UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	Investigation Nos.:
	)	701-TA-437 and
CARBAZOLE VIOLET PIGMENT 23	)	731-TA-1060-1061
FROM CHINA AND INDIA	)	(Preliminary)

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Friday,
December 12, 2003

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

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, GEORGE DEYMAN, Acting Director of Investigations, presiding.

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Staff:

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P R O C E E D I N G S

(9:30 a.m.)

MR. DEYMAN: Good morning, and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of countervailing duty and antidumping investigation Nos. 701-TA-437 and 731-TA-1060 and 1061 concerning imports of Carbazole Violet Pigment 23 From China and India.

My name is George Deyman. I'm the Commission's Acting Director of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my far right, Olympia Hand, investigator; Cynthia Trainor, investigator, who will be joining us momentarily; Mary Jane Alves on my left, the attorney/advisor; Mary Pedersen, the economist; David Boyland, the accountant; and Stephen Wanser, the industry analyst.

The purpose of this conference is to allow you to present your views with respect to the subject matter of the investigations in order to assist the Commission in determining whether there is a reasonable indication that U.S. industry is materially injured or threatened with material injury by reason of imports of the subject merchandise.

We will start the conference with a five

minute opening statement from each side beginning with the Petitioners. Following the opening statements, each side will be given one hour for their direct testimony.

The staff will ask questions of each panel after their presentation, but no questions from opposing parties will be permitted. At the conclusion of the statements from both sides, each side will be given 10 minutes to rebut opposing statements and make concluding remarks.

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.

Additionally, speakers are reminded not to refer in their remarks to business proprietary information and to speak directly into the microphones. Finally, we ask that you state your name an affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. DEYMAN: If not, welcome, Mr. Dorris. Please proceed with your opening statement.

MR. DORRIS: Thank you, Mr. Deyman, Commission staff. Good morning. I am Greg Dorris with the law firm of Pepper Hamilton, counsel to the Petitioners, Nation Ford Chemical Company and Sun Chemical Corporation.

These antidumping and countervailing duty investigations concern imports from China and India of carbazole violet pigment 23. Many of you may be like me in that your eyes glaze over when you hear a chemical sounding name, but rest assured that the product at issue today is not difficult to understand or appreciate. Its simple purpose is to add color to our lives in a variety of ways that we will discuss this morning.

You likely are familiar with the petition by now and understand that carbazole violet pigment 23 comes in different forms and that the like product in this case includes both the semifinished crude form and the finished form, which itself includes the presscake and the dry color form.

The witnesses here today will explain these different forms, how they are produced and how they are used. They also will testify to the negative impact the unfairly traded imports from China and India are having on their industry.

The import prices continue to spiral downward in order to capture increasing U.S. market share. The imported crude and finished pigment prices have merged ever closer together. The domestic industry cannot compete at these low prices either on the crude or the finished.

They have improved their efficiency and reduced their cost of production as much as they possibly can, but simply cannot afford to produce crude or finished violet 23 at the very low subsidized and dumped prices of the Chinese and Indian imports.

They continue to lose money and are being forced to reduce some production and lay off their skilled employees. They are faced with the economic reality that unless relief is granted to the requested antidumping and countervailing duty orders, this domestic industry will be forced out of business entirely by unfairly traded imports from China and India.

For these reasons, Petitioners respectfully request that the Commission reach an affirmative preliminary determination and allow these investigations to proceed forward.

I would apologize to Mr. Perry and the Respondents in that we went ahead and sat down, so

they can either use this one or the other one.

Thank you.

MR. PERRY: Good morning. My name is William Perry of the law firm Garvey Schubert and Barer. I'm here representing the Chinese companies and the U.S. importers in the case.

Just to make a couple of brief statements at the beginning, one of the first problems we're going to be talking about in this case is the import statistics. $3.96 a pound is a ludicrous price, and it is not the price that the U.S. importers are buying that pigment at.

The problem is presscake in the import statistics. It includes a lot of water. Unfortunately, the quantity has been reported incorrectly, which has resulted in an absurdly low price. In fact, the actual prices for violet pigment are three to four times higher than that.

High prices for violet 23 are going to simply lead to lower consumption of violet 23. The big consumers of violet 23 are the ink industry and the textile industry, and they're holding on by their fingernails. These industries simply cannot take a price increase.

When faced with higher prices, these tough

industries are going to do one of three things. First, if possible, they're going to use economic alternatives to violet 23. These alternatives are not as high performance, but if the choice is higher performance and a high cost, as compared to less performance and lower cost, these industries, because of competitive pressures, will use lower cost alternatives such as alkaloid blue, straight jet or black, vinyl cyanine blue or methyl violet, including violet 1 or violet 3.

The second choice is simply change the color. Move to another pigment. Pigments are being used in a very creative industry. Instead of using higher priced violet 23, companies will simply use an alternative color.

You're looking at the Bags case right now, and if you're in the Bags case, and I think George is involved in that and a lot of others, you can see all you have to do is change the color to the bag or the color of the textile, and you get away from the violet 23.

The third choice and probably the most important is simply go offshore and have the inks, the dispersions, the textiles or the Raisin Bran box produced offshore. This is just what happened in the

Indigo case.

At the hearing, companies warned the Commission that if it went affirmative in the Indigo case more textile companies would go offshore. The ITC went affirmative, and two months ago Levis closed its doors and moved offshore. By the way, as we understand it, Buffalo Color that brought the Indigo case has reduced its production significantly and intends to live off of bird money.

Nation Ford has succeeded in driving U.S. companies offshore in the Sulfanilic Acid case. Acid yellow 5 and 6 U.S. production has been driven offshore because of the high prices for sulfanilic acid. How many more companies will be driven offshore because of this case?

If companies need to use violet 23 to produce a product, they will move that production to Mexico, just like Levis, and produce that product offshore where they can get the cheaper violet 23. Many companies dual source, and they compare with Sun in the downstream market. They're going to have to find an alternative. They simply can't be held captive to Sun.

Finally, we need to talk about quality. Sun lost this business a long time ago to other imports

not from China, but from Japan and other countries, because of their quality problems. INX International Company will testify that they just rejected Sun's violet 23 in over 50 percent of the applications because of quality problems. Because of quality problems, consumers turned to imports from Japan, Germany and other countries and rejected the Sun material.

Yes, initially a long time ago the Chinese had to come in with lower prices. Why? The perception is that Chinese are a lower quality, so they came in with a lower price, and they got the business. The problem was then the customers realized that the Chinese quality was higher than Sun, so what did this result in? Most recently dramatic price reductions by Sun. If you can't compete on quality, you compete on lower price. Sun is the one that's driving the price down lower and lower.

It is interesting to note that Sun is owned by Dynapon Ink Company. In fact, many of the companies here have Japanese connections. One company that sells to the textile industry told me that if the violet 23 from China and India is blocked by a dumping order, companies will just turn to imported violet 23 from Matsui in Japan.

As a young trade lawyer in the government, I was on a case called 3.5 Inch Micro Disks, and it was basically the Japanese against Verbatim. At the hearing, basically the problem was quality. Now we're here again, and the Japanese company is trying to use the dumping law to hide.

Thanks.

MR. DEYMAN: Thank you, Mr. Perry.

Mr. Dorris, would you like to proceed with your presentation?

MR. DORRIS: Yes. Thank you, Mr. Deyman. Again for the record, I am Greg Dorris with the law firm of Pepper Hamilton, counsel to Petitioners.

Our first witness today is John Dickson, the CEO of Nation Ford Chemical Company, who will focus on the domestic production and sale of the crude carbazole violet 23 and the devastating impact of the unfairly traded imports from China and India on his business. He also might have a little bit to add about sulfanilic acid.

Mr. Dickson will be followed by Ed Faulkner of Sun Chemical Corporation's Colors Group, who will discuss the production process and end uses of the finished pigment. Mr. Faulkner also will discuss the significant negative impact caused by the unfairly

traded imports from China and India on the U.S. industry.

Our opening presentation will be concluded by Steve Schmidt, also from Sun's Colors Group, who is well versed in the global marketplace for pigments and pigment preparation. Mr. Schmidt will provide more extensive insight on the like product issue, as well as the severe negative price effects of the unfairly traded imports from China and India.

We expect that you will learn from this presentation and our responses to any questions you might raise concerning it that this industry producing carbazole violet pigment 23 is materially injured and is threatened with additional material injury by the dumped imports from China and the dumped and subsidized imports from India.

Certainly the information you hear today will corroborate the petition, the questionnaire responses and the other data on the record showing a reasonable indication that the U.S. industry is materially injured and threatened with further material injury by reason of these unfairly traded imports.

Perhaps most importantly, as mentioned in my opening remarks, you should come to understand what

these gentlemen here already know; the U.S. industry, albeit small, certainly will no longer prosper and indeed will not continue to exist without the protection afforded from antidumping and countervailing duty orders.

It is this single truth that should remain uppermost in your minds in analyzing the facts in this case that clearly support an affirmative preliminary determination.

John?

MR. DICKSON: Good morning. My name is John Dickson. I am the CEO of Nation Ford Chemical Company. We call it NFC for short. NFC is a small, privately held producer of organic chemicals.

We produce three main products at our plant in Fort Mill, South Carolina. These are sulfanilic acid, which is an important chemical intermediate used to make yellow food color, which I'm happy to report, contrary to what Mr. Perry states, is a growing business, and none of that business has moved offshore to Mexico or to any other country, and I have personal knowledge of that based upon our large increase in sales to the yellow food color industry over the past several years. Sulfanilic acid is also used for whitening agents for paper.

Solvent dyes. Solvent dyes are used to color plastics and petroleum products. And the product of the investigation, violet pigment 23, in the form of the crude pigment. We toll produce this product for Sun Chemical in Cincinnati, Ohio, who uses the crude pigment to produce finished pigment in the form of presscake and dry color. The finished pigment is used to color inks, coating, textiles, plastics and other material.

Sun has long been the major and high quality domestic producer of finished pigment 23. They asked NFC to begin production of the crude pigment in 1987 when Clariant Corporation, then known as Sandoz, discontinued production at their plant in Fair Lawn, New Jersey.

NFC was very happy to have this opportunity to expand its business, but we lacked all the resources needed to begin production. Sun helped in developing the production process, provided financing for additional equipment and provided on-site technical help during the startup phases. Sun also purchases the key raw materials required to produce violet pigment at no cost to NFC. Without the help from Sun, we would not be producing crude violet today.

NFC now owns and operates a modern and substantial crude violet 23 plant with sufficient capacity to supply almost 100 percent of the domestic requirement. Our longstanding company goal is to become the most efficient world producer of all the chemicals we produce. We believe we have met this goal in the production of all three of our main product lines -- sulfanilic acid, solvent dyes and crude violet 23.

In all three cases, we are operating well designed and efficient chemical processes with sufficient capacity to support the capital intensive nature of the chemical industry. We are more than willing and capable of competing with other world suppliers on an even playing field, but we are not prepared to compete with dumped and subsidized product as is now happening with violet 23 from China and India.

The production of crude violet 23 is characterized by several carefully controlled, solvent based chemical reactions that generate substantial amounts of wastewater and solid waste. There are six separate chemical reactions required to synthesize the crude pigment starting with the raw material of carbazole, which is a coal tar derived chemical

imported from Europe and Japan.

Specialized equipment and operator training is required for all of these separate steps, including the final isolation and purification of the product. The result is a high quality product with outstanding product yield based on raw materials, energy and labor consumed in the production.

NFC has been devastated by dumped crude violet 23 from China and offers to sell dumped crude from India. In an attempt to stay in business and compete with the dumped product, NFC reduced its tolling fee in 2002 by about 40 percent. It was not enough. Sun was still able to buy Chinese and Indian product at below the total of NFC's tolling fee and Sun's cost of raw material that they provided.

The net result was that not only did we lose revenue by reducing our tolling fee; we also lost over one-half of our normal production volume. The record shows that these losses have been substantial and are continuing through the present year.

If duties are not imposed on Chinese and Indian imports of violet 23, NFC will discontinue production of crude violet 23, leaving no further domestic production of this important crude pigment.

There is no question that NFC has been

injured by the presence of the dumped violet 23 from China and offers to sell from India. China has already demonstrated that they have huge capacity to produce violet 23 based on their rapid increase in the U.S. market share during the period of the investigation.

Even though India has sold little or no crude pigment in the United States, they have substantial capacity and are attempting to get business by offering very low prices. There are no less than 12 producers in India listed on the internet.

The only reason they have not been successful in getting business is that the Chinese prices have on average been somewhat lower than those offered from India. Make no mistake about it. If duties are not placed on India product, they will continue to offer product in the USA and take business from the domestic industry.

As will be discussed in more detail later by Steve Schmidt, crude and finished carbazole violet 23 must be considered as one like product for several reasons.

At this point in time, I would like to turn the floor over to Ed Faulkner from Sun, who will

explain in more detail the impact of the unfairly traded finished carbazole violet 23 from China and India.

Ed?

MR. FAULKNER: Good morning. My name is Ed Faulkner, and I'm the Director of Communications and Regulatory Affairs for the Colors Group at Sun Chemical Corporation, or Sun for short. A central part of my current job is to analyze and report on the global market for organic pigments.

I have been with Sun for 30 years and have traveled to over 30 countries during that period of time. I have held numerous manufacturing and marketing positions dealing with pigments and pigment preparations, including the position of plant manager with direct responsibility for pigment production. In fact, I started my career with Sun as a production supervisor in the department that manufactures the violet 23, so I've had a long association with that type of pigment.

Sun is one of the world's leading producers of organic pigments and dispersions for use in the coloring of printing inks, plastics, paints, cosmetics and textiles. The Colors Group, headquartered in Cincinnati, Ohio, operates five pigment manufacturing

sites in the United States -- Cincinnati, Ohio; Staten Island, New York; Newark, New Jersey; Muskegon, Michigan; and Bushy Park, South Carolina. Two other facilities located in Amelia, Ohio, and New Brunswick, New Jersey, are dedicated to the production of pigment dispersions.

Sun's sales of pigments and pigment products are under increasing pressure from imports, especially unfairly traded imports from China and India. At present, the most pressure is on Sun's production and sales of carbazole violet pigment 23, or violet 23 for short.

Violet 23 occupies a solo spot in color space. It is a blue shade violet that exhibits a unique, clean hue and has high tinctorial value; in other words, a little bit of it goes a long way. None of the other violet pigments are as blue, bright or clean as violet 23.

