product range is very limited and confined to the low end PVA applications.

Dupont primarily sells fully hydrolyzed PVA, with the hydrolysis between 97 and 100 percent. Sales are

largely confined to textile applications, which is the most price sensitive among all applications. It relies on imports from Taiwan and perhaps elsewhere to supplement its narrow range of product offerings.

Celanese's product range is somewhat greater, with products down to the mid-80 percent hydrolysis. It, too, is at least partially dependent on price-sensitive textile applications.

By contrast, many subject imports from Japan are specialty products, with the percentages of hydrolysis below 85. These products are not produced by the domestic industry. They carry much higher unit prices and are sold into entirely different applications; such as, in the manufacture of PVC and specialized printing plates. Imports from Japan also include certain co-polymers, not available from U.S. producers.

Demand trends are also different. You heard that from the witness from Dupont this morning. It is well known that PVA demand in the textile industry has fallen recently, because of declining U.S production of textiles and closures of mills.

That trend would tend to hurt Dupont and Celanese; but the demand for Japan products is much more steady. Therefore, it could be that shipments of U.S. PVA have declined faster than subject imports from Japan. But that

is because they largely serve different applications, with different rates of growth. Any displacement would be very limited.

Petitioners' allegations of price suppression and depression also are misplaced. The petition claims the deterioration in the domestic industry's profitability in 2000/2001 was caused mainly by the price increase in raw materials; principally, VAM and acidic acid, which account for more than 50 percent of manufacturing costs.

This price increase for VAM was a worldwide phenomenon. Over the long term, the price of PVA would tend to be driven by the price of VAM. But the price of VAM is much more volatile than the price of PVA.

VAM is an intermediate product, sold to chemical producers; whereas, PVA is a finished product, sold to a variety of end users.

It is naturally difficult for PVA producers to increase VAM prices, due to the market conditions faced by the various end users in the short term. But as the world price of VAM declined later in the POI, PVA profitability naturally improved.

In any event, it's important for the Commission to understand that Petitioners benefit, regardless of the relative prices of VAM and PVA, because they are producers of both.

Celanese is world's largest producer of VAM, and is regarded as the price leader, worldwide. Celanese, thus, can manipulate the balance of profits between the PVA business and its acidic acid and VAM business. That is, high VAM prices that might penalize PVA, temporarily, at least, produce offsetting higher profits in the VAM business.

The performance of Celanese's operations might best be assessed from the viewpoint of the whole acidyl business unit; that is, acidic acid, VAM, and PVA. I direct you to Celanese's latest annual report, indicating that the performance of this broadly defined acidyl business remained quite steady over the POI.

Dupont also produces and sells VAM. The key point here is that short-term variations in PVA profitability, which arise from changes in VAM prices, should be disregarded as just natural phenomenon in the marketplace, because the producers consider the overall operations of their business unit, producing not only PVA, but VAM, acidic acid and PBV as a single business.

Another of Petitioners' claims concerns the petitions change of scope from the 1995 case. The earlier case concerned imports with a level of hydrolysis above 85. This one concerns those above 80.

Petitioners claim that the change was caused by

previously experience with subject imports below the 85 percent threshold, suppressing prices of domestic products sold above that threshold.

That claim, however, is invalid. In this case, the 85 percent threshold, in fact, represents a bright line, in terms of the domestic industry's ability to manufacture and sell commercial quantities of PVA, as well as the product's end use application.

Please turn to Exhibit 3, which is a direct quote from the Petitioner Air Products' testimony in the 1995 preliminary investigation. That testimony, I think, speaks for itself.

This and other evidence to be presented makes clear the fact that the pricing of product below 85 percent hydrolysis is very distinct from the pricing above the 85 threshold. The two certainly are not substitutable.

There is no cross-price elasticity within any reasonable range. Consequently, the Commission cannot conclude that prices for material below 85 percent hydrolysis suppressed the prices for cheaper products with a higher percent of hydrolysis.

As for the effects of imports on the domestic industry's overall condition, my earlier testimony touched on how that condition could not have been materially affected by subject imports in the 16 months since

Petitioners caused the previous orders to be revoked.

But an additional point is worth noting concerning the aftermath of Celanese's acquisition of Air Products' PVA assets. That acquisition was not without problems. Celanese paid substantially more than book value for the business. Thus, it had to incur higher depreciation expense, due to that degree alone, which I urge be fully investigated by the staff office of accounting.

Air Products had over-expanded capacity in 1997, and consequently suffered from a lower capacity utilization rate. Other problems are notable, but I have little time to continue.

I also believe the Commission will find no evidence of threatened injury, on account of subject imports, particularly those from Japan, Germany and Singapore.

Among other reasons, Japan's capacity utilization rate is high, the petition's claim of a major increase in Japanese capacity is in error. They added an extra zero, and Japanese producers largely sell PVA that does not compete with standard quality domestic product.

Petitioners' entire threat case against imports from Germany rests on the Japanese producer, Kuraray's purchase of the former Clariant plant in December of 2001. But subject imports from Germany remain small, and showed no

sign of accelerating in the months since Kuraray's acquisition.

As for Singapore, even the petition concedes that those imports are negligible. According to U.S. import statistics, such imports were only 1.1 percent of total imports during the most recent 12 months, through July of this year.

We believe the U.S. statistics on imports from Singapore to be in error. According to official Singapore export statistics, which we believe to be higher but more accurate, the figure is 1.5 percent.

According to the Singapore government statistics, U.S. imports from Singapore are well below the three percent threshold, and show no indication of imminently exceeding that threshold.

I urge you to look at Exhibit 4, production in 1999. There was a limited ramp-up, and the 12 month moving total has been rather steady for years.

Petitioners' claims that the sole Singapore PVA facility was built to circumvent the old anti-dumping order, and that U.S. imports from that facility will imminently exceed the three percent threshold are without merit.

Production of PVA at that facility commenced in 1999, but only a small percent of that production has entered the United States, even when the anti-dumping order

against Japan was still in effect.

As recently as the first half of this year, exports to the United States accounted for less than one percent of Singapore's total production.

In fact, the plant was built to serve the growing markets of East and Southeast Asia, not the United States. Please see Exhibit 5.

The plant's entire production is dedicated to only four grades of PVA, in contrast to the much larger number of grades available from producers in Japan. Only two of those grades have ever been sold in the U.S. market, and were almost exclusively for a single application emulsion.

The Singapore facility is operating practically at its full capacity. There certainly is no basis for continuing to include Singapore in this case.

My final point concerns the alleged threat from both Germany and Singapore, and this perhaps is most interesting. The German plant is owned entirely by Kuraray, and the Singapore plant is owned 50/50 by Kuraray and Nipongosai.

But both plants rely critically on purchases of the critical raw material, VAM, from Petitioner Celanese. So in filing this petition, Celanese effectively is suing its own major customer for the raw material, while seeking to restrain Singapore's and Germany's tiny sales of the

finished PVA in the U.S. market.

Celanese is Kuraray's main supplier of VAM, and thus has means, other than an anti-dumping case, to ensure that neither Singapore or Germany poses any threat to the U.S. market for PVA. Thank you.

MS. GROSSMAN: Good morning, my name is Shannon Grossman. I'm a Purchasing Manager with Occidental Chemical and its PVC joint venture, Oxy Vinyl. I've been with the company about five and-a-half years, always in the same purchasing capacity.

Among the responsibilities I have for raw materials going into our production, includes the purchasing requirement for polyvinyl alcohol.

Of all the grades of polyvinyl alcohol that we purchase in the U.S., two grades are subject merchandise in the situation. One is what we refer to as an approximate 88 percent hydrolysis material, which we are currently sourcing from Celanese, produced here in the U.S.

The other material is approximately an 80 percent hydrolysis PVA, which we are currently sourcing from Kuraray in Japan.

I think it's important to distinguish that we do not consider these two grades as interchangeable. The 80 percent hydrolysis material is not interchangeable with 88 percent material. They are separate and distinct materials,

contributing separate and distinct properties to PVC.

To the best of my knowledge, there is no U.S. producer of what we refer to as an 80 percent hydrolysis material.

Oxy, of course, is not reluctant to source its PVA from U.S. suppliers, as I stated earlier. We currently source the 88 percent hydrolysis material from Celanese, here in the U.S. But, again, there is no 80 percent hydrolysis material available domestically.

If this case continues forward, Oxy will have choice but to source its 80 percent hydrolysis material from other foreign international producers; namely, Taiwan or possibly other countries in Europe. Thank you.

MR. SAILOR: Good morning, Mr. Featherstone and Commission staff; I'm simply going to turn the microphone over, on behalf of Marubeni Specialty Chemicals, to Mr. Al Lee.

MR. LEE: Good morning.

MR. FEATHERSTONE: Good morning.

MR. LEE: My name is Al Lee. I'm the Director of Business Development for Marubeni Specialty Chemicals, a U.S. importer of specialty grades and co-polymers of PVA.

I'm a chemical engineer, by training, and have been in the PVA business for the last seven years. Consequently, I'm very familiar with the wide range of PVAs,

their uses, and the American PVA market.

We sell virtually all our imported PVA into three discreet markets, for three particular end users, where price is not a significant factor: PBC, paper coating, and pharmaceutical/personal care markets.

Within these markets, there are specialty grades of PVA, and also several co-polymers of PVA. Most of these products, however, are neither supplied or even offered by any U.S. producer.

While we do make small sales of commodity grades, we are baffled why the Petitioners have included in the scope of this investigation the wide range of products included, particularly in the absence of any U.S. production of these several specialty grades and co-polymers of PVA.

Ms. Shannon Grossman of Oxy Vinyls has already testified concerning the fact that Celanese and Dupont are not selling to the PVC market; nor are they selling to the specialty paper coating market.

One of our principal customers in this market is here to explain that our product is the only one available to them from any source, Dan Peterson of Appleton Papers.

Similarly, the pharmaceutical/personal care market has very limited sources of PVA, necessary for that unique production requirements, and no U.S. producer has been available to them, as will be discussed by David Schenaker

of Colorcon.

We work very hard to afford the necessary technical services required to tailor our products to the special needs of our customers; something that our competitors in the U.S. appear unable or unwilling to do. Thank you.

MR. PETERSON: Good morning.

MR. FEATHERSTONE: Good morning.

MR. PETERSON: My name is Dan Peterson, and I'm the Executive Director of Thermal Research and Development for Appleton Papers. We're a leading U.S. producer of coated specialty papers, and we're headquartered in Appleton, Wisconsin.

I'm a paper science engineer, and I specialize in paper products and developing paper products. I received a degree in paper science and engineering from the University of Wisconsin at Stevens Point, and I got an MBA in 1997.

In the 15 years I've worked at Appleton Papers, I've held a variety of positions, including process engineer, research and development project manager, technical director, and then my current position.

I'm here today to discuss the domestic market for specialty co-polymer grades of polyvinyl alcohol products. Appleton Papers is a leading North American producer of direct thermal products.

These types of products are thermally image paper, and it's the type that you see every day in food stores, in labeling applications, entertainment tickets, and the like.

The specialized coating that's applied to this product requires the use of carboxylated co-polymer PVA, which is supplied by and so far only available from Marubeni Specialty Chemicals.

Carboxylated or co-polymer PVA is not like any other PVA product. Thus, no other PVA product may be substituted for this grade of PVA.

We selected Marubeni product because of its chemical structure and functionality. No comparable co-polymer PVA is available from any domestic PVA producer, and no other producer is able to respond to our request to product this specialty co-polymer PVA.

In fact, during the 15 years I've been with Appleton Papers, no U.S. producer, that I know of, has ever successfully commercially developed any special co-polymer PVA.

Appleton Papers would certainly consider domestic producers for specialty co-polymer PVA needs, but the U.S. producers simply do not provide suitable products, and they appear to have no interest in doing so.

In fact, for years, Appleton Papers has attempted to convince U.S. producers to enter the specialty grades

market, and we repeatedly asked Celanese's predecessor, Air Products, to consider production of these specialty grades.

However, Air Products, and more recently, Celanese, have shown no interest in doing so. In short, they would not, or apparently could not, produce products that satisfy our requirements.

After repeated rejections of this sort, Appleton does not typically consider domestic producers when it issues requests for proposals, or otherwise searches for suppliers of specialty grade co-polymer PVAs, that will qualify for a particular application.

If a duty is imposed on specialty co-polymer PVAs, Appleton Papers will be unfairly injured in the marketplace for our finished product thermal papers. There are no domestic sources for the specialty co-polymer PVAs that we use in thermal papers.

Paper coaters, manufacturing outside of the United States, would not have to incur this duty. This duty would hurt domestic paper producers, using specialty co-polymer PVAs as functional coatings, since these co-polymer PVA materials are not domestically produced. Especially, co-polymer PVAs are functionally not interchangeable with the PVAs we've been talking about earlier today.

When I first began working at Appleton Papers, we would evaluate new specialty products being offered by

producers, to determine if any of the new products would allow us to develop new or better coated paper products.

Today, because their engineers are more skillful and creative and are more proactive, typically now we first identify new characteristics or functionalities that we want in a specialty co-polymer PVA product, that will allow us to either develop a new coated paper, or allow us to significantly reduce the costs of producing existing products.