In fact, I brought a set of displays showing a number of different violets in a polystyrene chip. The top chips are alone with pigment violet 23. The bottom chips contain violet 23 along with some titanium dioxide. I'll pass these around so you can get a feel for what the pigment looks like.

Violet 23 is the workhorse organic pigment

for the coloring of printing inks and plastics. It earned this title because of its unique color, shade, high strength and good resistance properties. In the printing industry it is used extensively in publication, packaging, label and textile inks, so it's in the magazines we read, on the snack food bags we buy at the deli, the label on the beverages we drink and the clothes we wear.

In the plastics industry, it is used in most resins, excluding the engineering ones. It is very strong in ink and can look black in mass tone. Most of its use is in olefins and PVC. It is often used at low levels to provide a clean, pastel violet and is added in small quantities to blue end fibers to provide a clean, red shade blue. We can find it in the toys with which our children play, the carpets on our floors, the insulation in the wires in our homes and the shampoo bottles in our bathrooms.

Violet 23 is also used in paints and other specialty applications such as contact lenses and sutures. Its major use in paints is as a shading agent for blues to make them redder and to brighten white paint.

Violet 23 is produced in a multi-step process. John Dickson just described how the crude

form is produced. Let us now focus on how the finished pigment is made from that crude. All the crude pigment purchased by Sun from domestic and foreign sources is converted to ground presscake at our plant in Cincinnati. The ground presscake is produced by Sun using a particle size reduction process known as an attrition process. It is a batch operation and is referred to as salt grinding.

The first step in this attrition process is to put crude violet 23, ground sodium chloride, which is common table salt, and an organic liquid vehicle into a high shear/high energy mixer. The salt particles are harder than the pigment particles, so they attrite or reduce the size of the crude particle to a point where it exhibits the desired properties of color, shade and tinctorial value. The vehicle provides mass to the mix forming a magma that permits the salt to grind the pigment. The cycle time varies and is measured in hours rather than in minutes.

The second step is to recover the pigment from the magma. This recovery is accomplished by charging the magma into an agitated tank containing water and an inorganic acid. The pigment, which is not water soluble, forms a slurry, while the salt vehicle dissolves.

The salt is then fed into a filtration device where the pigment is trapped, and the salt vehicle water filtrate is sent to a waste treatment facility after neutralization using a caustic solution. The pigment is extracted from the filter and is commonly called presscake at this point. It consists of approximately 40 percent solids and 60 percent water.

Dry color is produced by slurrying the presscake in water and then atomizing that slurry into an 800 degree Fahrenheit airstream, which instantly flashes off the water, leaving a dry powder. This process is known as spray drying.

Presscake is used to produce dry color and flush color at the Sun plant in Cincinnati, Ohio, and shipped to the Sun plant in Amelia, Ohio, where it is converted to aqueous dispersions. Flush color in aqueous dispersions have not been imported from China and India during the period of this investigation.

Presscake is also sold to the merchant market, primarily for the production of aqueous dispersion used primarily in the packaging and textile industries. The term merchant market here refers to the products sold by Sun to other companies as opposed to that which it consumes internally.

Dry color is used in three major areas -- solvent packaging inks, plastic articles and consumer paints. Dry color accounts for the major end use of violet 23. Dry color is sold to the merchant market and is used internally by Sun's Ink Division.

Violet 23 is imported from China in the form of crude pigment, ground presscake and dry color. Material is imported from India in the form of dry color. As just described by John Dickson, imports of the crude pigment have negatively impacted domestic crude production and sales represented by NFC, resulting in much lower prices and significantly reduced volumes. Imports of the ground presscake and dry color have had the same effect on the domestic production and sales of the finished pigment.

In addition to manufacturing pigments, Sun is also the world's largest producer of printing inks. The Ink Division, known in the United States as General Printing Ink or GPI, consumes significant quantities of violet 23 manufactured by the Colors Group. The two divisions, the Colors Group and GPI, are operated as stand-alone business units. Consequently, the Colors Group sells product to GPI at competitive prices with the objective of making a profit in the process.

The products sold to GPI are the same ones that the Colors Group sells to the merchant market. As market prices have dropped for violet 23 dry color, the Colors Group has reduced sales prices to GPI to keep in step with the market.

The U.S. organic pigment industry is in the weakest condition that I have seen it in my 30 year career. A combination of shrinking markets, lackluster demand, large capacity increases in India and China and a sharp rise in the unfairly priced imports from those two countries have had a dramatic negative impact on the domestic industry.

The domestic consumption of violet 23 has remained fairly stable over the last three years. This year it has increased slightly due to the recent upswing in the U.S. economy. However, over this same period of time it has been negatively impacted from a value perspective by the unfairly traded imports from China and India.

The determination of Sun's domestic market share is a fairly simple calculation. It is accomplished by adding the NFC crude production to the import statistics for crude and finished pigment and then subtracting Sun's export sales, yielding a reasonable estimate of the domestic market.

Using these data, it is evident that Sun has suffered a significant decline in the volume of merchant market sales and an overall substantial decline in its sales values. Specifically, Sun's share of the merchant market in terms of volume has dropped 50 percent over the period of the investigation.

To make matters worse, the average selling price of Sun's products to the merchant market has dropped by one-third over that same period of time. The steep decrease in Sun's selling prices is a result of the dramatic decline in U.S. prices caused by the unfairly traded Chinese and Indian imports, which will be discussed in more detail by Steve Schmidt.

Steve?

MR. SCHMIDT: My name is Stephen Schmidt. I'm the Global Director of Purchasing for Sun Chemical's Colors Group. For the last 20 years, I've been responsible for overseeing Sun's global purchasing of various raw materials for the production of pigment and pigment preparations, as well as contracting for toll manufacturing services done for Sun.

As part of my responsibilities, I travel to and work with suppliers all over the world. My

responsibilities include the contractual agreement that Sun has with NFC for the manufacture of violet 23 crude. I purchase the raw materials that go into making the violet 23 crude at NFC. I also purchase the crude, the raw materials to make the crude and manufacturing inputs to convert raw materials in violet 23 production.

I have visited many of the violet 23 crude and pigment plants around the world, including those in Asia. Sun's violet 23 pigment plant and NFC's violet 23 crude plant rank at the top of the list for quality of facilities. In addition, the processes run by Sun and by NFC use the most modern technology that maximize yield, minimize waste generation and minimize cost.

Crude violet 23 has no use other than to be converted into finished violet 23 pigment, so from the start it has been dedicated to finished violet 23 production. There are no independent uses or markets for the crude form mainly because the conversion process in the presscake and dry color is necessary to provide the essential coloring properties. The crude, therefore, is not interchangeable with the finished violet presscake or dry color.

Having said this, however, it's also true

that the crude embodies and imparts to the finished presscake and dry color the essential characteristics and functions that could not be achieved in any other way.

In recent years, the pricing of violet 23 crude presscake and dry color pigments has fallen dramatically because of low-priced product from China and India. Both Sun and NFC have made large cost reductions to maintain our competitiveness in the market.

However, prices have continued to drop. Sun has even purchased some Chinese crude in an effort to compete with low finished pigment prices from China and India producers. However, prices for presscake and dry color continue to drop below our cost, despite our best efforts.

We have seen the same negative price impact in our export markets from the Chinese and Indian product. Because China and India sell into Europe and other foreign markets in U.S. dollars the same as us, we are losing our export business to these markets. We lose this business even when the currency exchange rates might favor U.S. exports and a weaker dollar, such as the present situation in Europe with the euro.

A critical new trend in the United States

that the Commission should focus in on is the fact that the price for Chinese and Indian crude is merging even closer with that of finished violet 23. Chinese and Indian finished violet 23 is now offered at prices which differ from their crude prices by less than $2 per pound.

Sun has made major process changes and improvements to reduce the cost of converting crude to finished pigment in our Cincinnati plant. Exclusive of crude and other raw material costs, despite our best efforts we cannot come close to even a $2 differential and certainly cannot convert crude to finished violet 23 for less than $2.

We see pricing in the United States from India and China that will go as low as it takes to gain our market share regardless of cost. Sun could now buy Chinese crude carbazole violet 23 at less than $10 per pound duty paid. Crude pigment from India is less than $10 per pound. Finished Chinese violet 23 is available for less than $12 per pound now duty paid, and Indian finished violet 23 is not much more.

Our experience is there's no bottom. Whenever we meet a price in the market, the price just drops again. Unless antidumping and countervailing duties are imposed against imports of Chinese and

Indian finished pigment, the domestic industry will be forced to discontinue production in the United States.

Sun will have a make or buy decision on the manufacture of violet 23 crude and finished pigment. When the purchase price is below our variable cost, we could end up discontinuing production and buying finished violet 23. Obviously due to the symbiotic relationship between the two, crude production would also end.

Given the present trends in unfairly traded imports from India and China, therefore, the end of the violet 23 domestic industry is a real possibility.

MR. DORRIS: Mr. Deyman, that would conclude our presentation, but I have to apologize for the second time this morning in that I didn't introduce Mr. McGrath, who is counsel for Clariant Corporation.

I'll turn it over to him just for a second so he can introduce his witness, who is here just to answer questions. Just like Mr. Rick Westrom, he's a little bit late in getting here, but he is here.

Thank you.

MR. MCGRATH: Mr. Chairman, thank you very much. My name is Matt McGrath of Barnes, Richardson & Colburn representing Clariant Corporation, and I want to thank the Petitioners for agreeing to permit us to

appear during their time. We didn't have any prepared direct statement, but we are available to respond to questions.

With me is Andrew Zamoyski, who is the manager of the Pigments and Additives Division of Clariant Corporation. He is in the violet pigment business and would be happy to respond to all questions. The company is a producer in the United States of finished violet pigment and imports crude product from their own facilities in Europe, to the extent we can respond to some questions.

We are not part of the petitioning group, but we support the petition, and we will respond to all of the pieces still outstanding from the questionnaire answers so that you have a full picture of the industry.

Thank you.

MR. DORRIS: Thank you, Mr. Deyman.

MR. DEYMAN: Thank you. We will now have a round of staff questions. Ms. Hand?

MS. HAND: Thank you for your presentation and for coming all the way to Washington to explain all this to us.

I'd like for you to address Mr. Perry's argument about the average unit values of the HTS

imports. They do not agree with the importers' questionnaires' average unit values that we've received in this investigation. The importers' questionnaires are somewhat higher than the HTS average unit values.

There's not a huge magnitude of difference, but there's some difference, so I tend to think that there might be some merit to the argument that Mr. Perry is trying to bring forth that there might be some errors in the reporting to Customs. We're trying to figure out what to do here in terms of how to evaluate the quantity data in this investigation.

MR. DORRIS: I think I'll take the first stab at that and let the witnesses add what they can about the facts. I think I would make three points.

First, you heard the testimony today that the largest segment of this market of the finished violet 23 is the dry color form, so from the very start the presscake is a smaller volume of the U.S. market, and that means that the need for the Chinese imports is a smaller need.

Second, you haven't heard, but I think you're going to hear some more details on it, that the presscake is very expensive to transport. You heard that it contains a lot of water, so transporting that

water a long distance makes it expensive and so it's just not sent that much to the U.S. and China or from India. Also, it can freeze because of the water, so if it's shipped during different seasons it has to have a heated container, which also adds to its cost.

Third, you know, there's no real evidence on the record that anyone made a mistake in the way they provided the data on the HTS. I mean, there is this anomaly perhaps that you see in some of the import data, but I would suggest that if you look at a lot of different cases you will see the HTS data differ in various ways from the actual questionnaire data, but, you know, there may be some isolated instances where the presscake was reported on a volume as-is basis as opposed to the pigment content, but there's not real evidence of any rampant instances of this going on.

The bottom line I guess is given the small volume need for the product, the presscake, given that there's very little evidence that very much of it is being shipped given the cost from China, that the impact of it is just very small. I would suggest the whole issue is overblown in terms of the impact on the import data, and I think you may see this when you look at the questionnaire responses. It would be corroborated by those, the little that we have on the

record.

I think overall it's just a red herring issue, but I'll let the witnesses add something if they have it.

MR. FAULKNER: Well, I'll just support what Greg said in terms of the end use applications.

As I said in my testimony, the two major uses for the material are insolvent packaging inks and in the plastics industry. In both cases, the presscake could not be used because of the nature of the process and the solvents and resins used in packaging inks, solvent packaging inks as well as plastics. Presscake couldn't be used. It has to be dry color that's used in those areas.

MS. HAND: One thing I would suggest is that for the postconference brief you look at the questionnaires on the record, and you won't have the benefit of the staff report, but you could aggregate them yourselves and look at the quantity and value in aggregate and the average unit value and then look at the HTS quantity and value and average unit values over the period that we're looking at, 2000 to 2002, and the interim 2002 and 2003, and look at the difference because you are going to see a difference in each and every period, which is what I'm seeing

when I look at the data.

Now, look at that. You're not going to be able to tell me that it's just an isolated incident here and there or that presscake is so small that it's not having an effect on the data. There might be something else going on here, so I'll need a better explanation from you about the data anomalies here.

I would suggest that you possibly put it forward in your postconference brief.

MR. DORRIS: We certainly will do that, but I would also add that I have looked at what there is on the record so far, and I would say that again the volume is relatively small and that overall even if you make some adjustments for the small amount of presscake that there is, the entire volume of product coming from China is still very significant in terms of quantity.

In the unit values, you're going to be looking at the pricing data as provided, as opposed to, you know, the HTS numbers for the pricing analysis, so I really still agree and still make the point that this is a red herring argument.

I agree with you that we will expand on it in our postconference brief.

MR. DICKSON: May I add a comment to that?

MS. HAND: Sure.

MR. DICKSON: That is that the convention in the industry is definitely to sell presscake, all of the products, on the basis of the 100 percent product. So we were absolutely correct that Petitioners, in using the best information available to us in making what should have been a good assumption that the HTS numbers were based upon a 100 percent product.

So in a sense except for what you have from Respondents, the best information available on the public record right now is what the HTS numbers say. At this point, we have to take them as being at least largely correct, although we always know that there are some minor errors that occur within that data collecting body itself.

MS. HAND: It is unusual when you see a pattern of a difference like this over a long period of time between questionnaire responses and the HTS. We don't see this in most cases, so I'm just telling you that that's unusual in our experience and so we tend to look for an explanation for that. I'm not sure what the explanation is, frankly. I'm asking for it from both sides.

Also, I would like to find out what your opinion is on the substitutability of the various

products that Mr. Perry brought forward. He said that there was an alkaloid blue, several other violet pigments, maybe several blue pigments. There was the possibility to change colors entirely.