Once these new characteristics have been identified, we work closely with the engineering and technical staff of specialty co-polymer PVA suppliers, to develop a new form of co-polymer PVA required for a particular application.

We select producers for such development projects, based on the following: their ability to produce functional products; the fact that they have skilled and creative technical support and confidence that such a producer is willing and eager to engage in cutting edge product development.

Unfortunately, because the domestic producers of PVA have shown no interest in development of any new specialty co-polymer PVA products, we do not look to them to work with us in these efforts.

We request that specialty co-polymer PVAs be

treated as separate like products and excluded from this investigation. I'd welcome any opportunity to respond to any questions you would have. Thank you.

MR. SCHONEKER: Good morning. My name is Dave Schoneker. I'm the Director of Global Regulatory Affairs for Colorcon, a Philadelphia based manufacturer of various products used in the manufacture of pharmaceutical and dietary supplement products. I testified at the hearing last time around, as well.

Pharmaceutical grade PVA is used as an incipient, which is an inactive ingredient used to coat tablets, pharmaceutical tablets. We're in the manufacture of other incipients used in pharmaceuticals.

Because of FDA requirements and the need to maximize the safety, our production raw materials must be manufactured to exacting good manufacturing practices, otherwise known as GMP, and purity standards, such as those listed in the United States pharmacopeia and other international pharmacopeias, when you sell around the world.

No U.S. PVA manufacture is willing to meet these high standards for our purposes, at this time. In fact, while we once sought to purchase these grades from Air Products, Celanese predecessor, ultimately, they declined to supply the product to us for use in pharmaceutical production, due to the stringency and cost that the GMP

controls. In short, we have no alternative but to purchase pharmaceutical PVA grades sold by Nepangosai through Marubeni.

Prices not now nor has it been a significant factor in our purchasing decisions for these applications. Rather, quality of product and maintenance of certified and validated production procedures have always taken center stage in our valuation of our PVA purchases.

One of our main pharmaceutical products is polyvinylacitatephaly, or PVAP. PVAP is a polymer used in the pharmaceutical tablet coating systems that control the release of drug products into the body; such things as enteric-coated aspirin, that type of thing. Obviously, if PVAP does not perform as required, serious health and safety issues can arise with drug release in the wrong part of the body.

Accordingly, the pharmaceutical grade PVA used as a raw material component must be of a very high and extremely consistent quality. The pharmaceutical PVA must be manufactured in accordance with GMP, requiring that PVA manufacturers have controls in place governing the manufacture, processing, packaging, and storage of the material, which are designed to minimize contamination mixups and errors.

When used directly as an ingredient in tablet

coating, itself, pharmaceutical PVA requires an even more exacting attention to incipient good manufacturing practices. It, also, requires a higher purity, finer particle size grade than is used in the manufacture of PVAP. In fact, our current Japanese supplier, Nepangosai, had to build a special manufacturing plant dedicated to producing this grade ov PVA specifically for Colorcon on a custom basis. If the U.S. company decided to upgrade their facilities and procedures to meet the stringent standards that we need, we still would not be able to purchase their material and utilize it as a substitute in our products, which now contain the high purity PVA grades that we use.

Since final pharmaceutical products produced with our products are registered with the FDA, the only way these materials could be changed is if the pharmaceutical company performs a number of potentially costly and time consuming validation and stability studies to prove equivalence. They would then have to notify FDA of a change and get their authorization. All of these costs would have to be passed on to the consumer. Due to these reasons, it would not be feasible for Colorcon to use U.S.-produced PVA as an alternative, regardless of price.

I think it's evident that the uniqueness of PVA -- of GMP grade PVA for pharmaceutical and dietary supplement applications constitutes a separate domestic like product

and should be excluded from the reach of the order sought by the petitioner. The Department of Commerce recognized this distinction in granting an exemption from the scope of the antidumping order for those products in 1998. To do otherwise would create exactly the consequences to Colorcon, U.S. pharmaceutical producers, and U.S. consumers that the Department wisely sought to avoid.

I welcome the opportunity to respond to your questions. Thank you, very much.

MR. WALDERS: Mr. Featherstone, I think that completes the testimony of this panel. I would request that the exhibits to Mr. Malashevich's testimony be accepted as an exhibit and, also, that the Dupont bag be accepted as an exhibit, as well. We have only one copy of that. If not, I'll just leave it for the staff.

MR. FEATHERSTONE: We will certainly accept the five exhibits that Mr. Malashevich referenced as collective Conference Exhibit 1. If we could take the bag as a sample --

MR. WALDERS: Sample, yes.

MR. FEATHERSTONE: -- that will work fine and we will proceed on that basis. Thank you all for your testimony.

And since we have two panels coming up now, I just wanted to mention in advance that we'll do questions now,

just to try to keep the microphones accessible; but, any of the parties are invited to welcome and you're welcome to respond to any of the questions in your post-conference submissions or when you come up to the panel. Mr. Cassise?

MR. CASSISE: Good afternoon, everyone. My name is Chris Cassise, Office of Investigations. I'd like to start off addressing some of the issues that have been raised on some of the products that aren't available with the U.S. producers.

As you've heard this morning, our import statistics from the Commerce Department include all of these products, I would assume, and so my question would be what percentage -- what share of those imports statistics do you think would be products that weren't produced here in the United States? It seems to be especially a problem with the Japanese import numbers, shown by the unit value numbers. So, I don't know if it could be addressed here. I definitely want something in the post-hearing briefs, where you lay out the data issues, what you believe the share of those import numbers are unavailable, or products that are unavailable here in the U.S. I don't know if anyone wants to address that issue now.

MR. WALDERS: Just briefly, we are getting some information. We cannot provide this on the public record, because it would disclose confidential information, even as

between Japanese suppliers.

MR. CHIN: I figured that, Mr. Walders. I will probably hear that a lot tonight -- today. But, also, with regard to the Singaporean imports -- or exports, if you could provide that data, I'm sure you will, but month by -- you know, for the last 12 months, monthly, and then for the period of investigation, as well.

MR. MALASHEVICH: This is Bruce Malashevich. We already have -- we already have copies of the official statistics, which we were planning on filing for each of the months of the period, going back 24, 36 months, if you'd like them. We'll provide all of those in our post-conference filing.

I can say that there are certainly non-zero, non-subject imports from Japan. We are researching the degree. But, I know the -- you'll have very good coverage of imports of subject import -- subject merchandise only in the importers' questionnaires of those importing from Japan. So, I would recommend and certainly we will use in our analysis of ECS, we rely on the importers' questionnaires for measuring subject imports from Japan.

One hundred percent of subject imports from Singapore are subject merchandise. As I mentioned, there are only two grades, but they're subject merchandise. We will provide the statistics. And we discovered the U.S.

import data were in error, in a routine reconciliation of the import data against the questionnaire data, and that's how we discovered the error. They reconcile almost perfectly; that is, the questionnaire data reconcile almost perfectly with Singapore government export statistics. So, that was our basis for determining them to be accurate and the U.S. import statistics not accurate.

I believe 100 percent of imports from Germany are subject imports. We're in the process of confirming that.

I leave to others, who are representing Korean and Chinese interests here today, to address the completeness of that data. I'm sorry, does that answer your question, Mr. Cassise?

MR. CASSISE: Yes, it does. Thank you, very much.

Just for Mr. Peterson and Mr. Schoneker, the products that you described in your presentation, are all of those products within the scope of our definition of PVA or are there some that are out of the scope?

MR. SCHONEKER: All of our products are considered within scope.

MR. PETERSON: I'm not exactly sure what you're asking, within the scope. The products that we use are above 80 percent; yeah, they're above 80 percent, yes.

MR. CASSISE: Okay. Okay, thank you. Thank you, very much. And Mr. Schoneker, you described a process where

an expense of pre-qualification process that your manufacturers have to go through. I was just wondering if you had any interest from U.S. producers to go through that process. Were you approached? Or you stated you did not approach the U.S. producers; but, did they show any interest in producing this product for you?

MR. SCHONEKER: No, they did not. And, actually, if you look back in my testimony from the first case, what you will find is, at one time, we tried to use the Air Products material and we had all kinds of problems. And, essentially, when we discussed it with them, they told us, and the quotes are in the testimony, that they did not want to be involved in this business whatsoever due to the liability. And there was minutes submitted in that -- of that meeting in the last testimony.

MR. CASSISE: And just as more of a general question that could go around to all of the industry people is -- I mean, my sense, of course, is that there's a large commodity market, where it's commodity grade PVA, and then a smaller specialized grade, where pre-qualifications are necessary, custom specifications exist, and, you know, which creates these custom niche markets. I mean, is that a fair characteristic of the market and could you give me a sense on what the share is? I mean, is it an 80 percent commodity grade and 20 percent niche? Or if you could give me general

shares, that would be helpful.

MR. GOLD: I'd like to try start answering that. My understanding is that the PVB industry is the largest end user of PVA and domestic user. Our products are highly specialized. I'll cite as an example, around the period of 1989 through 1999, we developed a new grade of PVB. It required a specialty grade of polyvinyl alcohol, which we approached Air Products, and because of the volume, they made this grade. It's called V321 now. I just assume it's available to others now. But, it's specifically developed for our application, very high volume -- the numbers will probably be submitted later -- but, again, a very specialized polyvinyl alcohol.

MR. CANNON: We will submit the report and I think it will be similar to the data that you will show. But, total U.S. consumption of PVA in 1998, according to the SRI report, was a little less than 320 million pounds. PVB is 109 million pounds. So, the specialty niche is one-third of the whole market and has a one-third impact upon the performance of the players in that market.

The other products, of which there aren't many now, were not included in the first case. And so, I think we're seeing many more products come in and say, our products should be excluded, because they now cover a broader range. But, as you increase that range of all the

niches, certainly, we're growing, but more than a third of the total market, in terms of the niches. And it may be that there's less commodity and more specialized product.

MR. MALASHEVICH: I would add to that, the base year of that study, with which I'm familiar, is 1998, if I remember correctly. Since then, you had a plunge in consumption by the textile segment of the industry, which is considered generally as the low end, most like what you might call a commodity market, although not quite. Nevertheless, its share would be substantially lower, because the change in demand, whereas the demand for PVB applications and other specialty applications have been steady or increased. So, the percentages are probably understatements of PVBs and other specialty applications share of the market today.

MR. GOLD: From 1997 through 1980, my title was -- I served as production supervisor of Solutia, at that time, Monsantos polyvinyl alcohol plant. I'm a little bit familiar with some of the products and not to oversimplify this product, I think we have to look at that, the polyvinyl alcohol market, as I've watched it change over the last 25 years, much as an analogy would be to the paint market. We make -- you know, people, who make polyvinyl alcohol, are like people, who make paint. But, these folks need not just red paint, but a particular shade of red paint. And they

may need green paint, but they can't use just anybody's green paint; it's a particular shade of green paint. We're kind of the same thing.

And so, the polyvinyl alcohol market gets lumped into all these specialty things, like you would an umbrella business. But, there are -- you know, I don't know the details of their businesses, but I think the answer to your question is that many of the applications of polyvinyl alcohol are specialty applications.

MR. LEE: My name is Al Lee. I would like to expand the discussion about the description of polyvinyl alcohol a little bit, so as to perhaps clarify some of the confusions that may have caused this morning.

I would like to introduce a term called "homopolymers" and then "copolymers." They are contrasting two different categories. And under the homopolymers, we have the regular, so to speak, commodity grades, and then you have the specialty grades. And let me give you some examples.

For the specialty grades, you have, you know, the 85 percent degree of hydrolysis or below. That's specialty, because the fact that they are not too many producers in that category. And on top of this, this is functional specific type. In other words, each grade has different function. We sell function, the functionality, not the

grade or the hydrolysis or the viscosity.

Now, under the category of specialty grades, under the -- also, in the category of homopolymers, we have also introduced in the marketplace very high viscosity and also very low viscosity homopolymers, within the description of the scope today; namely that the degree of hyraulisis is above 85 percent. And, yet, the center point, the viscosity, is the highest available in the marketplace. And, also, the degree of hydrolysis is the same, namely 88 percent or so. However, the viscosity is very low, one to two percent -- one to two center points. So, these are the unique, you know, characteristics of some of the specialty grades under the category of homopolymers.

Now, let us go to the next picture, which is the copolymers. And, you know, in the last ruling, antidumping duty ruling, you have the three different copolymers exempted in the ruling. And, in fact, these copolymers have high functionalities and we have altogether now a days five functional copolymers available in the marketplace. So, this market is really growing. And, in fact, as the testimony given by Dan earlier, for paper coating, that application is really growing, because of the demand for thermal paper and also inkjet paper.

Now, the copolymer is totally different than the homopolymers. Now, let me give you some examples. Besides

the functional group that I mentioned to you earlier, number one, at Nepangosai, we have a different production line separated from the production of homopolymers.

Number two, the cast number, that means the chemical abstract servers number, which the industry uses for identification of the chemical, they are totally different than the homopolymers.

Number three, even the federal government recognizes the difference between the two groups, because FDA in the 21 CFR 117.6 -- 176.17, saying that homopolymer is accepted as an indirect food additive or in contact with paper and paper board -- you know, that, you know, particular citation. However, copolymers are not accepted as FDA exemption. So, even FDA recognizes the difference.

Number four is that certain copolymers are certain patent and this is -- you know, if it is not different, why patent is allowed.

Number five, in the way we approach the market, traditionally, we don't necessarily approach the purchasing people. Sorry to say that, Ross. But, on the other hand, we approach the R&D people first, because, as I made a statement earlier, pricing is not necessary a significant factor. We sell functionality, not according to the price.

And the last one is that the traditional price of the copolymers and specialty grades of the homopolymers are

much higher than the homopolymers.

MR. CHIN: So, I mean, as a general rule, the copolymers would be all of the specialty grades and the homopolymers would be the commodity grades. And you would have to go and you would have to get a pre-qualifying manufacturer, custom specs, and the whole bit with some of these copolymers. Is that accurate?

I mean, your conversation was very helpful, I mean, especially since the copolymers are all dragged into this. Were you dragged into the last case? I mean, were you exempt, because of that copolymer exemption?

MR. LEE: No, we are not. Oh, I'm sorry, yes.

MR. CASSISE: In the 1996 case.

MR. LEE: That's correct.

MR. CASSISE: Okay.

MR. SCHONEKER: One thing I just wanted to say about the -- I'm sorry -- about the homopolymers, I want to be clear that there are specialty grades within the homopolymers, as well. The pharmaceutical grades are in the homopolymer area, because the copolymers would not be acceptable for its uses.

MR. LEE: I would like to introduce Ron Ruffer here, and he's also with Marubeni and he would like to say a few words, as well.

MR. RUFFER: I'm considered the technical support

specialist for the Nepangosai line of polyvinyl alcohols. When you're asking about, you know, what is the difference, you know, or are these specialties to be included or are they not to be included. When you look at polyvinyl alcohol as a product and in the scope of this investigation, it's extremely broad, because at 85 -- at greater than 80 mol percent, you capture a wide variety of molecular weights or the length of the polymer, and you, also, capture different properties that are possessed within that molecule.

When you change -- or one of the previous presenters, Mr. Bruce Becker, on behalf of Celanese, once said that he -- he said that the low hydrolysis products are truly interchangeable. And that is not the case, because in the same argument, he's saying that they need -- or they've now developed the ability to produce products that are below 85 mol percent. Now, why would you do that? You do that, because you change the properties of that product by doing so. You change how it can be used and where it can be used.

Now, similarly, by changing the monomer or one of the building blocks that's used to make that polyvinyl alcohol, you similarly change the performance of that material. You change how it is used and where it can be used and why that particular product is used.

In the case of the copolymers, we add in this other molecule, this building block, to produce a product,

which gives it very, very unique characteristics. It's useful in the paper industry, as Mr. Peterson has testified. It's useful in other industries where the polyvinyl alcohol is used. But, it provides certain properties, which are not attainable with the use of a standard grade of polyvinyl alcohol. So, what we're saying is that even small changes, from 80 down to -- from 85 down to 80 percent, whereby making large changes, in the case of adding in these building blocks, you dramatically change the performance of that material.

Now, you can also take a standard grade, as in the case of the product that's used by Colorcon, and just by purifying that material, by taking away a lot of the impurities that are present normally through a commodity production process, and because of the steps that are involved, some manufactures, such as Celanese or Dupont, are not willing to go through those additional steps, because it does impact how much time that product is going to spend in their production plant or how much time or money is involved in adding different equipment necessary in order to do that. Many of the foreign producers, in particular Nepangosai or Kuraray, have been willing to take those additional investments -- or make those additional investments for the production of these specialty grades, because, in fact, there is an opportunity that is not served by domestic

suppliers.

MR. CASSISE: Okay, thank you. I'd -- one thing that I definitely would like a response, at least either here on in the briefs, would be -- and the petition had a few press clippings on all of the expansion plans of some of the foreign producers, and you don't have anyone here from any of the foreign producers, but if we could maybe get a response to those. Are those plans still in effect? Have they been altered in any way? Are all of the expansion plans still underway? And, also, you know, what markets would that additional capacity serve? We've heard from the petitioners that it's all heading our way. I'd like a response to that, as well.

MR. WALDERS: We will address that point in our post-conference brief. As Mr. Malashevich pointed out in one case, there was a misprint in the number, which, in itself, created quite an expansion of capacity typographically.

MR. CASSISE: Okay. I look forward to reading that, then. I have no further questions.

MS. ALVES: Good afternoon. Mary Jane Alves, again, from the General Counsel's Office. I'm going to state up front, I may not reach all of the same questions with each of the panels, both with respect to the respondent panels and with respect to the domestic producer panel.

Please feel free, in your post-conference briefs, if there are questions that I'm raising in the context of someone else's panel, to comment on the information that's either presented here or to provide your own answers to these questions, just as a simple measure of time.

I'm not going to have enough time to ask every single panel all of these questions, but if you have additional information, factual information especially is helpful -- I realize we don't have as many representatives from all of the producers available, at this point, but if you can provide factual information backing up some of your answers, that would be especially helpful, instead of just bold statements. If you could include footnotes to those statements in the post-conference briefs -- I know it's harder to do it. I've been there. I've been in the private sector. But, whatever you can provide, you know, concrete factual support for us, is certainly appreciated.

I have a whole series of questions for this panel. Your testimony has been very helpful and, yet, at the same time, it's also been confusing, because it's introduced a bunch of new elements out there. So, if you could just be patient with me, I'd appreciate it.

I guess starting with domestic like product, if I can begin with Solutia. You've mentioned this morning some of the differences that you believe exist, in terms of PVA

for non-PVB applications and PVA for PVB applications. The Commission has stated on a number of occasions that it likes to see a clear dividing line among different domestic like product. How are the differences that you see between PVA for PVA -- non-PVB purposes and PVA for PVB purposes different than, for example, differences that you might see in terms of applications for -- for example, the copolymer paper applications, as opposed to differences in the specialized homopolymer applications? Is there a clear dividing line?

MR. GOLD: We believe there is a clear dividing line. What we are going to be doing is submitting in our post-conference briefs the purchasing specifications that we use for polyvinyl alcohol going into the PVB market. And what we direct you to look at in those is those line-by-line specifications, showing primarily both what we call the target and the allowable spread within those specifications. Many instances, and the whole industry understands what those are, they could be hydrolysis. They could be viscosity. They could be whatever they are.

PVA going to the PVB industry often has not only a different target, but also a different allowable breadth around that target. So, that's where I would direct your attention.

MR. CANNON: We'll pick up on all the factors.

But, in addition to the physical characteristics, the use and the end users are a hugely dividing line between this segment of the market and all the rest of the market.

MS. ALVES: Even though there are also specialized users among some of the -- for example, the copolymers, as well?

MR. GOLD: And I don't mean to detract from what I feel is the merits of their arguments either, some of them were excluded in the original case and, by definition, others were excluded by the Commerce Department. The scope has now changed, causing there to be many more people here in our position.

MS. ALVES: Does Solutia have an opinion as to whether or not the Commission should treat copolymers as a separate domestic like product or specialized copolymers as a separate domestic like product?

MR. GOLD: When the answers were being given to Mr. Cassise about that, one of the things I was thinking of was that all copolymers are specialized. I believe most homopolymers, or many at least, are also specialized. That's the way I kind of perceive that.

MS. ALVES: I'm going to direct this question, I guess, to this entire panel. Should we, then, be looking at potentially three different domestic like products: the specialized homopolymers, the standard homopolymers, and the

copolymers, and potentially also out there the PVA for PVB production?

You realize what sort of a factual problem I'm going to run into and what sort of a legal problem I'm going to run into. We clearly don't have enough information on the record to make a lot of different distinguishing arguments about the various types out there. If this is the sort of approach that we should be taking though, whatever information you could provide in your post-conference briefs or here would certainly be helpful.

The other possibility is that maybe some of these arguments are not directed to differences in domestic like products, but perhaps more in terms of the level of competition and whether or not we should be cumulating imports coming in from different sources, and if we can try and clarify some of that here. I'll stop at that and I have a follow-up to that already.

MR. SAILOR: Well, given the vagaries of the Commission's analysis of like product, when you're dealing in a situation like this, we're in a situation where this is still sort of in the formulative stages. The fact of the matter is, we sat here all morning and heard the domestic industry say over and over again that they're in the textiles, the paper, they said PVB, and they said construction markets. We didn't hear anything about the

markets that are being serviced by, I think, a large percentage of the Japanese product.

If that -- if even the specialty products are a different like product, I'm not sure where it gets us. But, certainly, we feel that there is absolutely no competition between a very large -- certainly, between virtually all of the product that's being imported by Marubeni and the domestic industry.

MS. ALVES: I guess that brings my follow-up question. To the extent that you can answer this for all of the subject countries, as well as for the domestic product, and if it involves confidential information, I would very much like from as many of the parties as possible answers to this in their post-conference briefs, what is the composition of the imports from each of the countries and of the products made domestically, in terms of this standard product, the standard homopolymers, the specialized homopolymers, and the copolymers? That would -- as I see it, that might also be helpful for our cumulation purposes.

Are you saying -- there have been arguments this morning that there is some specialized products coming in, both in terms of the copolymer and the specialized homopolymers coming in from Japan. Are there any imports and what's the composition of the imports, if you can, if that's not confidential, that's of the standard products?

MR. SAILOR: I think that that is confidential.

MR. WALDERS: The questionnaire responses identify end uses, to the extent that the Commission's questionnaires allow them to fill it in, in particular categories, and there are others, as well. I think if you review the questionnaire responses, you will see that with respect, at least to Japanese companies, there is a great variety of end uses. There are some that are standard and there are many that are not.

We will try to provide some data that would quantify that. Whether or not it would fit exactly within these particular categories, I can't say, at this point. But, one thing I would like to stress is that however the Commission comes down on the issue of like product, the differentiation and the specialization of these products is very important when you look at causation and when you look at volume and price effects. So, whether it's one like product or 10, if it's not made here, it can't be a cause of injury.

MS. ALVES: Thank you. The other piece of information that I wanted to highlight to you was to the extent that there are going to be arguments made in the post-conference briefs about separate domestic like products, please be certain to let us know if there is, in fact, domestic production of whatever that domestic like

product is. As a technical matter, it is called a domestic like product and we need to have domestic production of it, in order for it to be a separate domestic like product. So, keep that in mind when you're formulating what the various possibilities are for domestic like products, to the extent that that's an issue.

Going back to Solutia, can you help me clarify a little bit the production process -- and if this is confidential, I'm comfortable seeing it, in some detail, in your post-conference briefs, as well -- the production process that's used to produce PVA. And there was a question I asked this morning, is PVA -- is it possible to isolate PVA in liquid form? Does Solutia isolate it ever in liquid form? Does Solutia every dry PVA, and could it do either or how often does it do often?

MR. GOLD: Let me try to answer that. I work at our PVA-PVB production facility in Springfield, Massachusetts. Under the Massachusetts Right to Know Act, all of our process vessels must be labeled with their contents. We have vessels labeled polyvinyl alcohol. There's no doubt in our mind, nor in the regulators of Massachusetts, that the polyvinyl alcohol exists in those tanks.

Now, this morning, we heard that Dupont talk about their PVB was dried -- or their PVA, excuse me, was dried,

because of proximity. The proximity of our PVA to our PVB is measured in yards, not miles, and, therefore, to our extent, it would be really not worth a whole lot to spend energy to dry it and then turn around and dissolve it in water. And so, therefore, we don't.

Other than that, I think that some details in our process will probably wait for the post-hearing brief. But, I just wanted to also make the Commission here aware that my understanding and my experience in making polyvinyl alcohol is that there are at least two different processes for making polyvinyl alcohol: a continuous process and a batch process. And those ought to be looked at, because they make polyvinyl alcohol and when you're making it a continuous process of making polyvinyl alcohol, there are answers that would be different, than if you were making the batch process, both to your question to me and to the questions you posed earlier this morning.

MS. ALVES: Okay, thank you. I can appreciate where there might be a distinction in terms of continuous versus batch processes. If you could also provide information and if the other domestic producers could provide information, the petitioners could provide information, regarding whether or not there is a continuous or batch process being used presently by the individual companies, and also an answer for Solutia's purposes, as

well, to my question of whether or not there is ever PVA that is off the -- off of a continuous line. If you could explain whether or not there are perhaps separate facilities where the PVB production takes place, where there is in a pipe, for example, that's continuously supplying the PVA from the one building to the next; or if there isn't, some other way where the PVA is isolated, as well, whether or not that makes a difference in terms of our analysis or not.

There was also some testimony this morning by Solutia, regarding the fact that it purchases PVA. As you may well know, the attorneys typically do not receive copies of the questionnaire responses. We see them in aggregated form in the staff report. So, I have no idea what the specifics are for any of the individual companies, with respect to any purchases that they may make or imports that they may make.