I'm wondering what you think about that and about the possibility of substitutability of other --

MR. FAULKNER: I'll take a crack at that, and I'll answer that in two ways. Number one, if you look at the displays that I sent around, it's readily apparent that you can't just directly substitute one of those other violets for violet 23 both in terms of the color space that they occupy and in terms of their properties.

Methyl violet was specifically mentioned in the opening, and methyl violet does not have the physical properties that carbazole violet does, so if you're going to expose the end use product to conditions of intense light or heat or weather or things like that, the methyl violet just won't hold up. It will disappear. The substitutability from one type of pigment to another is really not practical in most cases.

The other way I would answer that is looking amongst the various violet 23s is that, generally speaking, they're pretty interchangeable. Frequently

they can be interchanged from one source to another. There are some specific instances where they can't be because of a particular physical or color space that's occupied by particular violet 23 product that can't be substituted.

By way of example, we manufacture a product in our Bushy Park, South Carolina, plant that's made by actually a different process that I won't go into at this point and that I described. It's a fairly small volume, but it has a very, very red shade and is used in a particular coatings application. It can't be substituted by others.

Generally speaking, one violet 23 can be substituted for another with some adjustments in shade due to the fact that in most formulas, whether it be a plastic or an ink or a textile or any kind of an application, there's normally more than one pigment type that's used in that application, and you can adjust the degrees of the pigments you use in order to come up with a final shade.

I hope that helps.

MR. SCHMIDT: I just had one other comment. I think, listening to the list of pigments cited as substitutes, that they're already much lower in price than violet 23 is today, so I would have guessed if

they could have been substituted they would have been done sometime in the past from a selling price point of view.

MR. ZAMOYSKI: I'd like to add to that. I agree with what Steve Schmidt just said. If the substitutability is as stated, then it would have been substituted for already.

Alkaloid blue and methyl violet are much, much, much cheaper than carbazole violet and also not as strong, so you have a double situation of cost and use that's in favor of those lower cost pigments.

The reason you don't go that way is because it's either impossible, as in the case of plastics applications -- alkaloid blue, methyl violet would not stand the temperature of most or all plastic uses -- or because of the weatherfastness aspects that were already mentioned.

If you were to use alkaloid blue as a way to tone over a coating as you would carbazole violet, it would fade in a matter of days, whereas the carbazole violet lasts for months or years.

MS. HAND: Mr. Faulkner, I'd like for you to respond to Mr. Perry's allegations that Sun has had some quality issues and problems.

MR. FAULKNER: Well, the manufacture of any

chemical product is sometimes an adventure, and there certainly are variations from batch to batch of finished pigment as there are in any other chemical process.

We in general have not had dramatic quality problems. As I said, I have been associated with this product for 30 years, and if we had the kinds of problems that were described in the opening statement, we would no longer be in the business from a technical standpoint.

I can remember back 30 years ago when we made somewhere in the neighborhood of two batches a week at 500 pounds apiece. That volume has grown dramatically year after year after year, and I think that's evidence of the fact that we make a good product, and it works well in its end use.

MS. HAND: Okay.

MR. DORRIS: I would only add just two little points. I mean, if it's a high quality, good product from China and it's such a poor quality product that Sun producers, why is the Chinese product so much cheaper?

Also, you know, in terms of the volumes that are sold, I mean, Sun still makes good sales. Usually the reason someone switches is because of price and

not because of quality, and often in these cases, of course, you'll hear someone say oh, their quality was bad. That's why we stopped purchasing the product.

You may even hear that today from some of the witnesses, but generally it is because of price, and you'll see because of that disparity in price that's why they switch, not because of the quality of Sun.

MS. HAND: When I look at the database that I have right now for the crude violet 23, I see a decline, and then I see an increase in the interim 2003 data. I'm not going into any details, just trends, which we are allowed to speak about.

Now, I look at the import statistics, and I see an increase in imports at that time. Now, I know that there's some question about whether the trend in imports is actually correct quantity-wise, but I'm wondering how can we explain both an increase in the indicators for a part of the industry simultaneous with an increase in the dumped imports, the allegedly dumped imports? That's something I wanted to put out there.

MR. DORRIS: I'm sorry. I'm not sure we followed the question exactly.

MS. HAND: Well, I'm looking at the trends

in the crude segment of the industry, and I see an upswing in interim 2003. I'm wondering how we explain that with the increase in the allegedly dumped imports, how that can simultaneously occur if we're blaming the decline of the industry on the dumped imports.

MR. DORRIS: I think we'll have to discuss this in the postconference brief. I think I understand what you're trying to get at, but --

MS. HAND: That's fine.

MR. DORRIS: -- you're sort of dancing around the APO information, and I think that's maybe confusing the responses.

MS. HAND: Yes. It's perfectly okay to talk about trends. I'm just wondering how.

MR. DORRIS: The response I think will require us to talk about some confidential data between the --

MS. HAND: That's fine. You can talk about it in the postconference brief.

This might also be a postconference brief question, but I'd like to know what happened to the export markets from 2000 to 2002? What happened to the export markets in 2002?

MR. DORRIS: I think Steve could talk to

this. He mentioned it a little bit in his testimony about the problems that they have in Europe mainly because of the competition from China and India on the dollar value.

Steve, do you want to add to that a little bit?

MR. SCHMIDT: The same competition that exists here exists in Europe and may be more intense. Our ability to make in the USA and ship to Europe should have been enhanced by the weak dollar to give us a better position, but pigment sold from Asia is also sold in U.S. dollars, so as the euro escalates in value against the dollar the price for U.S. product and the price for product from China go down or from India go down by the same amount.

I believe it's from India there's still a preferential duty rate into Europe, a GSP status or something like that that still gives slight preference to Indian imports over North American imports for pigment.

Basically the current -- we should have had a boom from the euro in terms of allowing us to sell more, but we really ended up with the same battle that we're having here because the competition is costed in dollars so we've got no currency advantage.

MS. HAND: That's all the questions I have. Thank you very much.

MR. DEYMAN: Ms. Trainor?

MS. TRAINOR: No questions at this time.

MR. DEYMAN: Ms. Alves?

MS. ALVES: Good morning. My name is Mary Jane Alves from the General Counsel's Office.

I notice in the petition there is a discussion of the domestic like product issue in terms of the semifinished domestic like product factors. The Commission from time to time will also look at the traditional domestic like product factors. In your view, would there be any difference in the result in terms of the several types of domestic like product issues that you've anticipated?

First, whether the semifinished and finished products are part of the same domestic like product.

Second, whether the domestic like products should be defined more broadly than the scope of the investigation to include, for example, dispersions.

Third, whether or not the domestic like product should be defined broader than the scope of the case to include other pigment colors.

MR. DORRIS: I think clearly our answer would be that this is still just one like product as

we defined in the petition. Based on either the factors of semifinished product analysis for the crude, the same factors would apply to make it one like product. We can discuss that a little more in our brief if necessary.

With respect to going further downstream, I think it's fairly clear the Commission's policy has always been that if the petition is filed based on a particular product they are very reluctant to go further downstream to pick up other products.

Having said that, factually I think you'll see that it really would be improper to do. I will say that as I understand it, the petition was filed because there were no imports or dispersions that were competing with the U.S. causing a problem and also that you have dealt with dispersions now in a previous case, and you know that it is a different like product at least with respect to the flush product.

In the aqueous there's not much difference. There are reasons why it is a different like product because of its further manufacturing and other issues involved. Of course, even though the Cincinnati plant -- even though Sun does make aqueous dispersions at a different plant, Amelia, the Cincinnati plant making these pigments makes this pigment with certain

production equipment and certain workers.

As for broadening it to include other like products, I think you've heard clear testimony today that, you know, carbazole violet pigment 23 is a very unique product. It has different properties. It has different uses. It's not interchangeable with these other different products. It has a solo space on the color spectrum.

Not just that. Not just because of its color, but because of its physical properties, you know, the chemical physical properties. It is a very different and unique product, so color alone is interesting, although when you talk about color you talk about we admit there are these different shades, but, of course, the same product is interchangeable in the different shades depending on how you're going to produce the product or the end use.

Having said that, the physical properties, along with the color, make it clearly unique from other things like the blues and the greens and whatever colors you want to have, so that's why that is just one like product and the scope as defined in the petition is correct.

Thank you.

MR. MCGRATH: If I could also add to that?

Clariant agrees with the like product and industry definitions that are set forth and will go through the individual characteristics as well in our posthearing statement, but the company did previously manufacture in the United States. I think it was testified to earlier. They manufactured the crude form.

They got out of that business some time ago, quite some time ago, and manufactured the crude in Germany or in Europe for importation into the United States. It's all part of that business, and we view the industry as consisting of the crude and the finished product, but not the disperse.

MS. ALVES: Thank you. That actually answers one of my next questions as well. It would be helpful in the postconference brief if you could also walk through the factors and just for completeness sake if we could also have a discussion in terms of the traditional factors as well?

It's always difficult in a preliminary staff conference to anticipate the arguments that might be raised by Respondents not having had anything other than the introductory statements of Respondents, but to the extent that there are arguments by Respondents pertaining to the domestic like product issues that are raised here it would be helpful to have those

addressed in the postconference briefs in additional detail as necessitated by whatever arguments are brought up later this morning.

MR. DORRIS: Certainly.

MS. ALVES: The petition states on page 7 that all of NFC's production of crude pigment is for Sun. Has NFC ever considered or are there any reasons why NFC would not produce or is not allowed to produce crude pigment for others either in the U.S. market or in other markets?

In your testimony this morning, you've indicated that NFC has the capacity to supply the needs of the entire U.S. market. I'm assuming by that you mean by producers other than Sun of the finished pigment products. Is that correct?

MR. DICKSON: The contractual arrangement with Sun does not in itself exclude us selling to others. That's never been a road that made sense for us to go down partly because the process that we were using under secrecy agreement with Sun was developed by Sun. Therefore, it would be improper for us to use Sun technology to sell to others.

We would have to go to Sun and get approval, which in itself may be possible, but, on the other hand, based upon prices in the market for crude today

there's no possibility of us to sell to anyone other than Sun because of the low prices available from China and India.

It's not a subject that has any real potential for an answer of yes. The only rational thing that we can do is sell to Sun under the present arrangement where they are paying for the raw material, they virtually own the technology involved in the production, so it doesn't represent a realistic alternative other than to sell to Sun.

MS. ALVES: If the Commission were in fact to define a single domestic like product consisting of crude pigment, dry color and presscake, in cases like this where there's some production activities being done by some companies and other production activities being done by other companies, the Commission examines whether individual companies or groups of companies are engaged in "sufficient production related activities" to qualify as domestic producers.

In this sort of an inquiry, the Commission examines several factors, including the source and extent of the firm's capital investment, technical expertise involved in U.S. production activities, value added to the product in the United States, employment levels, quantity and type of parts sourced

in the United States and any other costs and activities in the United States directly leading to production of the domestic like product.

It would appear in the petition as though the Petitioners' perspective would be that both the activities engaged in by NFC and by Sun constitute sufficient production related activities, but since this issue is not directly addressed in the petition I wanted to give you an opportunity to talk about whether or not these types of activities in and of themselves are sufficient to qualify as domestic production.

Clariant, if you also have a view on whether Clariant's activities in the United States qualify as sufficient production related activities, that would also be helpful.

It's helpful here perhaps also to look at the contrast perhaps between the activities of producing the crude pigment versus producing the finished products of the presscake and the dry color if that adds any additional dimension to it. I'm not sure.

MR. DORRIS: I would just start with as a legal matter we do agree that there's sufficient production capacity by Sun certainly in making the

finished product and certainly by also NFC in making the crude product.

We realize there's a bit of an inherent conflict in this issue and the issue of how much value added is in terms of the semifinished analysis. I mean, it's just there, but that again is just one factor that's considered under the semifinished analysis and one factor that's considered under this analysis.

There is sufficient production activity that goes on not only in terms of the inputted products that you described, but obviously the carbazole violet being produced by NFC going to Sun in the U.S. and the large investment by Sun, which they talked about in their testimony today, in terms of capital equipment, employees involved and just generally the value added, as they mentioned, in grinding it to make it into the finished product, so yes, we would agree that it is sufficient production capacity.

I'll let Clariant add to that.

MR. ZAMOYSKI: There is an alternative to the one described by Mr. Faulkner which involves dissolution of the crude in polybosphoric acid and a reprecipitation, which is a significant manufacturing step that involves trained personnel under the

supervision of degreed chemist, so I would answer the question yes.

MR. FAULKNER: Actually, that's essentially the same process that we use in the Bushy Park operation to finish the violet.

MS. ALVES: So it would be the case then that Sun actually employs two different production methodologies to finish the product depending on which facility of Sun that we're talking about?

MR. FAULKNER: Yes, that's true, but also recognize that the Bushy Park facility just became part of Sun last February when we bought Bayer's high performance pigment business, so traditionally we've always made it the way that I described in my original testimony.

MS. ALVES: Okay.

MR SCHMIDT: The only other comment I'll make is that the percentage of total production that uses the processes that Andy was just talking about is a very small percentage of the total, the total business production for Sun, which Ed mentioned at our Bushy Park plant.

MS. ALVES: Okay. If you can just sort of flush out some of the details of the differences between the production processes and also in terms of

the factors that the Commission usually looks at, whether or not there are differences in terms of, for example, the capital expenditures or the level of technical expertise, if you're requiring degreed chemists for both types of procedures and also contrasting them from NFC's perspective with the technical capabilities, for example, required to produce the crude material. That would be helpful.

Also, to the extent that you're aware of what some of the other practices are here in the United States used by some of the other producers of the dry color or the presscake that would be helpful either here or in your postconference brief. I don't know how much of this is proprietary.

MR. DORRIS: We'll give some thought to that and put it in the postconference brief.

MS. ALVES: Also along the same lines of trying to define the domestic industry under consideration, there's some indications that if NFC in fact is supplying all of its materials to Sun that obviously the crude pigments that are used by the other producers of the finished pigments are coming in from somewhere other than the United States.

To what extent do you believe that individual companies that are making the finished

products are in fact importing them directly from subject foreign producers or are purchasing significant quantities from importers of subject merchandise?

If you believe that any of these companies are related parties, do appropriate circumstances exist to exclude any of these companies from the domestic industry on that basis?

MR. MCGRATH: With respect to Clariant, the company does import crude product that would be covered by the scope of this investigation, but does not import subject merchandise.