To the extent that there are domestic producers that do purchase products from -- that may be imported or to the extent that they're directly importing or to the extent that they're purchasing from other domestic producers, and this is a question that the attorneys will need to look at, as well, in terms of the proprietary version of the record, is there sufficient production related activity of PVA to still include those producers as domestic producers?

MR. CANNON: You'll appreciate that would involve

confidential data. It is in the record, though. It's in our producer's questionnaire response.

MS. ALVES: I assume that it is. I just want to make sure that the question gets addressed as a legal matter. And not having seen any of the questionnaire responses, I can tell you, I'm not trying to lead people one way or the other that way. I don't know what the facts look like. But, as a legal matter, if everyone would address that, I would certainly appreciate it.

Are the products that are being imported from the various Kuraray entities able to be supplied to the same sets of end users or purchasers here in the United States? Do they care whether or not it's coming from Singapore or Germany or Japan? Do they ever mingle them in inventory?

MR. WALDERS: With respect to Singapore, as was testified by Mr. Malashevich, there's a limited number of grades available from the Singapore plant. To the extent that those grades are standard and the same grade comes from another Kuraray affiliate, I suppose they would be sold and could be sold interchangeable. But, there's a much wider range of product available and sold from Japan, than there is from Singapore.

With respect to Germany, this is a brand new situation for Kuraray. The importer still is a former Clariant company, which was affiliated with the company that

was acquired by Kuraray. At this point, I'm not in a position to answer that question with respect to Germany. There may be some differentiation. I know that they have been a supplier. That factory has been a supplier in the world market for quite a long time.

But, with respect to Japan and Singapore, at least, there is, I would say, a considerable number of grades available from Japan, with respect to Kuraray, that are not available from Singapore and, therefore, there's no interchangeability there.

MS. ALVES: Would this panel also be able to address the issue of non-subject imports? Are the products coming in, for example, from Taiwan or from some of the other countries that are non-subject? Are they competing with any of the products here?

MR. WALDERS: As far as I've been able to determine, not being in the market, Taiwanese product does compete with -- certainly is offered for sale in competition with and on occasion, in combination with, U.S. product. The Taiwanese industry is capable of producing a wide range of grades. My understanding is, that they're particular active in the standard grades and, as such, they compete with the subject imports and with domestic production, except to the extent that a U.S. producer is offering that as its own product made to its specifications in Taiwan.

MR. MALASHEVICH: If I may add a bit to that. We will submitting a post-hearing analysis of non-subject imports. But, you'll see in the rank order, taking the POI as a whole, the largest single source is Taiwan, followed by China and Japan. Taiwan, by itself, is larger, by an order or magnitude than the sum of subject imports from Singapore, Germany, and Korea. They're a very large player in the market.

I concur with Mr. Walders' testimony, they have to be in many, if not all, of the mainstream applications. I, also, understand they have the capability to supply below 85 percent hydrolysis product, and so to be active in that segment of the market, as well. The other non-subject imports are very, very small in volume.

MS. ALVES: Thank you. The other question that I'd like addressed in post-conference briefs is the significance of other export markets to the subject producers. As was indicated this morning, there have been allegations that the U.S. market is the largest market and that everyone has an incentive to send more here. There are being expansions planned or that have just taken place, that are targeting the U.S. market. So, if you could talk about the significance of other export markets, as well as how those other export markets are doing, in terms of whether or not there are likely to be shrinkages in those markets,

necessitating additional imports coming into the United States.

Finally, if you would also let me know whether or not there are any pending investigations or orders involving any of the subject countries and if you could provide additional details of those investigations, as well.

MS. PREECE: Thank you. Amelia Preece. Is there any PVB imports and what barriers to entry would there be for PVB?

MR. CANNON: According to the SRI data, there were some PVB imports. It was a relatively small volume. The data are dated 1998 and when we submit it, we will have that. Technically, barriers to PVB, I think, Mark could address that.

MR. GOLD: The PVB, like PVA, has multiple grades. And so, I'm not familiar with the import data. But, PVB, which we also make for non-windshield applications, is used in things like paper coatings and other pieces and other applications, almost compete directly with PVA, in some minor applications. And so, some of these imports may be to a different segment, even of the PVB market. The barriers to imports are strictly a qualification barrier, making sure it's the right quality to work in the right application.

MS. PREECE: And for the majority of PVB uses, is that a significant barrier or -- I mean, if we sort of say,

okay, we can't have any PVB -- PVA coming into the United States, is -- are these PVA producers going to turn around and produce PVB, ship it in, and that will disappear the largest U.S. market of PVA by giving it to the PVB import market? I mean, there -- obviously, there's going to be a relationship and I'm trying to figure it out.

MR. CANNON: Mark, how many PVB producers are there in the world?

MR. GOLD: There are a handful of PVB resin producers. Let's understand that there's PVB resin and then PVB resin, which has multiple grades. The largest of it is what we call windshield or laminate grade, then gets sent to a plant where it's plasticized, turned into the film that you've seen. There are only -- there are a few, but there are four major, maybe a fifth producer of PVB film. The percentage of the PVB that they use, it's well over 80 percent, 90 percent. It's way up there. The rest is a relatively small section of the overall PVB industry. But, we do sell PVB film domestically, as well as elsewhere.

MR. CANNON: And as I understand it, of these five PVB producers in the world, the producers in Europe have a source of PVA that isn't located there; and the producer in Asia and Japan has a source -- two sources in Japan; and the only other two PVB producers are Solutia and Dupont. So, it's not a question of PVA flowing into PVB. Everybody is

all -- they're already all locked up.

MS. PREECE: Okay. And I guess I still would like to know if there's any -- and the windshield application seems to be the major application. What kind of -- it sounds like that's a process where you just can't sort of say, well, tomorrow, I'll sell PVB to General Motors, to use in their windshield. How long is and how difficult is that process, or just the length of time?

MR. GOLD: It's a minimum of two years once you have the sheet. But, if you want to go into the business now, it's obviously multiple years to figure out -- to design and build a plant that makes an optically perfect plastic. And that's -- much of the barrier is getting that plant designed. And then even if you had the design, and there are a couple of examples of suppliers that tried to do that in places, they just cannot break into the barrier of most automobile manufacturers, because of the demanding requirements, not to mention the safety codes.

MS. PREECE: I'd like to get some expansion on the range of prices for the different grades of PVA. Now, we're moving back to PVA. How much -- what -- how much higher are the prices for the various niche markets for PVA? Is that -- the U.S. producers were saying that there's relatively little and maybe you can say -- well, I just want to know. Okay, you don't have to do it public.

Okay, next question. Okay. We've got some -- the purchaser products we've used in this case, are they representative of imports and the range of products you produce? And, also, if we are going to identify new products, what pricing product should we use in those cases? This is an -- if -- if we say that there's a secondary product, then we have to have a pricing product that represent this. So, a two-part question: are those ones we've used good for general; and, two, if we separate these things out, what are the pricing products? I guess only the first one you probably want to answer right now, if anybody is willing.

MR. MALASHEVICH: I can make a general statement that I think would be helpful to your question, Ms. Preece. I think we have to understand that in the universe of PVA demand in the United States, subject imports collectively have a very modest share of the market, collectively. The rest of it is all occupied by U.S. producers. That's true whether you include or exclude captive production. So, you could have an individual segment of the market that the U.S. producers would consider small, whether they participated or not, but could be a very significant chunk of imports, say, from Japan. So, what is small to the domestic industry would not be small to the producers supplying those particular items.

The domestic producers, I presume, were responsible for choosing the four products that the Commission surveyed. The Japanese producers certainly had no input into that, and, presumably, they believe is representative of the very large percentage of the market that they compete in. So, I suggest the data be looked from that perspective.

MS. PREECE: I guess what I'm saying is, if we go on -- I mean, obviously, what you want is not necessarily that we'd go on; but, I find that sometimes these cases do. And if we go on, I'd like as early as possible ideas from you, as to what pricing products might be better to use in the final, if we need to. But, as far as representative, you've answered. So, that's in your brief, so I don't expect or want you to deal with that now.

MR. CANNON: I would say that not only would we like the PVB grade to be a pricing product, since the market is essentially us, we can give you all the prices.

MS. PREECE: Thank you.

MR. LEE: I would like to just make a general statement, that -- just give you a ballpark, you know, range. I may say what's the different prices between the homopolymers and these copolymers and also specialty homopolymers, if you will. Naturally, the exact pricing range is confidential and we will submit the information at

the post-conference brief. However, you know, the range is sometimes quite substantial.

MS. PREECE: Okay. And like Mary Jane Alves, I would like to have you answer any of the questions that you've found relevant in my questions to anybody else and -- but, fortunately, I want those in the brief. And that's all.

MR. FEATHERSTONE: Mr. Deyman?

MR. DEYMAN: George Deyman, Office of Investigations. Do you agree with the petitioners that the captive consumption provision is met in these investigations and, if not, why not? You can answer in your post-conference brief, if you wish. You may not have put together enough data to make a reasoned fact-based judgment at this point, but if you could comment.

MR. CANNON: We certainly don't agree that the provision is met and we will address it. And, in short, what we will show is that the facts have changed since 1996.

MR. WALDERS: We will consider that for the post-hearing brief.

MR. DEYMAN: This question was asked earlier of the petitioners, more or less. The public version of the petition states that imports of non-subject product from Italy and the United Kingdom are not with -- are not within the scope -- well, obviously, they're not within the scope

of the investigation, but they have hydrolysis levels of 80 percent or less and are different from the scope products. Do you agree with this assertion and are there any other countries for which this may be true?

MR. WALDERS: We don't have any information at this time. We'll inquire.

MR. DEYMAN: The public version of the petition, Volume I, page 61, mentions a Kuraray business plan, indicating that it plans to use the former Clariant operations in Germany to target the North American market -- that's their words and that is the petitioner's words -- and that it expects sales from there to increase tenfold. Please comment on this assertion.

MR. WALDERS: Thank you, we will.

MR. DEYMAN: And finally, I notice that the unit values of the product from Singapore are quite low. They're lower than the unit values of the imports from the other subject countries in 2001 and they're the second lowest in January to June 2002. Of course, the level of imports is very small from Singapore. But, does that indicate that the imports from Singapore tend to be of what you might call the commodity type product?

MR. WALDERS: If you're looking at the imports statistics, I guess that's what you're considering --

MR. DEYMAN: Right.

MR. WALDERS: -- as Mr. Malashevich pointed out, there were some discrepancies, we think, in the numbers, probably because the imports were so small. Towards the end of the period, Singapore export statistics and the U.S. import statistics come closer together and coincide. But, as for why the average unit values are low, I suppose, in part, since there are only a limited number of grades available from Singapore, that they would be more in the commodity area. But, I would not vouch for the accuracy of the U.S. import statistics, because we know that they are not accurate, at least in the earlier period. As I said, by the end of the second half of this year, they've come close together with the questionnaire responses and the Singapore export data.

MR. DEYMAN: All right. If it turns out that the data from other sources show that the unit values are also low, similar to those in the official statistics, could you comment now or in your post-conference brief, to what extent that should be considered and any assessment as to whether imports will rise above the three percent threshold level from Singapore.

MR. WALDERS: Your question, Mr. Deyman, is whether the average unit values, whatever they may be, might be indicative of an imminent increase above the three percent level?

MR. DEYMAN: Correct, right. Thank you.

MR. MALASHEVICH: Let me just add that from a statistical point of view, you will have importer's questionnaires accounting for 100 percent, what we understand to be exports from Singapore.

MR. DEYMAN: And my last question, Mr. Walders indicated that -- earlier that -- oh.

MR. LEE: I would like to comment on the unit value from Singapore. Collectively, it could be low, you know, just like what you said. However, there are isolated incidents that we do import the material, but we focus on a different market, and the prices of what we sell from the products from Singapore are higher than what would be indicated in a collective way. And you will be able to see it from our questionnaire return, as well.

MR. DEYMAN: And -- thank you. And my final question is, Mr. Walders indicated that there was no interchangeability between the products from Singapore and Japan, interchangeability, I believe, is the word you used, because the products from Japan are by and large, I guess, specialty products, whereas those from Singapore are by and large not. Is that correct?

MR. WALDERS: Mr. Deyman, if that's what I said, that wouldn't be totally correct. I said that -- I meant to say that there is limited changeability, because the

Japanese products are offered in a much, much wider range of grades and end uses than the Singapore product.

MR. DEYMAN: So, are some of the products being imported from Japan, however, in the same range of grades and uses as those from Singapore?

MR. WALDERS: I would assume that some are, yes, but I don't know, at this point, exactly how many.

MR. LEE: I would like to also comment about the interchangeability of the Singapore material versus the Japanese material. I think one consideration that we have to add on is that the deformer added to the Singapore material is not FDA approved, whereas the deformer of the Japanese material has been approved by FDA.

MR. DEYMAN: That's very helpful, thank you. I have no further questions.

MR. FEATHERSTONE: With respect to all of these arguments that we're about to get on either competition issues or like product issues, if you could alls tart those with a definition of the product that the discussion is about to be about, and when you do that if you could put yourself in the place of a Customs official who would have to administer either an exclusion or an included product that would be very helpful to us.

One real quick question, Mr. Malashevich, on the export data from Singapore, when you were looking at that,

is there a lag issue with respect to exports versus imports? And if there is, we're supposed to be looking at a 12 month period and I understand that it may not matter overall since the number apparently is quite low, but if there is a lag can you provide for that?

MR. MALASHEVICH: We will be giving you monthly data that you can arrange in any manner you'd like. But what we did to verify the accuracy of the Singapore statistics was to look at the questionnaires, the importers questionnaires.

So for the periods indicated, which as you know are annual periods, '99 through 2001 and the first half of the last two years, they are very closely in sync.

MR. FEATHERSTONE: Thank you very much.

We'll take another ten minute recess while we change panels.

(Recess taken)

MR. FEATHERSTONE: Can we resume the conference, please?

Welcome. Mr. Smith, please proceed at your convenience.

MR. SMITH: Thank you very much, Mr. Featherstone. My name is Harrell Smith. I'm with Gardner, Carton & Douglas.

This is the second case you will have heard about this morning where Commerce got it right and the imports from the Sichuan Vinylon plant in China were the only imports that were awarded a zero rate of duty in the underlying case. Which leads me to the observation that when one hears about "these Chinese", who is being talked about?

With that introduction let me ask for the testimony of Joseph Rabaglia of Wego Chemical.

MR. RABAGLIA: Good afternoon. My name is Joe Rabaglia and I'm the Product Manager for Polyvinyl Alcohol for Wego Chemical. I've worked in the Polyvinyl Alcohol field now for slightly over 16 years and my background is I'm a chemical engineer.

Wego has sold Polyvinyl Alcohol produced by Sichuan Vinylon Works now for 20 years and Wego imports approximately 90 percent that Sichuan sells to the United States. To my knowledge, 100 percent of the PVA that is imported from China is sourced from Sichuan. The other Chinese producers simply do not have the quality to import product into the United States.

Let me discuss an issue of causation of injury.

Sichuan has always fairly traded PVA to the United States and Sichuan is the most fully-integrated production facility in the world. They are more fully integrated than

they were in 1995. Sichuan Vinylon Works is the lowest cost producer of PVA in the world also.

As Harrell mentioned, Sichuan was the only company investigated in previous PVA proceedings that received a zero dumping margin from the Department of Commerce and therefore the sunset review had no impact on Sichuan. The prices that Wego has paid since for Sichuan's PVA have been stable and have recently increased.

In 2001, the year in which the PVA antidumping duty orders were revoked,

Sichuan increased the price that it sold its PVA to us significantly and we passed this increase on to our customers. Clearly then, nothing has changed in terms of cost or pricing since the department issued a zero dumping for Sichuan that would warrant an antidumping investigation.

U.S. imports from China have declined dramatically over the period of investigation. In 2001 Wego's imports from China decreased by approximately 50 percent in comparison to what we imported in the year 2000. Demand for PVA in China has grown exponentially in recent years and it's expected that demand in China will continue to increase markedly for the foreseeable future.

An important statement here. China has become a net importer of Polyvinyl Alcohol. Revocation of the antidumping order against PVA from China caused no imports

from producers that were covered by the order. Counsel for Sichuan, who also will be providing testimony today, and I can speak in more detail on this issue.

If the condition of the domestic industry is depressed I want to point out some core reasons why.

As the Commission is well aware from its previous PVA proceedings, Air Products, which is now Celanese, built its Pasadena, Texas plant almost exclusively in order to service Monsanto which is now Solutia. In recent years I believe from commercial contracts that Celanese's position with Solutia is in doubt, or Celanese may have post position. But the point is that has no result from competition from imports.

I also agree that the price paid for PVA, for Air Products' PVA facility by Celanese was excessive and enlarges Celanese' costs.

The second most important factor is the depression in the textile industry and general recession conditions in the U.S. market. All sellers of PVA in the United States have experienced difficulties in recent years due to reduced demand for PVA in virtually all industries and applications in which PVA was used, PVB aside.

Celanese and DuPont though have been especially hard hit because they made business decisions to focus their emerging market sales to U.S. textile producers, and as the

Commission knows, the U.S. textile industry is contracting permanently. The Commission should look into the effect of the role that Chapter 11 filings by U.S. textile companies play on the condition of the domestic PVA industry.

If an antidumping order on PVA goes into force more textile users and more importantly more textile blenders will move their products overseas, just as happened in the Indigo Case.

China-produced PVA has a very limited marketplace in the United States. Due to molecular redistribution and hydrolysis ranges Chinese-produced PVA cannot be used in certain high-end applications.

Some of the most lucrative accounts in the industry are these market segments. The manganese segment of the domestic PVA market has been increasing significantly in recent years and is expected to continue and grow in the future.

The domestic industry and foreign producers from some of the other subject countries can and do sell PVA in the United States that is used in such applications. However, no Chinese manufacturer is capable of producing such PVA and has no intentions of developing such capabilities. Thus Chinese-produced PVA does not compete in these lucrative and growing segments of the PVA market.

In the first PVA investigation Japanese producers

were able to avoid the antidumping order by exporting a co-polymer form of PVA to the United States. The Chinese, however, do not produce such co-polymer grade.

For the reasons I have discussed we will urge the Commission to make a negative injury determination.

Thank you very much.

MR. PERRY: My name is William Perry of the law firm Garvey, Schubert & Barer and we are here representing Sichuan Works today.

Before I introduce one of our customers, H.B. Fuller, I'd like to make a few comments on threat.

Contrary to the petition, imports from China have not surged, they have declined. They have declined and we know it because Sichuan is responsible for 100 percent of the imports. The other Chinese producers simply don't have the quality. More important, they don't have a reason. There is no intention. Why? Demand in China is going through the roof.

We will be supplying in out post-conference brief Chinese export and import statistics for Polyvinyl Alcohol. They will reveal two facts. One, the export statistics will show that exports of Polyvinyl Alcohol from China have declined, and the import statistics will show that China has become a net importer in the last two years of Polyvinyl Alcohol.

Sichuan is presently at 101 percent of capacity utilization. I was there last week in Chongqing and I said how could you be at 101? They said that's design capacity and we're trying as hard as we can to push it up.

Why is the demand so high in China? A couple of reasons.

Number one, the textile industry. Obviously in China the textile industry is huge and more importantly, there's an additional use in China. In China PVA has been authorized as a substitute for asbestos in building material. So what's happened, and we understand that may also be true in Europe but it is definitely true in China. So what's happening is PVA is being substituted for asbestos, so think about the market and the market is huge. Maybe Celanese and DuPont should start exporting to China.

And right now, this is why Sichuan is expanding its capacity. It has no intention of targeting the U.S. market. The demand in China is huge and keeps going up all the time.

I'd now like to introduce Alan Longstreet and Joel Hedberg of H.B. Fuller, one of our customers.

It's very interesting, about a month ago we were here in a the Saccharin Case and we're seeing the same thing in PVA that we saw in Saccharin. We have a multinational company how here, H.B. Fuller. During the original

investigation when they put the dumping order in place, the price of Polyvinyl Alcohol in the United States was the highest in the world. How do they know? They have subsidiaries around the world.

What's going to happen here is simple. If a dumping order goes in place, H.B. Fuller has got two choices. Either the source like the did before from Sichuan with no dumping margin, or they simply move their production overseas to another location. That's what's going to happen. This has become a multinational market, a global market for PVA We're into Internet bidding and everything else.

There's a huge change in market structure in the last four or five years throughout the U.S. market and throughout the chemical industry that is becoming more and more global, and Alan can describe that more in detail.

Alan?

MR. LONGSTREET: Good afternoon. My name is Alan Longstreet. I am Vice President of North America, H.B. Fuller.

I listened to a number of people explain their years of service in the industry. I feel like an old man. I've been in this business for 30 years with H.B. Fuller and three years prior to that I was with Gordon Chemical, so for 33 years I've been in the adhesive business, a business that

hasn't been talked about much today. We've talked about the textile industry and other industries, but you're going to hear about the adhesive industry.

The H.B. Fuller Company is a Minnesota corporation that has been in existence for 115 years. That's a long time. We've been in the glue business for 115 years. We're a global manufacturer and a supplier of adhesives, sealants and coating with annual sales of $1.3 billion. We have manufacturing sites in 21 countries -- North America, Latin America, Europe and Asia. Our largest operation and sales are still in the U.S..

We are here because we are a purchaser and an importer of PVA. We do not purchase PVA for resale. We purchase strictly for use by H.B. Fuller as a raw material for the manufacturing of adhesives.

Raw materials are our single largest cost component of adhesives at H.B. Fuller. PVA is a key raw material for the manufacturing of H.B. Fuller's adhesives. It accounts for 5 to 20 percent of the total cost. For some dry blends it's as high as 95 percent of a dry blend.

When U.S. imports of PVA were under pressure by the previous antidumping order, U.S. prices for PVA, as you just heard, were the highest in the world. We know that because we have operations around the world buying PVA and many of us have sat through management meetings where you

talk about PVA around the world by location, and during that period of time the U.S. stuck out like a sore thumb.

We are at a significant disadvantage in the U.S. compared to our foreign adhesive competitors. It's manufactured overseas and have the product imported into the U.S..

During this period we reviewed several options of producing outside the U.S.. We studied it in the year 2000 and began implementing in 2001 before the antidumping order was sunsetted to purchase PVA directly from Sichuan Vinylon in China, and acting as our own importer of the PVA. This source offered pricing which was in line with worldwide pricing and had been determined by the U.S. government that Sichuan Vinylon was not dumping PVA into the U.S..

We buy the PVA FOB China, from a China location in Guangzhou, the warehouse. This price was offered throughout the world to all H.B. Fuller locations. However, many of our locations did not switch to the Sichuan Vinylon material because they had no reason to, because the prices outside, as I mentioned earlier, for PVA were significantly lower than the prices in the U.S. so the Sichuan price was very competitive with the European prices, the Latin American prices and the Asia prices.

After the antidumping order was sunsetted in 2001, we did see a drop in local prices for PVA. The prices came

in line, however, with the worldwide prices. I think you heard some of this information earlier as it relates to some of the prices in Europe.

If a new antidumping order is issued, it is safe to assume that the U.S. prices for PVA will again become the highest in the world. If that happens we, H.B. Fuller, will be forced to consider other options. There are two. Produce outside the U.S. the finished products and bring them into the U.S.; or, as you've heard other testimony, consider purchasing from places that are not within this such as Taiwan.

We operate on a global stage with global customers and price pressures from the foreign adhesive producers. There advantage in the U.S. market will go to either foreign adhesives or domestic producers who can source PVA outside the antidumping order.

Now I earlier heard some comments about global customers. Being the size that we are in the locations that we are, we have global customers. We are very attuned to global pricing. In that sense they have a choice. When the countries supply them they have a choice of where they want to source the material and you heard all the conversations this morning about prices. They will source at the lowest cost producer's location. They can import into the United States from our plants outside the United States the

finished product, the adhesives. They will go to the lowest cost producer.

I want to thank you for your time and I will enjoy answering any questions that you have at the end.

Mr. McGRATH: Good afternoon. I'm Matt McGrath of Barnes, Richardson & Colburn representing Clariant Corporation. We are I guess representing the German arm of what you heard described this morning as part of the vast Kurary evil empire. With me today is Mr. Jeff Saeger who will explain to you why that is a mischaracterization.

MR. SAEGER: Good afternoon. I'm Jeff Saeger. I'm Product Manager, Surface Chemicals for Clariant Corporation. We are a large U.S.-based or U.S. manufacturer of specialty chemicals and we're located in Charlotte, North Carolina.

I've been with the company 11 years now and prior to my current position I was the Technical Director at a paper mill.

After listening to Petitioners' comments I'd like to point out that it seems that the only reason that [streamant] producers were included in this investigation is that our plant was recently purchased by Kurary, and I'll go into a little bit of the history about our plant.

Clariant is the sole importer of German-manufactured PVA. Prior to January 1st of this year we were

a sister company. They were part of Clariant Corporation.

In 1997 Hoechst Specialty Chemicals and Clariant merged. That's when we acquired the PVOH plant or Polyvinyl Alcohol plant in Germany.

Prior to the merger, Hoechst chose to go through local distributors, mainly Gary Montgomery in the U.S.. This distributor serviced specialty markets in the U.S., mainly pharmaceuticals, construction inks and cosmetics. When the Gary Montgomery distribution agreement expired in 2000 we started direct sales into the U.S. market. As I mentioned, later this year or earlier this year we sold the plant to Kurary, however we still maintain strong ties to the German company.

We continue to service our customers in the specialty markets mentioned earlier, and we have increased sales in the U.S. paper market where Celanese has intentionally reduced its presence.

The PVA which Clariant imports from Germany is one of the highest priced of any supplier subject to this investigation and is a very high quality. It has a low ash content which makes it desirable to many customers, low volatile content, and it has very consistent properties due to our manufacturing process.

The German material also has a low ducting tendency preferred in paper manufacturing processes as

opposed to some of the finely ground domestically manufactured material.