It imports only from European sources, so I don't think there's a related party question with respect to Clariant, but I don't know if there are any other issues with other companies.

MR. DORRIS: We'll look into this too. As far as we know, there's not that many other companies that would be importing the crude, but we'll check that.

MS. ALVES: Okay. Some of this may involve looking at the confidential questionnaire responses to determine whether or not the activities are direct importing or whether or not they are purchases.

Just be aware that the Commission will also

look to purchasing activities. To the extent that we have information on the record if there is evidence of some sort of a direct or indirect control relationship from these purchasing activities, that could also be grounds for finding a particular producer to be a related party, and then there would be the secondary issue of whether or not appropriate circumstances exist to exclude them from the industry.

If we could turn just briefly to some of the non-subject imports? We've made reference to imports coming in from some of the other countries. Taking a looking at Exhibit 7 in the petition, it does appear as though there are imports. I now understand that some of the European imports are coming in in the form of crude pigments and supplying Clariant's operations.

If you could just talk to me a little bit about some of the imports coming in from Japan, Germany, the United Kingdom, Mexico and France which appear to be at least from the data in the import statistics some of the larger quantities coming in?

If you could also talk about the average unit values? I know Olympia was talking a bit this morning about the reliability of some of the average unit values and some of the quantity information, but if you could talk a little bit about why these imports

are being brought in from the other countries and how their prices or their quantities differ?

Also, because I recognize that the HTS codes also include dispersions, if you could identify for me which of the non-subject import countries you believe are supplying dispersions, as opposed to the products that you believe are covered or correspond to those covered in the scope?

MR. DICKSON: Let me try the last one first that has to do with dispersions.

To our knowledge and study of the PIER'S reports and to our market knowledge, the only dispersion imports from any country that we can take a good guess at is we believe that there's a very small dispersion from Clariant to Clariant in the Colony trade name. That's a relatively tiny part of the total market. Other than that, we have no specific knowledge that there are any dispersion imports of carbazole violet pigment from any countries.

In terms of crude imports, the others -- I can talk a little bit I think safely for Sun -- have been from Japan, and the imports in recent times have declined from Japan significantly, having lost share to Chinese imports.

As far as imports of the finished product,

I'm not an expert on that so I would ask the other parties that are involved in finished pigment production to comment on the relation between imports from all countries and the United States.

MR. ZAMOYSKI: Let me just confirm that we do import a dispersion for paint made out of carbazole violet from Germany, but we're also not aware of significant imports of dispersions of carbazole violet from any place.

MR. SCHMIDT: I just want to comment again on the issue of Japan. Based on our internal numbers, we don't see much in the way of pigment coming from Japan. Most of the imports or almost all the imports are crude, not pigment.

MR. DORRIS: And, of course, the only thing I would add in response to Mr. Perry's opening remark, which you're talking about in a sense in terms of displacement of the imports from other countries versus the Chinese and Indian imports -- primarily, of course, the Chinese imports -- there's good imports, and there's bad imports.

The imports that were coming in from the other countries at the time they were coming in were fairly traded, and we had no problem with them. There was a need for them in the market at the time, and

perhaps there's a need for them in the future, although, as John said, he could supply the entire market for the crude, and I'm sure Sun, if they worked harder, could supply the entire market for the finished, along with Clariant's help, of course, and other U.S. producers perhaps.

You know, the Chinese product and the Indian product is dumped and subsidized, and that's the point of this case. It's possible that going forward the imports will recapture a part of the market. Maybe not. Hopefully we'll be able to capture a lot of that market. If it is captured by the other imports, they will be fairly traded imports.

If you've seen any changes in the unit values, it's only because they tried to chase along down with the Chinese as they drove the prices down and the Indians as they drove the prices down in the market. Mr. Perry tries to shift the blame to other imports and claim that they're the ones that are causing the damage. The answer is just that that's not true, and it's not what the data will show on the record.

At the same time, it's not that the Japanese have a conspiracy here and plan to come back and capture the entire U.S. market. It's not that way at

all. The Chinese chased these other imports out of the market because they were unfairly traded, the Chinese and Indians. They were unfairly traded, and now, with the protection of the orders, they would not be.

Thank you.

MS. ALVES: I just wanted to have somewhat of a sense of the makeup of the imports coming in from these other countries; also to get some better understanding of the AUVs because at least in that particular exhibit and based on the data that some of the average unit values from, for example, Japan and the United Kingdom were lower than the average unit values from India and so I was trying to understand if that was a product mix issue in terms of what was coming in from the various countries.

Again, there could also be data issue as well, but I was just trying to get a flavor for what was going on.

MR. DORRIS: Okay. I think as you heard, it is somewhat of a product mix issue. The crude would be lower priced for Japan, and then if there is some dispersion that might cause some pricing issue in the AUV.

MS. ALVES: Going again to some of the

factual circumstances involved in this case, there's information in the petition and again testimony this morning indicating that there are sales by the Color Group to the Ink Division, which is known as General Printing Ink.

I don't know if there are other producers that may be making sales or internal transfers to related companies, but what I would like counsel to address, and to the extent this involves confidential information, is the issue of whether or not the captive production provision applies in this case.

If you could walk through the threshold criteria, as well as the three other factors for the captive production issue either here or in your postconference brief and identify whether or not that provision applies and also whether or not there's anything that the Commission should glean from the recent decision by Judge Goldberg involving captive production issues, which was in Bethlehem Steel issued in October, October 28 of this year in Slip Opinion 03-143 of the Court of International Trade.

MR. DORRIS: Certainly we'll elaborate on that in our posthearing brief, but the bottom line is it doesn't apply because it's the same product being sold for the merchant marketing internally.

MS. ALVES: If you could just walk me through those factors that would be helpful and also identify to the extent that there are similar activities going on or being engaged in by some of the other companies. I don't know if that's also the case that they may be having related or internal transfers as well, but if you could just walk through the factors to the extent that there's factual information to discuss on those issues?

Finally, I would ask you and the parties this afternoon to address the issue of whether or not there are any outstanding orders or findings or investigations pending in any other countries against the subject imports from India or China.

Those are all the questions I had at this point.

MR. DORRIS: As far as we know there's not, but we'll double check.

MS. ALVES: Okay. Thank you.

MR. ZAMOYSKI: We're not aware either.

MR. DEYMAN: Ms. Pedersen?

MS. PEDERSEN: I have no questions at this time.

MR. DEYMAN: Mr. Boyland?

MR. BOYLAND: Good morning. Thank you for

your testimony. I have a couple of questions regarding some of the issues that you brought up today.

Mr. Schmidt, you talked about purchasing of the raw material. That's carbazole, various forms?

MR. SCHMIDT: Well, there's two different raw material purchases. First, to make the crude it's a -- I'm not a chemist, so I have to be careful here.

MR. BOYLAND: Neither am I.

MR. SCHMIDT: My background is I have a degree in accounting, so why I'm buying chemicals no one knows.

Anyway, you take carbazole in a product. You have to convert carbazole to something called n-ethylcarbazole, and then you have to reduce it to make aminoethylcarbazole, and then you have to condense it with a product called chlorinil to make crude violet. That's pretty much the synthesis.

MR. BOYLAND: So those would be the two primary raw materials that you're providing to Mr. Dickson?

MR. SCHMIDT: Well, there's probably eight or nine raw materials in the formula, including solvent, those two ingredients. You need a nitrating agent, an ethylating agent and some other chemicals

that go in, so it's a range of materials.

MR. BOYLAND: So when I look at that line item that says raw materials provided to toller, it would include those eight?

MR. SCHMIDT: It would include those, yes.

MR. BOYLAND: Okay. During the period examined, looking at what you reported and unitizing it, it looks like there was sort of a break in terms of the cost of those raw materials.

I can't obviously say, but there was a change. Was there a change during the period in terms of the actual cost?

MR. SCHMIDT: I'd have to go back specifically and look at the data, but generally chemical prices globally have been falling for the last several years, and these are included in that. Yes.

MR. BOYLAND: So I guess specifically what I was looking at was 2002. There appeared to be a pretty significant change in the raw material cost.

MR. SCHMIDT: Yes. As part of our, you know, attempts to stay competitive we buy from -- we look everywhere and also, you know, use whatever -- well, I'll say we have been successful in working with suppliers to get the cost down. I think that's all I

can say.

MR. BOYLAND: Okay. Thank you. I guess the other question too related to that was carbazole and the chlorinil, which I kind of interpreted to be the major raw materials, are not produced in the United States.

MR. SCHMIDT: They're not produced in the United States.

One other comment is on the raw material costs one other reason it went down is we did make some technology changes that increased the yield so the actual unit cost of raw material per pound dropped because of improved yield in the process.

MR. BOYLAND: I guess part of when I'm looking at the data, I'm looking at the raw materials you provided to Mr. Dickson, and I'm sort of thinking that the yield you're referring to is on the finished. Is it not? Are you referring to yield changes in his operation?

MR. SCHMIDT: It would be the yield of all those chemicals when they make a pound of violet crude, which would be run at NFC.

MR. BOYLAND: Okay. So you're sort of referring to changes at Mr. Dickson's operation specifically?

MR. SCHMIDT: Yes.

MR. BOYLAND: Okay. Mr. Faulkner, during your testimony you referred to the value of the merchant sales and the internal transfers. I thought I heard you say that the products are the same. Are they the same?

MR. FAULKNER: Yes, essentially it's the same. It's the same material, yes.

MR. BOYLAND: I guess the question I had was when I looked at the average unit values for each category -- internal consumption or internal transfers and commercial sales -- there's a significant difference. I was wondering if you could explain. If they are in fact the same product, what is accounting for that pretty significant difference?

I should also note that the Commission -- I mean, I understand that it's a transfer to another party or company, but the Commission does require that those be reported at fair market value, not at some -- I mean, if they're the same product I would sort of like to hear why they are so different if they in fact both should be fair market value.

MR. FAULKNER: Again, I'd have to go back and look at --

MR. BOYLAND: Okay.

MR. FAULKNER: -- the specific data, but we do sell -- the Color Group sells to GPI, the Ink Group, at competitive prices. In fact, over the period of time you can see how that price has dropped from 2000 --

MR. BOYLAND: Right.

MR. FAULKNER: -- to 2001 to 2002 to 2003.

MR. BOYLAND: I do see that, and I guess sort of the alternative question would be if it's the same product why didn't the same trend affect the commercial sales?

MR. FAULKNER: Well, it did. The price in the commercial also dropped by about 30 percent over that period of time.

MR. BOYLAND: I'm not sure it's the same percentage.

MR. FAULKNER: In the case of the merchant market, of course, as the prices dropped we would reorient the customer base in terms of still maintaining the customers at a slightly higher price base, and the ones that were at a very low price base would drop off at the bottom, which then obviously affects, you know, the demographics of that price mix.

MR. BOYLAND: I guess this is sort of an issue that we're going to maybe have to deal with in

the future at some other point, but the differences that you're reporting, the average values are so significant that we may need to sort of revalue whether or not they have been reported at a fair market value --

MR. FAULKNER: Okay.

MR. BOYLAND: -- because it does affect the financial results, the reporting.

MR. FAULKNER: Okay.

MR. BOYLAND: Mr. Dickson, on page 45 of the petition you refer to capital investments, some of which were made and some of which were not made. Capital investments on page 45 of the petition.

MR. DICKSON: Yes.

MR. BOYLAND: I was wondering if you could sort of, without getting into the proprietary nature of the information, describe if the investment plan that you describe had taken effect completely what the effect would have been on your costs?

MR. DICKSON: There would not have been a substantial effect on the cost so much as there would be in the efficiency of the operation and the likely increase in yield based upon solvents.

Under the present circumstances we filter manually. With the new type of filtration that we

were proposing, which was a large capital investment that we were requesting help from Sun in the purchase of, would have upgraded the production to a more automated fashion.

It would have had some reduction in employment or in hours worked, but more in terms of less of a manual operation and more of an automatic operation.

MR. BOYLAND: So if the investments had taken place in totality, the average unit cost that I'm looking at would not have changed?

MR. DICKSON: I think the average cost would have gone down some, but not --

MR. BOYLAND: Could you quantify that in the posthearing?

MR. DICKSON: Probably in the neighborhood of five percent.

MR. BOYLAND: Five percent. Okay. Was there an environmental component to the investment that was made in terms of, you know, it was going to be made anyway?

MR. DICKSON: No, there was no environmental component, although it is true that if the investment had been made there would have been less fugitive emissions using the new filtration system than at the

present, but it wasn't a subject of bringing us out of compliance into compliance. We were already in compliance, and, of course, are today.

MR. BOYLAND: This is a related question regarding capital expenditures for Sun. In the petition, and I'm sorry I can't refer to the particular page, but you did reference the capital expenditure, a portion of which was allocated to your violet pigment operations and in your financial results as well as the table for property, plant and equipment and capital expenditures, that's not reflected. I'm not sure if that was an oversight or maybe I misunderstood, but should that be included?

MR. FAULKNER: Well, I'm just the opposite of Steve, I'm a chemist, not an accountant, so I'm not sure if he can handle that or not.

MR. SCHMIDT: I believe the capital expenditure is the waste water upgrade we had to make at our Cincinnati plant and the primary mission of that upgrade was we had to meet local copper regulations that had been put on by the Cincinnati MSD, which is the local Metropolitan Sewer District, and in order to -- some of the other pigments that we make, you can get copper as something in the wastewater, it comes out of the process and there's a

very low limit allowed and we had to upgrade our wastewater treatment system to remove the copper from our effluent to get below the new standard that had been imposed.

Violet 23 doesn't happen to have copper as a byproduct that comes out in the effluent, although its effluent is treated in the same system, but the system wasn't put in specifically to handle a violet 23 effluent problem, it was more a phthalocyanine blue and green issue that caused the capital expenditure.

MR. BOYLAND: And so you allocated a portion of that and there's a particular amount that you report in the petition but which is not reflected in your questionnaire and this is sort of a housekeeping question. Can I assume that that amount should have been reported for the period and I can go ahead and include it in my information?

MR. SCHMIDT: I'd have to talk to our accountant who did the numbers.

MR. BOYLAND: Okay. Mr. Dickson, could I ask you to provide your financial statements for the period examined for the entire company?

MR. DICKSON: Yes, I'd be happy.

MR. BOYLAND: Thank you. Additionally, it would be very helpful if you could provide a breakout

of your cost of sales for violet pigment during the period examined, raw materials, packaging supplies, labor, other manufacturing costs.

MR. DICKSON: Yes, I could do that. No problem.

MR. BOYLAND: Thank you.

Mr. Faulkner, you referred to the Bushy Park operations in South Carolina. The averaging of value for the information that was report for Bushy Park is much different than the averaging of value for the Cincinnati plant. I'm not sure if that's a denominator issue or is there a significant difference in the product itself?

MR. FAULKNER: Well, there's a significant difference in the process. As I said, the process that we use there is similar to what Mr. Zamoyski described that Clariant used in Rhode Island, so there's a significant difference and it's a much more expensive process than the way we've done it traditionally in Cincinnati. The processing and the raw material costs.

MR. BOYLAND: And I'm assuming that's justified because the end use applications?

MR. FAULKNER: Yes.

MR. BOYLAND: So it is in essence a quality

issue or performance issue?

MR. FAULKNER: There are some elements in terms of the shade of the product. As Steve pointed out, the volume of that product as you've seen in the questionnaires is very small compared to the overall volume that we produce.

MR. BOYLAND: And this is sort of another housekeeping issue. I've talked to your accountant, Ms. Braden?

MR. FAULKNER: Yes. Ms. Braden.

MR. BOYLAND: Regarding the Bushy Park financial information which at this point we're, I believe, limited to the interim 2003 period. And I'm hoping that the rest of the period can be provided.

MR. FAULKNER: Of course, we put together the financial data for this period of time which we've owned the operation.

MR. BOYLAND: Correct.

MR. FAULKNER: We do have the sales data for Bayer from the years 2001, 2002 and January of 2003, which I forwarded to Ms. Hand.

MR. BOYLAND: Right. And that was helpful because it gave me a sense of how large we're talking in terms of sales.

MR. FAULKNER: Right.

MR. BOYLAND: But it doesn't help me develop financial results that I can include.

MR. FAULKNER: Well, Sun Chemical doesn't have access to the production and purchasing data for Bayer prior to our takeover in February of this year. However, as of late last night when I was talking to some people, they are working on putting the data together. What happened is they apparently took those records and they filed them away some place in a storage area in Bushy Park to which we don't have access. So they're going to send someone down there, dig the records out and complete the questionnaire.

MR. BOYLAND: Thank you. Thank you.

With respect to quality issues that were brought up in the opening testimony by respondents, was there any period during which Sun Park's average cost that I'm looking at would have reflected any disruptions or problems at the plant?

MR. FAULKNER: Not of which I'm aware. The only comment I'd make in there is that in that period Sun, our Cincinnati plant, was ISO 9000 registered and then recently just got re-registered under the new standard, so it's a pretty good operation.

MR. MCGRATH: If I could add one comment on

that point, I noted that that argument was raised at the beginning of this hearing more as an attempt to explain what's traditionally called lowering price to meet competition. It's an interesting sort of we lower prices first and then suddenly the industry found we had a better quality and then the domestic industry had to lower their prices to meet ours because their quality was less. I think that the bottom line is when you look at it, not just Sun but Clariant had to lower its price and both continue to lower their prices to meet much lower pricing from China. It has nothing to do with any perceived quality differentiation that appeared on the scene after China bought its way into the market.

MS. BOYLAND: One final housekeeping issue.

Mr. Zamoyski, I did send your company a fax several days ago regarding missing financial information. I'm hoping that that information can be provided.

MR. ZAMOYSKI: I'm also hoping we can provide that information.

MR. BOYLAND: Great. Thank you.

I have no further questions.

MR. DEYMAN: Mr. Wanser?

MR. WANSER: I have no questions.

MR. DEYMAN: Page 14 of the petition mentions that there has been a surge of imports to violet 23 from Mexico and from the United Kingdom and indicates that there may be transshipments of product from China or India through those countries.

What basis do you have for the possibility of transshipments? For example, do you know of any production of violet 23 in Mexico or the United Kingdom?

MR. DICKSON: Let me start off by saying that we're relatively certain that there's no crude production in the United Kingdom or Mexico because such a large capital investment is required for that. Usually people make announcements to the effect that they're going to be putting in the type of plant that we would have in Fort Mills, South Carolina. So we have no indication that crude production is being made in any of the countries other than where we've already reported.

As far as the finished pigment, I would have to defer to Mr. Faulkner and Mr. Schmidt to comment on that.

MR. SCHMIDT: I can say in the U.K. we're not aware of any violet 23 pigment producers in the U.K. and I don't believe there's one in Mexico either.

MR. FAULKNER: There is a possibility that there is some finishing in Mexico. Some of our market intelligence has indicated that, but I don't have any firm fact that would substantiate that.

MR. DEYMAN: All right. If there's anything that you can provide in your post-conference briefs that you may have in confidence, we would appreciate knowing about that concerning this issue.

Ms. Alves mentioned the imports from France and Japan earlier. I note that they have decreased substantially between 2000 and 2002. Can you comment on the possibility that the increase in imports from China and India have merely displaced the imports from France and Japan?

MR. DORRIS: Merely displaced is an understatement. I mean, they obviously have forced them out of the market, too. I mentioned before, it's good imports and bad imports. I mean, those imports were being fairly traded, the U.S. industry was doing fine when those imports were in the market, there was no problem, and then when the Chinese come into the market and lower the price, the imports try to chase the price down, just like we do, but no one can compete with those low prices from China and India and so they've been forced out of the market. And there's

been more displacement than just imports. Certainly the testimony today was lost market share and lost sales, so it's not just a price case although it is primarily a price case.

MR. ZAMOYSKI: The French imports were ours and they were displaced by lower prices.

MR. DEYMAN: With regard to the imports from the various countries, let's go over very briefly the four or five largest sources so we can learn to what extent you believe the imports are of crude or of finished, in case we have to revert to using official statistics for our import data. So other than China and India, for which we expect to have good data, Japan, I think you indicated that the imports as far as you know are mostly, if not all, crude. Is that right?

MR. SCHMIDT: Yes. I'd say a very, very high percentage is crude.

MR. DEYMAN: Okay. And Germany? And you can answer in confidence in the post-conference brief if you want to.

MR. ZAMOYSKI: I think I would prefer to do that.

MR. DEYMAN: And France?

MR. ZAMOYSKI: Again, I think those were all

ours and we had made crude in France, I think we still do. We have not imported any of the crude from France. I believe that's all finished material.

MR. DEYMAN: And, of course, Mexico and the United Kingdom, where you believe that there is no crude production and possibly no finished production. Is that correct?

MR. ZAMOYSKI: Let me add my opinion. I agree that there is no crude manufacturer in either country and I concur with Mr. Faulkner's view that there could be some finishing capacity in Mexico, only because one of the companies that's operating there has a history of with carbazole violet.

MR. DORRIS: And the only point I would make is I wish I could share your optimism about the Chinese and Indian data, but I don't think we're going to get enough data to do something other than use the HTS statistics.

MR. DEYMAN: Well, then with regard to China and India, if you could give us your opinion as to the breakout between crude and finished, that would be helpful.

MR. DORRIS: We'll try to do the best we can using the PIER'S data and what data is provided.

MR. DEYMAN: On the issue of quality that

Mr. Perry mentioned, are there any customers, this is for Sun and for Clariant, are there any customers at which you have not been able to qualify your product? And you can answer that in your post-conference brief, unless you want to do so now.

MR. FAULKNER: We would prefer to do it in the brief.

MR. DEYMAN: Thank you.

What has been the trend in demand or consumption of violet 23 during the past few years in the United States?

MR. FAULKNER: It essentially was flat in 2000, 2001, 2002. There's been a very slight up tick this year as a result of a slight up tick in the U.S. economy. I've said this every year for the last three or four years, but I've never seen so many catalogs in my mailbox every day as I've seen this year. So the printing industry is doing a little bit better than it had in the past, there seems to be more ads and those sorts of things, so I'd say there's been a slight increase in the market for 2003, but it was flat for the previous three years.

MR. DEYMAN: To what extent, if any, would you say that low priced imports of violet 23 from China and India have created a new market, that is,

new uses, in the United States and thereby possibly increased consumption of the product?

MR. FAULKNER: I don't believe there's any at all. It's existing markets utilizing the product.

MR. DEYMAN: When did you first notice the presence of any low priced imports from China and India? Was it during the period of investigation or well before that?

MR. ZAMOYSKI: I think just about maybe five to six years ago we started to see some indications.

MR. FAULKNER: The same is true for us. Of course, at that time, the prices were nowhere near as low as they are now. They've just continued to go down year after year after year as the volumes have gone up and up as a result.

MR. DEYMAN: I have no further questions.

Does any other staff member have a question?

Mr. Boyland?

MS. BOYLAND: One additional question.

Mr. Dickson, when I looked at the average manufacturing costs of your crude, there is a break during the period and I believe it's primarily volume related, but I'd like to get your perspective on that in terms of period to period the change in average manufacturing costs. How would you look at those or

think that they would be correctly interpreted in terms of capacity utilization, other factors?

MR. DICKSON: I can comment in the post-conference brief, but I would like to comment on the business in general and that is, like I mentioned before, the chemical manufacturing business, especially chemical reactions, et cetera, is a highly capital intensive business, so we have a huge amount of fixed cost. So the volume of business that we have, the quantity, determines the ultimate cost more than any other single factor. So it is true that during the period of investigation we've had significant increases in energy costs. We use natural gas as a clean fuel, as an alternative to number 2 fuel oil. And, as it's well known in the industry, there's been a significant spike. We're paying about twice the price for natural gas than we did three years ago and that in turn reflects on the cost of all the products that we make and especially the carbazole violet pigment because it's energy intensive. There's a lot of energy that goes into the chemical reactions, a lot of energy that's required to recover the solvents so that we can reuse them and recycle them. So it's an energy intensive process, so that would have some effect and that would be a variable cost.

But notwithstanding the energy, the main thing is the fixed cost associated with that manufacturing process in the form of the financing, the leased equipment, the invested capital, and even to some degree the lack of flexibility that we have with the labor force. If we have a sharp turndown in business, we just can't put our skilled operators out on the street and expect to get them back, so there's a lag time involved in that. But I will take a look at it specifically.

MR. BOYLAND: I think it would be useful because I think you can look at the numbers in general and make a conclusion that, oh, this is capacity utilization, but it sounds like maybe there are other things going on as well that may not be as significant but that contributed to the changes.

MR. DICKSON: I think in the detailed income statement that we can give you which breaks down all of those different costs, the answer will probably be shown more clearly.

MR. BOYLAND: Okay. Thank you.

I have no further questions.

MR. DEYMAN: I have another question on the issue of the quality of the product. I know that you discussed it earlier, but with regard to the product

from China and India, would you characterize the product as poor, good, excellent or mixed depending on the supplier?

MR. FAULKNER: The quality is mixed depending upon the supplier. As a general rule, the quality has improved over the last four-to-five year period. It was all pretty poor when they first started and they've gotten better at it.

MR. DEYMAN: I have to ask this, but are there any Buy American or other domestic preference issues involved in this product or this industry?

MR. FAULKNER: None of which I'm aware.

MR. ZAMOYSKI: We're not aware of any either.

MR. DEYMAN: All right. I have no further questions. Thank you very much for your testimony and for your responses to our questions.

We'll take a two-minute break in order to switch panels.

(A recess was taken from 11:15 a.m. until 11:20 a.m.)

MR. DEYMAN: I would like to resume the conference. Could you please be seated?

Mr. Perry, Mr. Westrom, if you could please start whenever you're ready.

MR. PERRY: My name is William Perry of the law firm Garvey Schubert & Barer and I'm here representing the Chinese exporters and the U.S. importers in the case.

Mr. VS, do you want to go first?

MR. SESHADRI: I am VS Seshadri. I am Minister of Commerce in the Embassy of India and maybe I won't have sufficient time, Mr. Chairman, to be able to appoint a lawyer and get together our act and being able to look at all the details, et cetera, which we hope will be doing as quickly as possible. Therefore I am here to make a very brief statement at the right opportunity that you think appropriate.

MR. PERRY: George, why don't we go first and then we'll ask Mr. Vs to make a short statement?

We're here again representing the Chinese exporters and U.S. importers in the case. Just a couple of cleanup items. We believe that there is production in Mexico of the finished pigment. We think it might be the Toyo plant down there. We're going to try and find out more information and put it in our post-conference brief.

We also made the point that when the Chinese initially came in five or six years ago, there were difficulties because there was the perception -- there

is a problem in the EPA, the dioxin standard, and it made it very difficult for the Chinese to come. Obviously, when they first came in, they had to use lower prices to do it. But when they came in and people started to realize that at least the quality from some of the sources was pretty good, that caused a big pressure on Sun because when the quality was better than Sun, Sun had to drive the price down to get the business back and they still can't because of their own quality problems.

Now I'd like to ask Ms. Lilly Lee of Alpha Source to testify.

MS. LEE: Good morning. My name is Lily Lee. I am President of Alpha Source, Inc. Alpha Source imports organic pigments for printing inks, including carbazole violet 23 for the U.S. ink industry. Our mission is to assist U.S. consumers to work with Chinese producers to meet their quality needs and to service their raw materials requirements. Thank you for the opportunity to participate here today.

First, let me start by introducing the production of violet 23. Crude violet 23 is produced by a chemical process. It is the same chemical structure as finished violet 23 pigment, but is not

yet ready for use. Crude violet 23 is converted to finished pigment by salt grinding or milling. Crude is placed in a blender with salt and solvent and ground or milled. The resulting slurry is pressed through a cloth in a filter press, which is like a large accordion that squeezes liquid out of the slurry. What remains after much of the liquid is squeezed out is a paste comprised of pigment solids and water. The pressed cake can be used in that form for various applications or it can be dried out to its final powder form. These are the three forms which comprise this case: crude, pressed cake and powder.

In reviewing the petition and its documentation, we found that the Department of Commerce statistics used to determine average price and import quantity of crude, pressed cake and powder violet 23 showed for the months April through August 2003 an incomprehensibly low import price from China of $3.96 per pound and a surprisingly high import quantity of about 270 metric tons.

Now, we realize that Department of Commerce statistics are derived from Customs 7501 entry documentation. After closely considering where such a gross misrepresentation could have arisen, we concluded that the cause was a reporting error related

to press cake weights.

Chinese violet 23 press cake could be, for example, 40 percent pigment and 60 percent water, such that if you had an entry of 10,000 pounds, 4000 pounds would be pigment and 6000 pounds water. This is merely an example. Actual solids will differ depending on the producer.