Imports from Germany have always represented a small portion of the U.S. market and remain so for the foreseeable future. We have seen heightened customer interest in PVA for paper products in recent years due to changes in the U.S. marketplace. After Celanese purchased Air Products in September of 2000, they cut sales and technical staff and reduced the company's service and marketing capabilities, especially to the paper industry.

By contrast, Clariant has developed a strong partnership with our paper customers in North America, having a technical support staff dedicated to service the specialty paper chemicals. This is one factor that Mr. Becker explained is the reason for cost differences in different markets, let's say paper versus textiles and adhesives.

We assist our customers in optimizing usage, increasing output, improving efficiencies and product development. Celanese and DuPont do not make these extensive commitments since they do not offer the same PVOH and in some case other paper chemicals. Typically Clariant can sell our products, our PVOH and its other products at a premium because of its level of service. We also have the advantage of offering a wide product range of molecular

weights and varying levels of hydrolysis as well as various other specialty chemicals and this is what makes us unique.

We have a synergistic effect with many of our products such as optical brighteners. We're one of the largest suppliers of optical brighteners to the textile and paper industry. Floor chemicals which are widely used in the production of oil and grease-resistant papers, and ink jet coating compounds.

This broad product range is very attractive to our customers because many of our customers are consolidating suppliers due to staff reductions in the procurement portions of their company.

DuPont's focus has been on the production of PVA for internal consumption. They sell excess output particularly to the textiles in the east markets. In the paper market, for instance, DuPont has offered a limited PVOH product range and has required many smaller customers to buy truckload quantities or purchase through a distributor. This sometimes increases their customers' costs.

Celanese and DuPont cannot be claimed to be injured by our imports. The petition makes the irrational claim that Kurary's ownership will lead to a rapid rise in German sales to the U.S. market. There has been no history to suggest such a possibility and no decline in German

production costs which could conceivably support increased shipments of low-priced product. Not only do we not compete directly with U.S.-produced PVOH of Polyvinyl Alcohol, our prices are so high that we are effectively excluded from certain end use markets such as adhesives and textiles.

Petitioners had a difficult time even alleging a dumping margin for Germany.

Thank you, and I'll be pleased to respond to your questions.

MR. BOGARD: I'm Lawrence Bogard from the law firm of Neville Peterson. With me this afternoon are Mr. B.I. Cho and Mr. Steve Kwon from OCI International. OCII is the U.S. sales affiliate of DC Chemical Company who is the manufacturer and exporter of PVA from Korea. I'm going to present simply a brief statement highlighting several important facts that OCII believes are significant to this investigation, and Mr. Cho and Mr, Kwon are available for questions if necessary.

As you're aware, certainly, Korea was named as a subject country in the previous antidumping investigation of PVA, but was excluded from the Commission's determination because the important from Korea were found to be negligible. While in the current case it may be true that PVA imports from Korea no longer fit the statutory definition of negligibility, that doesn't mean that Korea is

anything other than a very small player in the U.S. market.

According to both the petition and DC Chemicals' questionnaire response, imports from Korea were less than four million pounds in 2001, and on the basis of chemical industry publications and public data, OCII estimates that would put Korea's share of U.S. consumption at something between one and two percent.

The petition itself shows that since then the quantity of imports from Korea fell substantially in the first half of 2002.

I think in order to put the imports from Korea in a proper perspective, one should examine U.S.-Korea bilateral trade in PVA and one can do this based on official U.S. statistics. Those data show that Korea imported from PVA from the United States in far greater quantities than it exported to the U.S. in every year of the Commission's current investigation period, and further, that for the total period from 1999 through July of this year, total imports into Korea from the United States exceeded Korea's exports to the United States by over 4.1 million pounds. Remarkably, in the first seven months of this year when Korea's exports to the United States declined by eight percent, U.S. exports to Korea surged by 40 percent. So clearly the U.S. is dealing in far more PVA to Korea than Korea is dealing here.

The growth of the volume in imports from Korea into the United States to the extent it's taken place reflects OCII's successful pursuit of niche markets in the United States rather than low pricing. In fact OCII's prices on average have increased during the Commission's period of investigation and that would be corroborated by the average unit values shown in the petition which show an increase in import values on a unit basis of 17 percent in 2001 compared to 1991.

The bulk of OCII's direct sales go to end users in the packing materials industry. and OCII's independent U.S. distributor sells to manufacturers of specialized construction materials. In general these niches are not occupied by domestic producers or by any of the other countries that are subject to this investigation.

In this context OCII would note the products manufactured by different companies are not necessarily fungible even though they may be manufactured to the same nominal grade. There can be differences in the physical characteristics among the same grades of PVA made by different manufacturers. Some end users in OCII's experience are highly sensitive to these differences. Competition that OCII sees in its market niches generally comes from Spain and from Taiwan.

In short, PVA imports from Korea are smaller in

volume that U.S. exports to Korea. Prices for PVA imports from Korea are rising. PVA from Korea is generally sold to specialized end users in market niches where the competition comes from Spain and Taiwan. These facts simply don't provide a reasonable indication that imports of PVA from Korea are causing material injury to the domestic industry.

Finally I'd like to say a brief word about threat. I've already observed that U.S. exports to Korea exceed the imports from Korea. This situation's only going to change if the U.S. industry decides to withdraw from the Korean market. I direct your attention to DC Chemicals' questionnaire response which documents DC Chemicals' high production capacity utilization rate and the absence of any plans by the company to expand that capacity. There's simply no likelihood that imports from Korea will increase the levels that would be harmful to the U.S. industry.

Indeed, when one considers that U.S. origin PVA accounts for about 10 percent of consumption in the Korean market it would appear far more likely that the U.S. industry poses a threat to Korea.

That concludes my statement.

MR. FEATHERSTONE: Thank you all for your testimony.

Mr. Cassise?

MR. CASSISE: Good afternoon. I would like to

give this panel an opportunity to participate in the discussion that I had with the last panel regarding the commodity versus specialty grades. Mr. Bogard touched on it with the Korean product. If Mr. Kwon and Mr. Cho could expand on what makes your product so special and why aren't they produced here in the United States, that would be helpful.

Mr. Saeger, you didn't really touch on that issue with regard to imports from Germany. If you could, that would be helpful.

And Mr. Longstreet, from the Chinese, that would be helpful as well.

MR. CHO: Some local customers require very specified specification and the properties including not only physical and chemical properties, some companies dislike dust. Some products from our associates, either from United States or overseas, contain a lot of dust. The season of wintertime, they don't like the dust, so the workers hate inhaled the dust out of the process. So they prefer to use the less dust product, the DC Chemicals products. In this instance we call it specialized grade.

MR. CASSISE: Does DC Chemical become a qualified manufacturer and then enter into long term contracts with these customers?

MR. CHO: We used to have such long term contracts

but we can't because at the monomer price, the PVOH price will be determined based on the monomer price in the world. And also the price of acetic acid which is by-product. When you produce the PVOH we will have by-product, substantial amount of acetic acid. So based on the market price of PVOH and monomer, PVOH price will be determined.

MR. CASSISE: Thank you.

MR. CHO: We used to import the monomer from overseas before Korea started the production of monomer locally. But even now we still import a lot of monomer from overseas as well, including the USA producers, including the Celanese.

Mr. McGRATH: I can speak in regards to mainly the paper industry. That's what my knowledge is in. I know a little bit about what our other division sells into, though, the pharmaceuticals and the cosmetic industry. We talked about that a little bit before about the liability risks that are associated with that and our plants are, our plant that we source from meets some of those requirements. So more specialty products.

In paper we see our products, as I mentioned before, work very good with some of the other products that we sell. Optical brighteners is a large portion of our business and there are millions of pounds of that consumed in the paper industry and there's a trend for higher

brightness coated papers in the marketplace and optical brighteners in PVOH or Polyvinyl Alcohol go hand in hand there. A lot of times this application is very specialized, knowing what brighteners and what product that we should recommend.

So it's a combination of service and having the ability to offer a whole product range to our customers that some of the domestic suppliers don't offer. And certain, like I said, certain of our customers have reduced staffing and have the wish to, like they say, one stop shopping, be able to buy other products from one consolidated supplier. So that's what really is driving the level of service that we provide and the other products that we offer.

MR. CASSISE: But there is a share of German product coming in the U.S. that is not available from U.S. producers.

Mr. McGRATH: There's a few specialized grades that come in that we bring and sell into paper.

MR. CASSISE: If you could estimate that share of total German imports in the post-conference brief, that would be helpful.

Mr. McGRATH: Okay. We'll be happy to do that.

I did want to point out that there are some distinctions. The grades of PVA that Clariant, as I understand it, Clariant sells in the paper market and the

paper industry are, as Mr. Saeger testified are of a certain level and quality but they are supplying this as a product which is sold very heavily on service and not, I know there was a lot of discussion this morning about what is a commodity product versus what is specialized molopolymer versus a commodity molopolymer. I don't know where we fit in there and I'll reserve judgment on that. We can address it later.

But it very much is a market where Clariant is selling to various market segments that really weren't discussed all that much this morning and don't appear to be the areas where the Petitioners have focused their efforts and are most concerned about their losses.

MR. LONGSTREET: I listened to the testimony this morning and earlier this afternoon, and I sit back there and I try to divide this thing up as cleanly as you would like to divide it up. Most of the companies, everybody thinks what they're doing is specialty, and reality checks in and you get back to the 80/20 rule that was mentioned this morning.

For us we look upon PVA in those cases as a commodity. But this is where your problem runs into. Once you get into that area within the commodity PVAs there are different grades and different specialties. For example, here we do not source all of our PVA out of China. We

source it from a lot of the people in the room here that have testified because they have different grades that are available, but we don't have one supplier who has all grades of what I would define as a commodity PVA. It's not as easy to slice and dice this way because we look for different performance properties out of the PVA that we use in the adhesives and there are different performance properties in the dry blend, and there are different performance properties that you find in the non-woven industry versus the automotive industry because you have specifications that you have to meet. So it's really hard to slice it up. We will attempt to do that, but I have to say out in front I look at a lot of it as commodity but then you slice and dice and pretty soon you're saying isn't that specialty? That's the problem.

We'll get our information to you. Thank you.

MR. RABAGLIA: There's one market sector that I can bring up and I'd like to answer in more detail in our post-conference brief. But there's one issue that wasn't discussed at length which is somewhat important, is the particle-size distribution difference between a Celanese product and a DuPont product.

I think the best way of describing it is that a DuPont product you can look at a 50 pound bag of baby powder and the majority of other producers you look at a 50 pound

paper bag filled with a brown sugar type of granulation. You can see the size differential between the two products.

DuPont has a problem with that because a lot of end-use customers can't interchange and use their product in their system. They have a system that's set up and designed specifically for product distribution for brown sugar type product. They can't just easily take then a DuPont product and say we're going to use that in our system. Major changes would take place.

So we play an important role in a lot of the end user customers that we compete with Celanese in those type of accounts. So we're really not competing specifically with DuPont, but we're not competing with DuPont because they're not able to compete in those industries.

I'd like to elaborate more on that in our post-conference brief.

MR. CASSISE: Thank you. Yes. Any interchangeability issues that you can address in the brief would be helpful.

The rest of my questions I would just invite this panel in their briefs to address any of the questions that I asked of the other panels.

I thank you for your time.

MR. FEATHERSTONE: Ms. Alves?

MS. ALVES: Good afternoon. Thank you again.

we've had some terrific answers. It's been helpful, but again added even additional layers of confusion.

Without trying to add any additional layers of confusion, would each of you address what your position is on whether or not there is a single domestic like product if you can here, or if not in your post-conference brief.

It appears as though it's going to be in the post-conference brief.

MR. BOGARD: I'll address it briefly.

I think there's an important distinction to be made in the arguments that we are making between like product where I doubt we will make a separate like product argument and causation where products in relatively small volume are being sold only into specialty niches of the market where the domestic industry doesn't compete, and I think that's the distinction you need to be focusing on.

MR. LONGSTREET: Just one other comment. When you talk about like product, you cannot substitute one supplier for another even though they say they're like products. We have to go through a lot of testing, evaluation, and scaling up in production to prove to ourselves that they perform similar.

You heard some testimony earlier this morning, two different companies saying they make PVA but the use a different process. Well, what's the assurance that they

make like products coming out of two different processes? That's why we have to go through a lot of testing and evaluation, even though someone says, they use an expression, this is a "drop-in", it's only Polyvinyl Alcohol and it's no problem.

MS. ALVES: That's good. Any additional information that anyone can give us in terms of qualification requirements, specifically which producers in the world are qualified to supply particular purchasers, particular distributors, particular segments of the industry, the pharmaceutical versus the textile, any of these distinctions that you feel are clear out there would be very helpful to the extent that you have specific companies that you can tell us are definitely selling into the pharmaceutical area or to a specific producer or not to a specific producer, or who has definitely been qualified or not qualified to supply particular segments would be helpful.

I know a lot of the arguments this afternoon have been directed towards whether or not the domestic producers are qualified to address, to serve particular purchasers or segments or what have you. If you can also talk about the other producers throughout the world, both the subject and non-subject producers as well.