Therefore, when Customs reported the net weight of a particular shipment or what is known in our industry as wet weight, in our example of a 10,000 pound net weight shipment, Customs would have reported the full 10,000 pounds, whereas the actual pigment weight is only 4000 pounds. The actual weight reported for such press cake entries would be double or greater the actual pigment quantity or what we call the 100 percent weight or dry weight. Violet 23 is sold on a dry weight basis or per unit of pigment. The quantity of water is not billable.

Since customs calculates duty on an ad valorem basis, the importer may not have noticed this entry error because the value of the duty assessed for each shipment was correct; it was the quantity which was not. By reporting a significantly higher than actual quantity but at the same time accurately reporting the actual price or value per shipment,

Customs reported a price per pound which was multiples less than the actual value.

Hence, the actual quantity imported as far lower than reported and the actual price per pound was higher than reported. The 146 data in the petition simply does not reflect the reality of the marketplace.

Moreover, Sun probably was aware that the $3.96 per pound price was not an accurate price. Some Chinese producers have informed us that the petitioner repeatedly pushed for price decreases during 2003 and more recently insisted that such pricing be issued in writing. We are submitting with our confidential post-conference brief a written offer prior to the filing of the petition from a major Chinese producer to Sun for crude and finished pigment at prices which are multiples higher than $3.96 per pound.

This raises the question did Sun engineer this dumping case by purposefully driving the Chinese price down to create a dumping argument?

We have spoken with many U.S. ink producers, end users of violet 23, who painted a picture of violet 23 usage history as follows:

Years ago, pricing of violet 23 powder and press cake was multiples higher than today's pricing.

Prices are now far less than half of their former high. Whereas the cost of the pigment was previously too prohibitive to even consider its use in certain applications during the past few years due to the availability of lower priced, high quality violet 23 from China, new applications arose which did not previously exist, usage flourished in traditional markets when violet 23 became economically accessible.

Therefore, if this antidumping order is accepted and U.S. domestic prices rise accordingly, there will be a corresponding decrease in the usage of violet 23 in the U.S. as those users who employ carbazole violet due to favorable lower cost of Chinese violet 23 will now change to lesser expensive alternatives.

What are the benefits of violet 23? Violet 23 is a large symmetrical molecule with a chain that leaves open few areas susceptible to chemical attack. As a result, violet 23 offers the attributes of high stability to chemicals, light and heat, in addition to shade. Chinese violet 23 is sold primarily for the coatings, textiles, colorants and water based solvent and metal deco printing ink applications.

We agree there is no substitute to replace the valuable properties of violet 23 and for certain

demanding applications customers will have to use violet 23 no matter what the price. However, this is not to say that all users of the end products will accept a significant price increase lying down. The majority of the ink industry which I service will not and I would think it is a fair assumption to say the textile industry, the other primary application for Chinese violet 23, will not be either.

The following are examples provided by U.S. users of violet 23 whom we spoke with over the past two weeks.

Our customers in the ink industry have told us their users would not accept even a minimal increase, so if violet 23 pricing increases significantly, the ink maker will have no choice but to do what they have done for years now: innovate and create lower cost substitutes that maximize the properties desired, while making some compromises in the interests of cost.

You will find a significant amount of imports from China are in press cake form. These sales are largely sold to the textile industry. For textiles applications, Chinese violet 23 press cake fed the textile market. One of our customers has told me, "Sun did not pursue this market because they did

not have the technical capability. New applications were created and developed because the Chinese quality rose to meet that of the Germans, Clariant and Hoechst, at a lower cost."

As James Wang will detail after me, if pricing jumps, sales for textile application will fall out. Offshore finished textile goods will then have a strong competitive advantage, resulting in loss of more jobs in the U.S. textile industry.

Domestic production of sheets, towels and other textile products using purple colors like the characters on children's sheets will move offshore due to competitive price advantage resulting in the loss of even more jobs in the textile sector.

Another example of other applications which grew as a result of lower cost violet 23 is the production of an alkali blue substitute from 50 percent violet 23 and 50 percent alkali blue. This alkali blue substitute is used in packaging or ultraviolet inks. If pricing of violet 23 increases significantly, ink makers will try to develop an alternate color. On the other hand, if price remains stable, end users will consume more and more.

Also, for lower end applications due to decreased price, violet 23 is being used more widely

for applications such as fast food packaging. Its use in such lower end applications where price is king would easily shift to other economical alternatives.

Another application which developed and grew as a result of lower price is using violet 23 to shade lower cost blacks to make these lower cost blacks jetter or a more bluish-black. This substitutes for direct purchase of a jetter black. More expensive jetter black is produced by the same furnace oil process as lower priced black, but it has smaller particle size and is bluer or jetter. It is harder to make, more refined and more expensive. If violet 23 prices rise, users can shift back to purchasing straight jetter black.

Furthermore, additional phthalocyanine blue or alkali blue can also achieve a bluer black, albeit with not exactly the same properties, but it is a possible alternative if the price of violet 23 increases. In addition, a major packing application for violet 23 is the purple on the Kellogg's Raisin Bran box.

The primary attributes of violet 23 are light fastness and chemical resistance. Nevertheless, if the cost of violet 23 rises substantially, the ink maker would have no choice but to pass on the

increased cost to the folding carton printer who may well be willing to give up some performance properties in the interests of cost. Hence, the printer could then switch to an alternative such as violet 1, a methyl violet, which would then be far less expensive than carbazole violet 23.

Violet 1 may not have the lightfastness nor the chemical resistance of violet 23, but the printer may give up some quality attribute to achieve a pricing that would prevent a price increase for its customer.

Please keep in mind that if violet 23 prices go up, the production of ink dispersions, flush or other finished ink forms will more readily move offshore. Another alternative for Kellogg would be to purchase the entire printed box offshore from Mexico, Canada, South America or Asia. Then who gains from this action?

Frankly, this is the greatest fear in the ink industry, not that it can't compete on raw material pricing, but rather that either the ink production will move offshore or the entire product will be printed overseas because the ink industry cannot competitively produce the ink here. As James Wang will state, Nation Fort has already driven out

domestic producers that are consumers of its sulfanilic acid. If an antidumping duty is imposed on violet 23, yet more companies will be driven out of the United States.

Another example is printing inks for which certain designs may currently use more violet 23. If price were to increase, users may likely change their graphic design to either decrease or eliminate the use of violet 23. The profitability of U.S. printers is a common complaint in the ink industry. The decreased price of violet 23 has eased the printer's choice when choosing violet 23 for performance, thus spurring usage in traditional ink markets. The decrease of violet 23 pricing has allowed printing with that color where before it was price prohibitive, so that volume will erode if a dumping margin is imposed and pricing goes up.

These are just examples we have drawn from U.S. ink makers in the short amount of time we have had to prepare for today's conference. The many ink producers with whom we have spoken recently unanimously concur that there would be a significant decrease in usage if the price of violet 23 were to increase substantially. Therefore, they conclude that the net effect of antidumping order on Chinese violet

23 would be very harmful because even if ink makers were to charge higher prices, the overall market usage would shrink such that no ink maker would actually benefit from higher sales prices.

One of our customers who is not present today told us this was not a one-for-one substitute, the Chinese did not come in and steal the marketplace. There was a need. A non-domestic manufacturer saw that need, whether it happened to be Clariant or another. It wasn't and isn't just the Chinese that did this.

Why are they belittling the Chinese when domestic produced product is inferior to others? Sun didn't resolve technical issues confronting the end user.

Another problem our customers face is that if Sun becomes the only viable source for violet 23 as a result of antidumping duty imposition, ink makers will be forced to purchase violet 23 from their primary competitor. Alpha Sources' primary customers have not used Sun's violet 23 for major applications for many years, in some cases, more than a decade. The reason has been the domestic pigment was not approved for their applications. Many years ago, our customers substituted domestic pigment with other

imported violet 23. The petitioner lost this business due to quality or performance issues, not lower import pricing.

Our customers substituted Chinese pigment supplied by Alpha Source or these other imported sources starting during 2001. The businesses of which we speak accounted for a majority of the reported increase in Chinese imports from 2001 to 2002. In fact, once the quantities are adjusted for the press cake weight discrepancies, these businesses may account for well more of said increase between 2001 and 2002.

As recently as last month, one of our customers rejected the petitioner's pigment quality for applications that have used our Chinese pigment as their primary source for a few years now.

Let me conclude by clearly stating that the imports of Chinese violet 23 by Alpha Source have not harmed the U.S. industry because the U.S. industry lost these accounts many years ago due to quality and performance issues, not price.

Thank you.

MR. PERRY: I would now like to ask Rick Westrom of INX International Ink Company to testify. With Rick is Bob Osmanson, who is the General Counsel

of INX.

MR. WESTROM: Thank you. My name is Rick Westrom. I'm Vice President of Strategic Sourcing from INX International Ink Company, the third largest printing ink manufacturer in the United States, Empire employing 1200 employees. I have worked in the industry 28 years and 15 of those years in a technical capacity from quality control to formulation to technical director. Currently, I am in a management role.

INX's annual purchasing volume of carbazole violet 23 is 130,000 pounds of pigment which is used in the following printing ink applications:

Fifty-four percent of that quantity is used in the metal deco area, which is ink used for aluminum cans. An example of some of the items that we produce that would have carbazole violet would be Pepsi or Budweiser blue.

Thirteen percent would be in lamination. This would be liquid inks used for food packaging.

Eighteen percent would be in the fast food packaging. Liquid ink is used for cups, plates and sandwich wrappers.

Nine percent is in offset, which is for commercial and carton printing.

Three percent is UV which is tag and labels.

There is three percent miscellaneous for other items.

INX believes that it is responsible for the consumption of the major increase of imports of carbazole violet 23 from China during the period of 2001 to 2002. The majority of the increase of imported carbazole violet 23 displaced imported violet 23 pigment from Europe and Japan from the period from 2000 to 2003. Not only have the European and Japanese sources of supply been shifted to Chinese supply, but the percentage of Sun Chemicals supply nearly tripled over the past few years, not decreasing.

The domestic supply has not been able to qualify product for commercial use in our metal deco product line, which represents 54 percent of our total usage of carbazole violet 23. INX's products are used for world class product lines that require inks to have stringent qualification specifications that the domestic supply has been unable to meet.

In addition, there is another product line for liquid inks which represents 12 percent of INX's total purchases that have not qualified a domestic supply of carbazole violet 23.

This makes 66 percent of INX's total

purchases not having domestic supply approval for our purchases. The quality issues for qualification encountered have been related to color shade, color strength, rheology, transparency or gloss. Not that Sun doesn't produce their product with consistent quality, but they have not been able to supply the quality to be qualified.

The average price per pound INX paid for Chinese carbazole violet 23 is multiples of the $3.96. Not only has violet 23 seen reduced prices, but also most pigments in general have seen steadily decline over the past seven years from domestic and imported competition.

Any significant increases in the cost of carbazole violet 23 pigments could cause INX to consider producing a finished ink utilizing these pigments aborad.

Thank you.

MR. PERRY: Now I'd like to introduce James Wang of Shanco International, Inc.

MR. DEYMAN: Mr. Wang?

MR. WANG: Good morning. My name is James Wang. I am President of Shanco International, Inc. I have been in the color business since 1988, including 13 and a half years in the United States. I'm a

chemist, and very familiar with both the production and the applications of violet 23. I'm opposed to the antidumping duty investigation against this product.

I want to first repeat the point made by previous witnesses. The import statistics upon which this based greatly overstate the quantity of Chinese product. When this situation was brought to my attention by Ms. Lee, I rechecked the custom form 7501 that my company had filed. I discovered that although the value has been correctly reported, and the correct amount of duty paid, the quantity of product entered was incorrectly reported. I import Violet 23 in presscake form which is immersed in water. The water accounts for between 50 to 67 percent of total weight. Whereas the dry weight of Violet 23 should have been reported on the form, the total weight, the pigment plus water was incorrectly reported and are reflected in the import statistics.

I do not believe that Chinese imports have harmed the domestic industry. First, the domestic pricing of Violet 23 has been decreasing for many years, predating Chinese imports. The primary reason for this trend has been the declining world market price for the raw material inputs of Violet 23. In the last three years, our cost for carbazole,

chloronil, ortho-dichlorobenzene and triethylamine have declined by 50 percent. Consequently, the Violet 23 remains a profitable product, despite its declining price. Moreover, the price decline has been beneficial for the Violet 23 market. The lower price has led to increases in Violet 23 consumption as more customers are able to incorporate Violet 23 as an input in the finished products.

The Chinese Violet 23 is a higher quality. My suppliers took a lot of time and effort to think out the process to make a redder or bluer shade products. My customers also took a long time to develop the salt grinding formulation to process the crude pigment, crude products into finished pigment which are good for various applications such as flushes, and dry pigment for plastics, inks, and for coating.

My customers, most of whom are small businesses, depend on us in supplying the quality pigment Violet 23 for their unique production requirements. We have to custom match the quality requirement from every single customer. For example, the customer making dispersions for textile printing prefers very redder shades and a clear and strong strength. The customer making dispersions for

printing inks, a very flexible ink, prefer blue or middle shade and a clean, strong strength. This requires a lot of work and quality control for my company and my suppliers. Our customers count on us in supplying the consistent quality pigments they need for their production processes. I'm able to provide to my customer customized products in the small volumes which they need at a competitive price.

In my view, the imposition of antidumping duties in the magnitude described in this petition would not only destroy my business, but would also destroy my customers' businesses as well. This scenario has already happened in the food coloring and the textile dye industries. As a result of the sulfanilic acid price increase resulting from imposition of the antidumping duty order, the costs of producing acid yellow 5 and acid yellow 6 increased to such an extent that food dye manufacturers in the United States had to close production. In the indigo case, the increased price of the indigo caused Levis to shift production from the United States to Mexico. In the case of Violet 23, a sudden increase in pricing will force United States manufacturers of products incorporating Violet 23 to either shift to using other colorants, close the operation or move the operation

offshore. Imposition of antidumping duties will result in a net loss of jobs and businesses for downstream manufacturers who purchase and make products that incorporate Violet 23.

Thank you for allowing me to testify today. I would be pleased to answer any questions you may have.

MR. PERRY: I would like to ask Ms. Qi of JECO Pigment to testify.

MS. QI: Good morning. My name is Jinli Qi. I am the Vice President of JECO Pigment USA, Inc. I have been with the company for 2 and a half years. JECO Pigment USA, Inc. is a wholly owned subsidiary of JECO Pigment Co., Ltd., a Chinese manufacturer and exporter of pigments. Previously, I worked for seven and a half years with JECO China. With respect to the subject merchandise, JECO China does not manufacture Violet 23. Instead, JECO China purchases Violet 23 from Chinese producers for export overseas. All JECO China sales of Violet 23 to the United States are made through JECO USA. Sales of the subject merchandise account for approximately 10 to 15 percent of total JECO USA company sales in 2003.