This may come down to a causation issue, but I'm

also interested for purposes of cumulation whether or not there are any differences in terms of how many countries are capable of supplying the paper segment. It seems like there may be some overlap in the paper segment, perhaps between the German producers and the Japanese producers. I don't have a feel for that, but at least based on your testimony this afternoon, maybe that's the case.

Mr. McGRATH: There is some overlap. I was going to comment on whether we divide it up as a like product question or a cumulation question. First I wanted to echo what Mr. Bogard said and point out that what we've really been talking about is not so much a specific like product argument here. I think some of the products may have like product arguments, but it's been more of a market segmentation and causation type of an argument.

And I think it's helpful to go through the cumulation criteria when you have a country like Germany where you've got all of the imports sitting right here and all of the exports and you know, you can pretty much tell from the data we've provided what the markets are.

I think it's useful to go through the cumulation analysis to decide whether or not in that case, since Germany is not selling at all basically to the textile market, and the adhesives market. You can get the entire quantity in front of you and do the analysis at least for

that one supplier. We would certainly urge you to do that.

We will analyze each of the elements on cumulation. We think there is a case to be made for considering Germany separately. Not in all elements but in some elements. At the very least it will highlight for you where the market segmentation takes place and I think you'll find that causation has been implied for the entire range of PVA when it's really a fairly narrow area that they're really complaining about.

MS. ALVES: Okay.

There has also been some testimony this afternoon suggesting that for purposes of any threat analysis that there may be differences in terms of some of the additional factors the Commission considers the threat.

Would anyone care to elaborate on that? Would you be comfortable telling me here what your position is in terms of whether or not the Commission should be cumulating countries for purposes of any threat analysis?

MR. PERRY: I'll just mention on China, I think this is a real issue in the flat area because you have a very different situation. Petitioner has basically argued that everybody is focused on dumping everything possible into the U.S. market. This is the first time in a Chinese case I have never been in, and I handle a lot of them, where China is a net importer of product into China.

This is a very different situation. So it is very hard when you take a look at China, and if you were to analyze it separately, and say they threaten material injury to the United States when they are importing more than they export, demand is going through the roof because of an entirely new use, and the use is in the -- it's a substitute for asbestos.

And this means there is so much demand now in China that really very little is going to leak out to here, and that's why you see the imports declining. It is a very different trend in China than some of the other countries.

MR. RABAGLIA: I have somewhat additional information to add on that. Being involved with China now for 17 years, I am well aware of their PVA facilities and why they were built, and they were built 50 years ago for textile purposes of manufacturing actual clothing. They had polyvinyl alcohol.

It's been mentioned that the market sector there has changed dramatically, but the factories haven't. They are very antiquated systems. Their production facilities could not produce polyvinyl alcohol to meet the limited standards here in the United States, and it is very evident because in -- I believe it was in 2001 the sanctions were lifted on all the other factories that produced polyvinyl alcohol in China. They claimed that this wave of polyvinyl

alcohol is sitting on the ocean ready to crash into the states. Not one pound has come in from all those other factories. Not one pound of polyvinyl alcohol has come into America during the last 14 months or 16 months that the sunset review allowed those companies to import into the states.

So I am wondering where all this -- I would to mention they brought about these inventories, I speak to Sichuan Vinylon Works three - four times a week in the mornings, and he basically is purchasing directly out of their production facility. We even changed where we had to purchase our product. Maybe five or seven years ago the majority of our product was purchased out a Guon Jo warehouse where the Guon Jo warehouse doesn't exist anymore, and the reason why it doesn't exist is because as quick as they product their product it's being told. They would have to bid long basically right now to get the volumes necessary to bring into the United States because of the all the demand that is taking place right now in China. It's for real.

Thank you.

MS. ALVES: With respect to the question of using PVA produced in China to supply the demand for the new asbestos applications, is it only the polyvinyl alcohol that is being produced by the other Chinese producers that is

suitable for these applications, or is it a fairly easy application for Sichuan as well to be serving?

MR. PERRY: Sichuan is probably the highest quality, but they told me when I was there last week that, you know, it's now -- a lot of it is going into it as a substitute for asbestos. So it's not just -- there are other producers of lower qualities of Sichuan, but it's also there is just so many uses now in China. The industry has so grown in China in 10 years it's unbelievable.

Go to any clothing store and take a look; all made in China. And what is happening as a result there is so much demand now in China that it's absorbing and it's pulling in from the world market.

MR. RABAGLIA: I can add one more aspect on that. The other factories that we are discussing and not multiple grade producers of polyvinyl alcohol, they only make one grade. It's a fully hydrolyzed product that has a leading viscosity. Hydrolyzation is usually over 99.5 percent. It's a very limited scope that these factories produce. They are not multiple grade factories. They just produce one single grade and that's the single grade that's right now going into the asbestos substitution.

So the answer to that is that's where the consumption of the alcohol is going right now and where it is being directed.

Sichuan can produce those grades, yes. Sichuan is the only factory that can produce multiple grades of polyvinyl alcohol in China.

MR. LONGSTREET: You heard testimony before, to look at this picture of China, you heard the term "VAM" being used. Now think of the explosion of polyvinyl alcohol consumption. There isn't enough VAM in China to support this explosion. This is why you are getting the imports coming in. These two things are tied together, earlier this morning they were tying them.

So the fear of threat of China is kind of hard to define that actually exists because there is other shortage problems that are tied to the polyvinyl alcohol. If you could make the right grade and everybody could make the right grade, they still have to have VAM. Without that, they can't make the polyvinyl alcohol.

MS. ALVES: There has been considerable discussion today about differences between PVA for non-PBB applications and PVA for PBB applications.

What are everyone's positions with respect to significance of these differences, if any?

MR. BOGARD: DC Chemical doesn't make it, so I don't have a comment.

MR. PERRY: I might just mention one thing. I was in the replacement of windshields, and what is interesting

if you look at the Commerce Department decision there, you will note that all the Chinese producers of windshields were importing into the country. Where they were importing it from, a lot of it was coming out of Dupont, and it was all coming in, some from the states and everything else.

So this is -- they don't have much PBB production. In fact, they have none in China. I think there is very little Chinese product going into production in the United States.

MR. McGRATH: If I could just comment on that briefly. Clariant is no longer a producer in Germany, but they have -- they have this experience from having been a producer of both PVA and PBB, and we have some specific information on that that we can provide, I think, in the post-hearing brief in confidential form.

MS. ALVES: Again, and you may need to address this in the post-conference briefs, if you could also state your positions with respect to whether or not the captive production statutory requirements have been met in this case.

Those are all the questions I had at this point.

MS. PREECE: Amelia Preece from Economics.

I think one issue is world demand for PVA. With the change in demand increasing so much, would you disagree with the U.S. producers that total of world demand has gone

done recently? And if we could get some information on that, that would be very helpful.

MR. PERRY: We will try to supply some from China. We will give you the import and export statistics. I know that we are trying to get as many articles as possible about that in China. But yeah, in Asia, all of Asia right now, the demand for PVA is increasing. It's not declining.

Now, I don't know how that affects worldwide demand, but in Asia it's up, not down.

MR. RABAGLIA: We also represent polyvinyl alcohol in other countries, not just the United States. I am familiar with a lot of other markets where polyvinyl alcohol is sold. And when they made that statement this morning that overall world demand for PVA has gone down, it's quite opposite. It's growing rapidly.

And when Mr. Perry spoke about on how China was growing, and a statement that was made also by the Celanese organization in one of the recent publications, I think it was Chemical News, is that we are not finished in our polyvinyl alcohol program. We are going to buy in Asia a producer of polyvinyl alcohol. That statement alone indicates that they recognize that in Asia right now the growth of polyvinyl alcohol is going through the roof, and that's why they want to own a manufacturing facility in Asia.

And I know on many occasions with Sichuan Vinylon Works, perhaps inquiring on whether or not they could purchase that facility being the most fully integrated production facility in the world. The growth of PVA is growing expedientially in Asia, and one other market sector that they discussed, the consumption going into PBB.

And if you just go outside after this meeting and take a look at an automobile and recognize how much production of PVA right now is going into PBB, and look at the rest of the glass that's on a mini-van and how much more that would change the volume of production of PBB and consumption of PVA, that's an expediential growth.

And the type of architectural windows that are going into place right now all being PBB into the glass, I think it easily states that this market is going to go through the roof and it's on its way, and perhaps some of these production capacity increases that are taking place within the world right now and justifying why they are doing it, there is growth. People are not going to invest hundreds of millions of dollars to increase their capacity in a dead market. It doesn't make sense.

MS. PREECE: Thank you.

If we can work on just getting any numbers that would be meaningful on the amount of growth, that would be very helpful.

I think Mr. Longstreet discussed something about cost of shifting suppliers. Could you develop on that for me a bit? How long did it take to shift suppliers? How much cost? How reluctant? How much of a cost differential is going to be causing you to shift suppliers? And perhaps some of the others as well might be able to respond.

MR. LONGSTREET: I can't exactly disclose the numbers, but what you are looking at is there are certain products the amount of lab time and scale-up, it's not worth switching. It doesn't justify the differential in the price. It has to be in the larger products.

And we also, as I had mentioned earlier, is a lot of our customers don't allow substitutions without evaluation. And you heard some testimony this morning about some of the customer testing costs. We have to, in making those decisions, prove to the customer that they are going to have some economical benefit in making that change.

So we will put some of these costs together for you in the brief. Okay. Thank you.

MR. SAEGER: Many of our customers go through the same procedures. If they change a raw material, they are qualified, or requested by their own users to give them documentation, and there is also a lengthy process in some cases of changing raw material. So it is -- it is a lengthy process sometimes.

MR. CHO: Your question is how -- how long will it take from the loading port to --

MS. PREECE: No.

MR. CHO: The qualification issue, of course, it will take long time because as was pointed out we supply the spec sheet, the sheet of specifications, and then they rebuild it, and after that they require a small amount of sample, and then they will test and analyze in the lab. After that they disqualify it, and they ask for a sample for field test. So more or less it depends on the amount of tests, but it will take couple months just to, you know, maybe to a year.

MS. PREECE: Okay. If -- when you answer this question in the brief, can you actually give me an idea of what percentage of this product that is sold is -- uses this amount of product? Obviously, there must be some where it's less important, perhaps textiles. And so I want to be as clear as possible as to how much cost this is, how much of this slow down shifting between suppliers, and how much is covered by that kind of a cost and not covered.

As Mr. Meltzer said, some areas will be completely closed off, and that there is a huge difference and that would be -- so I want a whole range of what is going on to show what is occurring there.

In your post-briefs, if you can talk about the

pricing products. Are these pricing products representative of the products coming from the countries? And if we going to a higher, what would be appropriate pricing products, and that might be better or be more appropriate for your countries?

And I think one of the questions which comes up and comes up throughout this is the range of products for the importers versus the range of products for the U.S. producers. As much as possible, I would like to clarify where there is an overlap, where there is not an overlap, and between U.S. and subject and non-subject, whether it is many dimensions of overlaps.

And also about industry, what industries are we talking about in these areas cases, the end user industries, and if you do have data by end user industries. And I think that's all for now.

MR. DEYMAN: George Deyman, Office of Investigations.

To what extent do importers or distributors commingle things from different country sources, if at all? And it would be helpful to know for those of you that import from more than one country, is it ever mixed together or commingled in any way?

MR. LONGSTREET: In our case, no.

MR. DEYMAN: Okay.

MR. SAEGER: We sole distribute material from Germany that is manufactured at one plant. That's it.

MR. BOGARD: OCII only distributes from Korea.

MR. DEYMAN: Right. And to what extend do end users know the country of origin as far as the PVA that they purchase from you, and to what extent do they care?

MR. SAEGER: Yeah. We make our customers very aware that it's coming from Germany since we owned the plant at one time, so they are very aware of what were the origin of the product is and the country of the product.

MR. PERRY: George, I think I am going turn over to Alan again, but I just wanted to say it is often not the country as much as the characteristics of the product. So as a result of the characteristics you have to keep them separate.

MR. LONGSTREET: I must say I can't think of a single customer that knows where polyvinyl alcohol originates or comes from because see we are taking that product and putting it into a finished product to the customer. Where they expect, we have to disclose that we have changed sources, but they don't ask who that source is. It's just that you're saying I am going to do now on my formula, which they have a copy of, I'm going to put this number in, this is a different number, and that's where you go through the testing on it. So there really isn't that

kind of question.

MR. SMITH: I think Mr. Deyman has a very interesting question and we'll answer on post-hearing.

MR. DEYMAN: Thank you. I have one more question.

The unit value of the imports from China according to official statistics has increased each year in recent years. However it decreased by 13 cents per pound between January to June 2001 and January to June 2002 which is about 17 or 18 percent. Why the decrease? Would you say it would be product mix or simply a price decline or a decreased demand in the United States or what? You can answer now or in your post-conference brief.

MR. PERRY: Post-conference brief for us.

MR. SMITH: Post-conference for us.

MR. DEYMAN: Very well. I have no further questions.

Thank you.