First, the Commission should be aware that the price allegations in the petition are not accurate

and do not reflect the actual pricing of Chines Violet 23 in the United States. As shown in JECO USA's questionnaire response, even our lowest U.S. sales price in 2003 is more than three times higher than as alleged in the petition.

JECO USA is a recent entrant into the U.S. market for Violet 23. It cannot be responsible for price declines in this industry that began over 10 years ago. Our sales began in 2002 and were less than one metric ton. Although our volume has increased in 2003, our volume for this product remains less than 10 metric tons.

The product that JECO USA sells in the U.S. is a lower grade product. It is used mainly in water based applications such as ink, and cannot be used in higher valued applications such as plastics. Our competition in the U.S. market is mainly with other imports, not the domestic product.

JECO China sells Violet 23 to numerous countries other than the United States and has established markets in Asia, Latin America and Europe. In both 2002 and 2003, sales to the U.S. accounted for approximately only about half of JECO China's sales. We expect this trend to continue into the future.

Thank you for letting me provide my views.

I would be pleased to answer any questions you may have. Thank you.

MR. PERRY: Well, we're finished with our testimony, and Mr. Seshadri can now make his remarks.

MR. SESHADRI: Thank you. I would like to thank the International Trade Commission of the United States for giving us this opportunity to make a brief statement.

At this stage of the investigation, we understand that the U.S. ITC mainly looks at whether there is a reasonable indication that a relevant industry is materially injured or is threatened with material injury, or whether the subject merchandise are not negligible.

In my statement today, I will only focus on the negligibility aspect. We have not had the time to examine in detail the petition submitted to be able to comment on the various aspects of the alleged injury. Therefore, we would like to refer to this issue as quickly as possible.

As for the negligibility aspect, we would like to draw the attention to the fact that during the last 12-month period, that is, October, 2002 through September, 2003, the latest 12-month period for which trade figures are available, import of this product,

which corresponds to hedges court 3204179040, into the U.S. from India was 12,242 kgs, out of the total import of this product during this period by the United States of 494,280 kgs. This works out to around 2.47 percent of the US's total imports during this period.

As for the definition of negligible imports, even in para 24 of article 771 of the Tariff Act, these volumes are, in fact, negligible. We would, therefore, request the Commission to make a ruling to this effect, and have the investigation against imports from India duly terminated in respect of both the antidumping and countervailing duty investigation.

MR. PERRY: We're ready for your questions.

MR. DEYMAN: Thank you. Ms. Hand?

MS. HAND: Thank you for coming to Washington and giving us your testimony. My first question is for Mr. Westrom. I was wondering if you made any attempts to qualify other suppliers besides the Chinese for your needs for your ink industry.

MR. WESTROM: Yes, we've had European and Japanese products that we've worked with for qualification. They're the only other ones that have been qualified.

MS. HAND: And so do you buy from the

European and the Japanese?

MR. WESTROM: We currently buy some from Europe, none from Japanese currently. Europe had a large portion, but that's been shifted to China.

MS. HAND: And can you tell me why you don't buy from the Japanese and why you shifted from Europe to China, and whether any of that has to do with the lower price by the Chinese.

MR. WESTROM: It was a combination of price and quality. With the Japanese product we were able to get higher gloss and higher strength, and the price was attractive and we made the change with that. The European supply -- at the time we gave them a sample of the Japanese product and they confirmed our investigation on the improved quality.

MS. HAND: I'm a little unclear; what was the price like for your Japanese supplier?

MR. WESTROM: It was European.

MS. HAND: I'm sorry, I thought you had a Japanese supplier, too.

MR. WESTROM: Oh, I'm sorry, the Chinese displaced the European supply, and the reason for the displacement was for price and quality.

MS. HAND: And the Japanese supplier, you had one, or you qualified one?

MR. WESTROM: The Japanese was not able to meet any of the quality or pricing requirements at the time, and so they lost the business totally.

MS. HAND: Okay, thank you. I have a question for Ms. Lee and Mr. Wang. I'm just a little curious. I understand your argument about the official statistics and the problem with the quantity and the average unit values, and that they differ from what's been reported in our importer questionnaires. I'm just wondering why, in an industry typically that would price on 100 percent pigment basis and therefore would probably invoice on a 100 percent pigment basis, and therefore probably all of the documents would be on a 100 percent pigment basis in terms of quantity, I'm just wondering why there would be such a foul-up in terms of that quantity. How that could have happened.

MS. LEE: First of all, I checked my own 7501s. We only imported a very small quantity of presscake, you'll see from our questionnaire forms. And our numbers were reported correctly to Customs. They were based on 100 percent weight, but that's because my traffic manager spoke at length with our customs broker, and our customs broker spoke at length with Customs to explain to them the calculation on a

100 percent basis.

It's not a necessary given that because you submit documentation on that basis that Customs will accept that documentation. They will look at the weight that was actually shipped, and the weight that was actually shipped was the whole quantity, which included the water. And we've had this error occur with Customs -- I've personally had this error with Customs being aware of it. When I first saw the $3.96 per pound price, I was totally perplexed, because I have an inch and a half stack of Customs 7501 documents of my imports over the period that has been shown in those Department of Commerce statistics. And they're at multiples times higher than the pricing.

Now, we've just explained that we represent a majority of the increase in the quantity from 2001 to 2002. So that would then mean that people had imported at basically no value whatsoever. That didn't make any sense to me. So at that point I thought what would have created such a discrepancy. And after thinking about it for a while, it just dawned on me that it must be the presscake values. And that's when I called James Wang at Shanco and asked him to check his 7501 documentation, and sure enough, he found that that was the basis of entry.

You see, when you're an importer, as I explained, you may not review and scrutinize your 7501 forms so carefully if the duty was assessed properly. All you're really looking at, usually, is that Customs charged and assessed the proper duty. Because it's still on an ad valorem basis. That's where the discrepancy occurred, was that the importer may not have -- I mean, in my case we do scrutinize, but the importer may not have looked at the quantity item, because they knew that the -- once they checked that the duty was correct, then they just moved on.

MS. HAND: So you're saying there are other documentation that gets the total weight shift, and that's also what Customs also would be looking at. So they're not looking at the quantity invoice, but they're also looking at the quantity total shift.

MS. LEE: Right.

MS. HAND: And that's where the problem occurs.

MS. LEE: Usually on your invoice you will also have a section with shipping marks, and also, you know, pieces, and so there's a calculation out as to what the quantity is. You take the number of pieces times the quantity that they show on what's called a net weight basis. The net weight happens to be the

wet weight, the larger quantity. And then you multiply it out and you get the final number. So that was the basis of the calculation.

And it's a common Customs error. In fact, I'm scrutinizing other presscake imports now to make certain that doesn't occur.

MR. PERRY: I just might mention, James told me that that was one of the problems, I guess the actual quantities on the bill of lading, and that's where also there's a problem.

MR. WANG: Yes, I'd like to clarify that. Actually, we didn't find this problem until this investigation, and we don't look at this 7501 form. Normally I only sign the check or review the bill, is correct, is it correct, when they're basing the quantity on the data. So, this year we see we have six shipments in September, and we bought product from two suppliers. And one supplier, when they put an invoice, an order for products, they just put in the product name, the pricing, and also the total amount. They didn't put on weight. And another supplier, they put 100 percent weight. It's a difference in how they generate the new weight.

And what we find with Customs, our traffic manager normally goes through the customs broker by

the Customs, and normally we will give him the bill of lading, a copy of the bill of lading, and a copy of the invoice, and a packing list. And the packing list, they may say that, and the bill of lading they normally put on the added weight, which includes water. And sometimes maybe when you include the gross weight, because the shipping company charges on the weight, actually the product's weight, not 100 percent. Even the water they charge, too. So that's the reason we have some fall out. We have to pay attention from now on. But it has happened, it happened. But we paid the correct amount of import duty and a correct amount of everything else. If you need, we can get a copy of that.

MS. HAND: Mr. Perry, do you agree with the like products that the petitioner is asking us to consider?

MR. PERRY: Generally. We want to look at this more in our post-conference brief. We were looking at the indigo case, which basically has a lot of similar issues, and basically the Commission there found one like product. So we've been trying to see if there's any way we can make any distinctions here, but right now we're not seeing much. So at this point we agree, but we may change our mind in the post-

conference brief when we look through it then.

MS. HAND: Okay, I don't have any further questions right now, thanks.

MR. DEYMAN: Ms. Trainor?

MS. TRAINOR: I have no questions at this time?

MR. DEYMAN: Ms. Alves?

MS. ALVES: Thank you, Mr. Perry, for your response to Olympia's question regarding the domestic like products. Should you revise your answer and decide that you wish to make a like product argument, it would be helpful if you could put as much amplification in your response in terms of the facts and point to whatever additional record evidence you can have. Especially with the holidays coming, it's going to be a little bit difficult to make sure we've got all the facts together on that issue. So if you anticipate making that sort of an argument, whatever you can do to help us get all the facts in there, both in terms of the semi-finished like product analysis, as well as the traditional like product analysis, that would be helpful.

MR. PERRY: Definitely.

MS. ALVES: Also, you were making some arguments this morning regarding the substitutability

issues of whether or not other colors might be substituted for the violet pigment. If you could provide any sort of back-up materials regarding some of the specific uses where you perceive the substitutability issue coming into play, and also try and quantify what portion of the market we're talking about, where the substitutability issues might be relevant, that would be helpful as well.

I also want to ask, are you aware of any producer here in the United States that produces the crude pigment other than NFC?

MR. PERRY: No, I don't think so.

MS. ALVES: If the Commission were to define a single domestic like product, as I asked this morning, consisting of the crude pigment, the dry color, as well as the presscake, do you agree that the companies that are engaging in either the production of the crude pigment or the production of the finished goods, are engaging in sufficient production-related activities to qualify as domestic producers?

MR. PERRY: That's again something we will look at in the post-conference brief. It was very interesting, your questions to the petitioners about this, and especially the converters. There probably are a number of converters around, just like there was

in the indigo case. So we want to kind of look at that, come up with some more information for the post-conference brief for you then.

MS. ALVES: If you could also be helpful in terms of making us aware of who some of the converters are. I know there was a list in the petition, but if there's anyone else out there that we're not aware of, that we haven't obtained a questionnaire response from. Also, following up on some of the questions this morning, if you're familiar with some of the production processes used by these various converters and the extent to which they're using either of the production processes mentioned this morning, or some other production process, that would be helpful as well.

Or, again, along the same lines, if you're familiar with some of the more specific details, such the level of capital expenditures involved in the crude production versus the finishing, the level of technical expertise involved. Our orientation here is in the activities in the US industry. So you may have some familiarity with the processes in China or in India, but in terms of defining the domestic industry, I'm most interested in factual information you might have about what's going on here in the United States.

I also asked a question this morning about related parties. I don't know if you're comfortable discussing it here or if you'd prefer to do so in your post-conference brief, or briefs, to the extent there are several being filed, the nature of how the imports are getting from the foreign producers through importers and then ultimately to these other converting companies. Whether or not there are several importers that are involved in this, in supplying a particular producer, for example, or whether or not the converters are purchasing or importing directly from the foreign producers. It would be helpful to understand what's going on there, and whether or not you believe -- any of you -- that any of these converters are related parties under the statute. And, if so, whether or not appropriate circumstances would exist to exclude any of these producers.

MR. PERRY: We'll definitely look at it in the post-conference brief.

MS. ALVES: In terms of non-subject imports, I would ask each of the witnesses at this point, to the extent that you have information on this, to discuss the level of substitutability between imports from China, India, first, and also the level of

substitutability between imports from the two subject countries and other imports.

MS. LEE: I think this is also included in the questionnaires and will be addressed in the post-conference brief but I'm not aware of the direct comparison between Indian and Chinese pigment. I can say that a large quantity, or a certain percentage of the pigment -- all of the pigment that we supply in the United States now, all of the finished Violet 23 powder we supply, Alpha Source, from China to the United States is not interchangeable with the US product because our customers have not approved the US product for many years. They only have qualifications for European producers. And therefore, the Chinese material is interchangeable for those applications with European producers, and, in one case Japanese, I believe. But not with domestic.

MR. WANG: We have customers, most of my customers are starting from scratch. They don't do this sort of grinding, but the water before, would have a way, come when some starts, and the presscake they use in the textile is personal, you know, in the flexible ink. I'd like to talk for them. Most customers in the textile, and in the flexible ink, they can use powder, too. The reason they like to

used pressed is because handling is faster, and so just radiant, and also there is an easy wetting, and they're dispersed. Dispersed and easy handling, is why they like to buy the presscake.

Another case is flush, flush color, which uses presscake, low solid presscake, normally 28 or 35 percent solid presscake. To me, it's a waste of the varnish, merely making some oil, covering in hot oil, and the resin, which is a flush, we also call a dispersion too. And it is used in the seat pad of heat set ink. So that's a big portion. I would say most companies use the presscake, low solid presscake and easy flush.

And regarding the dispersion, our customers are making new products for that, because then they compete with Sun or other companies who make dispersions, but for them it's new business. It's a very small company, four or five people, ten people. And we don't see competition.

In the textile world, we have one customer who refuses to testify, come here, because they buy some products from Sun, too, which is a very unique product. They're afraid. They cannot hurt Sun. Otherwise they may force them, you know, stop supply. That's the reason why he didn't want to show up.

And another reason, and also, he also said, this person can't testify, they also have some flexible ink too, they have some faith in Sun, too. They're afraid, you know, if their name is leaked and they get here, probably the big company can put them out of business.

Actually, we have some business with Sun, too. I'm afraid, too. I'm afraid. Yeah. I come here; I'm nervous. I'm very nervous. Sun Chemical is big in ink, and big in pigments and they dominate most of the market, and we are small fish. Small fish. And we try to survive, and make small companies survive, too. But we are afraid. I am very afraid. Frightened, you know.

MR. PERRY: Can I just make a point -- I'll ask Rick to testify. Just to clarify one response to Olympia's point, Sun did try to qualify inks for metal deco and lamination. They allowed Sun to try to come in and qualify. But it couldn't meet the quality specs. I want to make that clear. And Rick can speak a little about substitution.

MR. WESTROM: Your original question, again, was whether the Indian product could be qualified for U.S. or Chinese supply?