MR. LONGSTREET: One of the things that we experienced is logistics, and there's a very large logistic cost coming from other countries here and then the inland freight. So as everybody has done, you're looking at total cost of ownership and getting onto the logistic cost and doing a better job logistic wise on these imported products to take some of the cost out. The most obvious to me, when you quoted those dates I know in our particular experience,

it had to do with logistics as the largest contributor because we were not very good importers.

MR. SMITH: Mr. Rabaglia just advises that his prices didn't come down 13 cents a pound, so we may want to consult with you on where you got your data.

MR. DEYMAN: The data were from the official import statistics on China, but we can go behind the numbers and examine them more.

MR. SMITH: Invoice prices.

MR. FEATHERSTONE: On that general -- We'll be doing this too, but on that general point of comparing, since we've got such excellent coverage in this investigation, comparisons between your data and official statistics and advice on that would be very much appreciated. We'll be doing that too, over the next few days.

Thank you all very much for your testimony and responses to the question.

Mr. Greenwald, Mr. Meltzer, do you want a short break? Okay, we'll take about a five to no more than 10 minute break before closing statements.

(Recess taken)

MR. FEATHERSTONE: Can we resume the conference, please?

Welcome back, Mr. Greenwald.

MR. GREENWALD: Thank you. I hope I don't try your patience. We will be as brief as we can. I know this hearing has gone on at considerable length.

What I would like to do in closing is to discuss the testimony that you've heard in context first of the core issues, injury and causation.

Nobody really said anything about injury. I suppose I wouldn't of had I gone inside. There is much to say. The thrust of all the testimony is while bad things may have happened, it wasn't us. It wasn't us by volume. And it wasn't us by prices.

There's a credibility issue. What I'd like to do, if you'd just humor me a bit, would be to pull out Mr. Malashevich's, I think it's the Exhibit 2. Just take two points in time. This is the imports from subject countries and the imports from Taiwan. What I'd like you to do if you would is look at 4th Quarter '99 and draw a line through the end of the period of investigation and look at subject countries. It's a fairly sharp increase. It is a real source for concern. You cannot look at this chart and dismiss the notion, especially in a U.S. market, and we're not talking about a world market, a U.S. market where demand is declining and conclude that this is not a significant thing.

Much was said then about the imports from Taiwan.

Take the same departure, 4th Quarter '99, to 2nd Quarter of 2002. It's an absolutely straight line. If you take as your departure 4th Quarter of 2000, it's a drop. The notion somehow that this chart says something other than volume imports from subject importers matters and the volume of imports from Taiwan is not really an explanation of what is going on, I don't know what the chart stands for. In other words, I would almost be tempted to rest my case on Mr. Malashevich's analysis.

However, this analysis is part of the issue. If I can get back to testimony given on behalf of DuPont, they told you that they have a very deliberate policy of meeting price and more than a case about volume, this is a case about price and price pressures.

There's an issue of credibility here. Mr. Perry said, grandiosely, that markets in China are going gangbusters, and others said markets elsewhere are going gangbusters. I never really mastered Econ 101 but my question always ends gee, why are prices slumping? What is the problem with price if there is all this demand, especially in a period of rising costs.

Mr. Longstreet of H.B. Fuller I think shed some light on that. He said, and he is a very large purchaser in the adhesives market. He said quite directly that he buys on price because that's the nature of the business. And

that if there are antidumping duties or he does not get access to low priced, in his case Chinese merchandise, he'll move offshore.

Well, you can discount the latter point because in fact the product he produces carries a lot of water and you don't really ship his product easily from offshore. But I think you can take as a very candid admission the importance of price in his decisionmaking.

Ms. Preece had a good question for him about well how long does it take you to change suppliers?

I can tell you from the experience of the domestic producers that he can do it with alarming speed, and what I would suggest to Mr. Longstreet is that he be very careful in the way he responds to that specific question in the post-conference brief.

Now let me turn to some other issues. There was much talk about product definition and specialty product. It seems that everybody produces a specialty product but when pressed, well no, of course there is some overlap. They don't want to say there is no competition with very few exceptions. And I want to make it perfectly clear, this now is addressed more to counsel for Respondents, that we concede that there are some types of product or truly more applications where primarily because of liability reasons -- not because of anything to do with the production process or

the inherent characteristics of the products, the U.S. industry is not a participant. It's difficult to get it out on a like-product analysis because the production process is essentially saying the inherent characteristics of the products are essentially the same. But I can assure you that neither DuPont or Celanese has the slightest interest in crafting an order that harms the operations of producers or purchasers that they do not, for again, largely liability reasons, supply.

So my invitation is, we will amend the petition if an exclusion can be crafted and we will not -- this isn't a game, it's not the sort of thing we're willing to back off. We are genuinely interested in getting out from the scope of this product that for legitimate reasons there is, for which there is no U.S. competition. But that is not all co-polymers. to the contrary, most of the co-polymers that are produced are in fact products that compete with mono-polymer -- I'm not going to get my terminology right -- but, or homo-polymer products.

One of the dialogues you could have would be with Mr. Longstreet again. Ask him about the shift in his supply, the role of co-polymers and who supplied what and his switch to imports from China. I think that will put to rest the notion that co-polymers as a category are somehow specialty products not produced by the domestic industry.

It's simply not true.

Production plants, the process is essentially the same. The difference is whether or not -- if you have this morning's testimony, you add co-polymers or not.

Similarly, it is wrong to say that all products with a hydrolysis level of 85 percent or less are specialty products. Again, simply not true. There may be in this category as well certain products that for reasons the U.S. doesn't produce or doesn't sell, and we will carve those out. We again have no interest in burdening consumers that are not real customers of the U.S. industry.

Now let me turn to Solutia. There was a point at which you have to say come on. Solutia's argument is essentially one-third, what they characterize as one-third of the market is a specialty product. Solutia buys at its various operations from every major manufacturer of PVs. And it buys around the world because all producers, all major producers, can sell it to them.

It is true in the United States that Solutia's business, as we understand it, is essentially supplied by the domestic industry. That was their testimony.

However, you have to ask yourself why then would Solutia bother to appear and oppose this petition? Why would Solutia come up here? Why would they pay high-priced lawyers like Mr. Canon to come up and prove that they have

no interest, and if as they say the market is dictated solely by the economics of the auto industry. The answer lies in the way price is used.

As I read between the lines of the testimony what they said was very carefully, "We Solutia, have not imported in commercial quantities." The main implication of that is test quantities are being imported.

And whether or not Solutia blesses Kuraray or any other producer to supply the U.S. market now doesn't even matter that much as long as they can use those prices to drive down a DuPont price or a Celanese price. We will give you specifics of the interchange with Solutia in the post-conference brief, but the fact is that it's a very far cry from the story you heard here.

Finally let's talk a little bit about the world market.

MR. MELTZER: We heard about the boom that's going on in Asia and how all of the production is going to end up in Asia and very little of it would come here.

It's interesting, however, to contrast that statement by Respondents with the explicit statement by Kuraray that they have gone about a very expensive acquisition in Europe that is intended for targeting the North American market, and that they have stated as they become more and more a global producer of all sorts of

grades of PVA to capture ten percent of the U.S. market.

So this idea that the U.S. market is becoming less and less within the horizons of Asian producers, and that demand is absolutely booming in Asia is again a little bit hard to believe.

As to Singapore and its role and the overlap of product, I think we heard very clearly from Mr. Walders today that although the Singapore plant may have a more limited range of production than the sister plant in Japan, that the grades that are produced there are the same as the grades that are produced at the Japanese facility and it would not take very much to shift production from Singapore that product that was produced in Japan if Singapore is left out of this case.

MR. GREENWALD: Let me just close with this.

The testimony that says we're running flat out in Singapore, therefore we have no capacity; we're running flat out in Japan, we have no capacity; we're running flat out in Germany, we have no capacity; therefore there is no threat to the U.S. market from Singapore, sort or forgets the following equation.

If you limit access of a Japanese or a German plant or you put on antidumping duties, what a company does is that it simply shifts production to Singapore. All the plants continue to operate at 100 percent if that's what

they're doing, but you simply shift the sources of supply.

There was very little credible, I thought, and I hope you share my view, said in Respondents' testimony, but the most alarming thing about it all when you step back and you look at it is how far removed it was from the basics of this case.

MR. FEATHERSTONE: Thank you both.

(Pause)

MR. FEATHERSTONE: Welcome back, Mr. Walders.

MR. WALDERS: Thank you, now that I've shifted to the side so you know who the real Mr. Perry is.

I just have a few remarks to make.

First of all I know there's been a great deal of attention paid today to the issue of like product. That's always a fascinating and complicating issue in every case, and particularly here where we have this great variety of grades and types, many of which are not competing in the U.S. market with domestic production because there is no comparable domestic product.

I recognize also that this is a preliminary injury investigation and as such questions of doubt as to like product or no like product, these sorts of questions might get put over to a final.

I want to make it clear that we do not rest our case on a like product argument. We believe quite firmly

that the Commission can and should issue a negative determination on this record in the preliminary investigation and that the issue of product differentiation is quite important when you look at causation, whether it's one like product or many. When you see a great variety of products as has been testified to today that do not compete with the domestic product then that volume of imports and those products cannot be considered to be within the scope of product causing or threatening to cause injury.

Secondly, I do have to comment upon a statement by Mr. Meltzer about the ability to shift production from Japan to Singapore if an order were issued against Japan.

The fact is the Singapore plant is operating at very close to if not full capacity. The fact is they have a very strong Asian market. The fact is that that Asian market, while it was in decline last year, has recovered and is booming today.

So whether or not some of the same products are produced in both plants, the fact is that Singapore plane was set up for the Asian market, it has an Asian market. It doesn't have the capacity or the intention suddenly to shift everything to the United States.

Lastly, regarding the newspaper articles that have been quoted today. Newspapers sometimes get things a little bit confused. Sometimes there is a misunderstanding. The

real question here is what's actually going on.

I will say on the record that the newspaper article that has been referred to is incorrect. As to what the correct facts are, we will provide that in our submission after the conference. Some of those facts I think have to be treated in confidence. But overall, it is our view that the fact that we, that is Kuraray has now invested in two other countries in addition to Japan reflects a worldwide market. It does not reflect in any way an intention to dominate the American market, nor does the trend in imports pre- and post-revocation give any such indication.

On the contrary, you can see from the chart, Exhibit 2, in Mr. Malashevich's testimony that the increase in imports -- of subject imports by the way, and this means all subject imports -- happens to occur at a time when the order was in effect. Therefore by legal definition they are fairly traded imports. Where is the effect of dumping in this regard?

They declined after the order was revoked. There was no causal link to dumping nor is there any basis for the projection that imports from Singapore imminently are going to exceed the three percent level.

Thank you.

MR. PERRY: Now the real Bill Perry.

Just a couple of comments on Mr. Greenwald's speech which was as always scintillating.

Why aren't prices going up after the order was removed if there's so much demand in the world? Because at the time the dumping order was in place the PVA prices in the United States were the highest in the world. That's why they're not going up, because they were so much higher than the world market price.

But think again of what they're really saying. What's the real reason behind it? Celanese paid too much for the factory. And to service its debt it's got to have the highest prices in the world in this market.

Now is that material injury? I thought dumping was the idea we should shoot low prices and the prices go down in comparison to the rest of the world market. Here we've got prices spiking up and they're in effect saying to you to service our debt because we paid too much for this plant, we need protection and we need the prices the highest in the world -- just like they were before when the old dumping order was in place.

We will address the issue of qualifications. But one other thing about prices. If prices are really high in the U.S. market and Celanese is exporting to Europe where there are very low prices, what might they be doing? Do I dare utter the "D" word here?

Finally, Sichuan is not targeting the United States. In fact take a look at their questionnaire response which has already been submitted, and I took a look at it when Mr. Greenwald was speaking. Their sales into the home market are four times higher than their sales in the United States. They have no interest in targeting the United States because demand is going through the roof, and we'll put additional evidence on that point on the record in our pot-conference brief.

Thank you.

MR. FEATHERSTONE: Thank you. Thank you, Mr. Walders and Mr. Perry.

A couple of real quick reminders.

The deadline for the submission of corrections to the transcript and briefs on these investigations is Tuesday, October 1st. If briefs contain business proprietary information a non-proprietary version is due the following day.

The Commission is going to vote on this investigation, or these investigations on October 21. We're not exactly sure of the time yet. I think it's going to be 11:00 a.m, but we'll notify parties just as soon as that decision is made, and then the determinations will be transmitted to commerce later that day.

Commissioners' opinions will be transmitted to

Commerce and placed in the public record a week later, on October 28th.

Thank you all again for your participation.

This conference is adjourned.

(Whereupon at 2:35 the preliminary conference was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: CERTAIN POLYVINYL ALCOHOL FROM CHINA

INVESTIGATION NO.: 731-TA-1014-1018

HEARING DATE: September 26, 2002

LOCATION: Washington, DC

NATURE OF HEARING: Preliminary Conference

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: September 26, 2002

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: Lorenzo Jones
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: Gabriel Rosenstein
Signature of Court Reporter