MS. ALVES: As well as whether or not you're

aware of the substitutability between the Indian product and products from other non-subject countries, as well as the substitutability of the Chinese product with products from other sources as well.

MR. WESTROM: The Indian products that we have looked at and evaluated to date have only been qualified in their water-based application, which represents 18 percent of our volume. But we currently do not purchase any of the Indian product.

And as far as the Chinese supply, it's been qualified for roughly 90 percent of the products that we could purchase.

MS. ALVES: And have you explored products from any of the other countries, from European sources, for example?

MR. WESTROM: Yes, we're quite familiar with the European product, and they have qualified on the majority of our business, in the past they have. Currently the Chinese product quality has gone up, so they have not come in with a requalified product to meet the same quality, strength, transparency and gloss that we're currently purchasing.

MS. ALVES: Okay, if you could provide more specifics on some of the exact products that each of you are talking about, and who is competing for what

applications, or for what end uses, or for what customers that you're selling to, that would be helpful. And also, whether or not it's a domestic source or from one of the other countries, that would be helpful.

I'm also a little bit confused in terms of who exactly the players are in the US industry. Are most of the converters who are purchasing the subject imports, are they making the Violet 23 finished products for their own internal consumption, or are they then selling that to other people who then make dispersions, for example? I don't know how specific you can be in terms of specific companies, but it would be helpful if you could identify specific players in the US market and what each of them is doing.

MS. LEE: I can speak to the ink industry. Firstly, when you're talking about subject material, I presume you're talking about the finished form, right? You're talking about presscake and powder? Because there are converters in the United States also, in addition to Sun, who use crude. They're small, but they do convert.

MS. ALVES: If you could talk about those, and you may only be familiar with the ink industry,

but if I could get a sense for those who are taking the semi-finished product as well, and converting into finished product.

MS. LEE: Other converters from semi-finished to finished product would be Allegheny Color, in Ridgeway, Pennsylvania.

MS. ALVES: Are they then taking the finished product and using that internally for other products such as dispersion?

MS. LEE: I'm talking about now processors of the crude forms only.

MS. ALVES: Okay.

MS. LEE: Correct.

MS. ALVES: And these processors of the crude form, they finish pigment, and then they can sell the finished pigment. Okay. And they'll be selling that as finished pigment.

MS. LEE: Right.

MS. ALVES: So they don't, then, have operations to make dispersions.

MS. LEE: They don't make ink. They don't make downstream products.

MS. ALVES: Okay.

MS. LEE: That I'm aware of. But then there's Barker Fine Color. They're in Kentucky and

they're also a converter of the crude. There's a lot of -- listed in the petition there are a lot of people who don't do what they say that they do. There's a short list that I know of, of companies that are still converting crude to finished pigment.

And then how the finished pigment is used? Is that the next question? What type of users would use the finished pigment?

MS. ALVES: Correct.

MS. LEE: As far as I'm aware, Chinese pigment is primarily used in the ink and textile business. For ink applications, the largest users would be Sun Chemical -- we're talking about the size of the companies in the United States now -- Sun Chemical, Slent Ink, INX. That's the top three. They comprise the vast majority of the marketplace. There are other users who I contacted for information that I included in my statement, but those are the largest.

And we are hoping to have statements from both large and smaller users in the post-conference brief.

MR. PERRY: I might mention that many of these companies, the smaller companies in particular, are very scared of Sun. I talked to some, and the one company said I cannot testify; I would be squashed

like an ant. Many of them compete with Sun in the downstream markets, and they're just too afraid.

MS. ALVES: If you can pass along the fact that they're welcome to provide us confidential information. That's part of the reason that we have a protective order system. That would be helpful to get their information on the record.

MR. PERRY: That's what we've done, and so we intend to try and put some statements in confidence in the post-conference brief.

MR. WANG: There is another company, one time did some salt grinding is Kemper Color, down south. Actually, Clariant has more information. Basically, Clariant is -- we saw in the marketplace they provide that mist, the salt and crude mist, and then they send it to some company for conversion. I think Clariant does all the salt grinding manufacturers in the United States, salt grinding, besides Sun.

The one time they used a salt grinding company the crude mist, with salt, and they did the salt grinding, just like contract manufacturing. We know some, but not for sure 100 percent. We only have some small customers, which is not a big impact.

MS. ALVES: I've been dancing around this

issue to a limited degree, but let me just give you the question directly. What is your position on whether or not the Commission should be cumulating imports from India and China for purposes of both its present material injury analysis, and to the extent you answer differences, for threatened material injury analysis, to the extent that the imports from India are not negligible.

MR. PERRY: Again, we'll have to look at the issue. I mean, there's an argument, obviously, that the Indians aren't competing completely with China in all aspects of the marketplace. But we'll have to think about that and respond to it in the post-conference brief.

MS. ALVES: All right,

MR. PERRY: Obviously the Indians appear to be taking the position that it should not be cumulative.

MS. ALVES: And if I could ask in your post-conference brief to the extent that the Indian producers or the Indian government are filing post-conference briefs, it would be helpful to discuss not only your view of whether imports from India are negligible in terms of the import information if we use the Commerce statistics, but also to the extent

that anyone gains access to the protective order, whether or not we should be using questionnaire responses, if that would change the picture as well. If the Chinese have a view on that as well, we could also look at that issue.

MS. ALVES: Also, if we could have a discussion -- and this is directed to all the parties, petitioners as well, and Clariant as well. If anyone has a view as to whether or not imports from India are likely to imminently exceed the 3 percent negligible import threshold. I'd like to hear arguments about that as well in the post-conference briefs.

This morning I asked some questions about captive production and whether or not the statutory captive production provision applies in this case. Mr. Perry, do you believe that it does?

MR. PERRY: Again, I want to look at that in the post-conference brief, especially the Bethlehem case, and come back to you on it. It's not as big an issue as some of the most recent cases the Commission has looked at, because here you're at least selling Violet 23 in the marketplace. This is a big problem, and I think DOS Chemistry and a couple of other ones, the Hindustan Inks case, because what was coming in was really captive production. It wasn't being sold -

- the domestics were not selling the price in the marketplace. In this case the Violet 23 is being sold. But we'll take a look at it and come back to you.

MS. ALVES: Also, if you could discuss in your post-conference brief or briefs, conditions of competition that the Commission should take into consideration in this case. Some of those that were mentioned this morning, and/or in the petition are the capital-intensive nature of this industry, the need to operate at higher production capacities, the inability to shift workers from this specialized application to other applications over the short-term.

MR. PERRY: One of the most important conditions of competition has kind of been walked around here, but I think is kind of unusual, in the sense that what you have is increased consumption of Violet 23, we believe because of the lower price, of Violet 23 from China, but in an industry which is declining, which is the textiles industry. So you have expanding consumption, but you have a consuming industry that is going down and fleeing the United States. I think that this is a very important situation for the Commission to look at, the effect on the downstream producers in this case could be

devastating.

I mean, I did mention in my opening, because I can remember the hearing, when they raised this whole issue in indigo, and the Commission said we're going affirmative. And two or three months ago Levi just closed its entire production plant and moved offshore. And I believe indigo is one of the reasons for it. And Buffalo Color we've heard has basically closed down most of its production and it's going to live off of bird money. But meanwhile the downstream companies are getting smashed. And I really think this could happen in this Violet 23 case, too.

MS. ALVES: Okay. In your post-conference brief, to the extent that you believe there are, in fact, new textile applications for which this product is being used that didn't exist before the Chinese product or the Indian product entered the US market, if you could attempt to list some of those specific applications and when those applications came into being that didn't previously exist that would cause an expansion in use by textile companies, whether or not in fact the textile industry is declining and moving off.

MR. PERRY: James can mention it quickly.

MS. ALVES: I don't know how much of them

are propriety.

MR. WANG: We have one case which is probably useful. We have one customer just making the blue dispersions. And blue dispersions, you have -- you tend to be more alpha crystal, it's rigid. And also beta crystal is a green shade. It's a mixture. And most of the blues, 15-3 is a green shade, a beta crystal. But a beta crystal is very cheap because it's very stable. An alpha crystal is really hard to make.

One of my customers used the green shade, and blue, and put a certain percentage, one, two, three, five percent of Violet 23 and them meeting together, it shapes the product to a red shade, which is similar like blue 15-0 or 15-1, which is an alpha crystal. It's a reddish shade. If the Violet 23 has to be cheap, very cheap. It is used for the quality, the shade, the color. You have to have a very low price, otherwise they cannot afford to use it. And then they don't know what to do. Or they have to go to 15-0, which is a limited resource to make a clean, reddish shade product. So that's what we're facing. One of my customers is facing that.

And then the Violet 23, and if we have an antidumping duty, my customer will go out of his

business. And right now there are more companies employing maybe 11 people, and 20 percent of business is a relatively high profit for them. And if they lost this business -- right now, I am a small company. I have limited cash flow. But they don't have money to pay sometimes.

We have one company, bought the product from us six months ago, they still owe me $3,000. If we just put antidumping duties, they just go out of business. And I don't know if I'm afraid -- I have to collect the money from them, the rest of the payment, because they don't have money, they need to support the employee. Running a small operation is a little different than a treating company. And you have fixed costs. You need a certain volume business to cover the current expense. Just like the petitioner, too. But the dispersion companies, a lot of dispersion companies are small, very small. Unfortunate thing. And our customer has grown the business, both the quality and the pricing. And the quality which is weight should match the quality weight. Mitsui, in California, aggressive, very aggressive. Which, I believe, they've taken most of the Clariant business away first. Then we come in, take the Mitsui products, so we have the market -- our customer has

the market, and I have market too, indirectly.

Right now, so my customer increased the usage this year, and used only 10,000 and I ran out interest to about 25,000 pounds, which is written. And that customer that tests the quality and finds that it's better than they buy from Clariant. That's written. And that customer, which is my customer's customer, you know, slows down production and buys from my customer because of the quality. You get a very clean, reddish shade, which you don't find, and which the industry prefers. So, I only have one supplier, makes this quality. Other suppliers we try to qualify and they don't. And I have to pay a little high price on that, but we have no choice, because that's the quality we can have.

I'm really nervous, because we try to sell product to Sun Chemical too. It's a big customer in ink. If in the ink industry you don't deal with Sun, you probably don't have a good business. And unfortunately I have to, you know, defend my supplier, in China, confronting with Sun. I don't like confronting with Sun. That's true; I don't like confronting with Sun. I'd like Sun to be my customer, but I have no choice. I have to protect our small customers.

We will give you the names of the customer, which is on the questionnaire and you can see that. You can call them, every one, to get more information.

MS. ALVES: Thank you. The question I asked this morning was whether or not there are any outstanding orders, findings or investigations in any other countries that you're aware of involving the subject product from China or from India.

MR. PERRY: None that we know of, but we'll check.

MS. ALVES: Also, in the post-conference briefs, if the government of India or any of the Indian producers, to the extent that they file any, would like to address any of the subsidy allegations. As you're aware, one of the factors the Commission looks to in its threat analysis, for example, is the nature of the subsidies. So if you'd like to address any of those allegations in the petition in the post-conference briefs, it would be helpful as well.

Those are all the questions I have at this point.

MR. DEYMAN: Ms. Pederson?

MS. PEDERSON: I'd like to thank this panel. I don't have any questions at this time.

MR. DEYMAN: Mr. Boyland?

MR. BOYLAND: Good afternoon. Thank you for your testimony. Just a couple of follow up questions so I can get a better understanding of, again, kind of who are the players. You referenced Barker, you referenced Allegheny, and obviously Sun is taking crude and converting it to finished. Is it then correct to say that the remaining converters would be these pigment dispersions producers, or are there others?

MS. LEE: Well, James' customers are using finished pigment, in other words, the crude that would already have been converted to presscake form. There's two different forms of finished pigment. One is the presscake form, which has water as part of it, and, as he explained, it's for dusting purposes, because the customers don't like dusting. And the other is that they use it in dried powder form.

There is another application we haven't spoken of for presscake which is flush color, because oil and water don't mix. You can blend the two together and make a paste out of it by using a presscake and putting it through a flushing process, so that the water's driven off -- if you put it in with oil the water's driven off and the pigment binds to the oil.

MR. WANG: We have a customer -- I sell presscake toner and also I have a customer salt grinding making the pigments.

MR. BOYLAND: So you do have a customer taking crude, finishing it?

MR. WANG: That's right.

MR. BOYLAND: And then producing a pigment?

MR. WANG: That's right, and we find it very -- we've worked with them for years. We find it very interesting in the quality. Initially the quality they were making was just like everybody could make. And we changed the process in the crude production, and you can make a very red clean crude. The customer making salt grinding can come very clean, red shade pigment. And also we can make a very blue shade, pure, and my customer from there, they can make the blue, or wear blue which is for the natural cellulose ink. So this is an application. It's very complex. And also they have to find the different ingredients in the formulation, not only the salt, which they increase the --

MR. BOYLAND: Part of the reason I'm asking the question is, when we aggregate the financial results of the industry, we did ask for converters, basically people taking the crude and finishing it, to

report their financial results. And as of now, you know, in addition to Sun, obviously, we have Allegheny and we have Barker in various states of completion in terms of the data. But that's about it. And I guess what I'm trying to get at is, are there whole host of other converters, or is that basically it?

MS. LEE: First of all, if James is uncomfortable disclosing customer names, I think we'll add some in the post-conference brief. I think by the time you're done seeing this it will be pretty clear to you that there's really not very many.

MR. BOYLAND: Okay.

MS. LEE: It's a handful.

MR. BOYLAND: And that's the question, basically.

MS. LEE: We'll get that to you.

MR. BOYLAND: The other question, Mr. Wang, you mentioned raw materials and the decline over the period. Do you have any -- can you give me any additional information on what -- is it the overall world economic environment, et cetera, driving down these prices for the raw material? Is it excess capacity? What is your --

MR. WANG: Well, pricing, the four ingredients, the raw materials, we talk about, and our

supplier in the beginning, in 1999, 2000, even right now they buy from Europe, because it's the best quality in the market, and the pricing is just going down. I don't know why.

MR. BOYLAND: Is there a Chinese source for this raw material?

MR. WANG: The Chinese have it too, which is -- the quality improved, but they put some portion of the business in China, too. And originally the pricing is high. Right now it's competitive, and they have -- the spirit of the business, you don't want to get everything from a single source. So that's the reason they import some and buy some domestic.

MR. BOYLAND: Thank you. I think those are all my questions.

MR. DEYMAN: Mr. Wanser?

MR. WANSER: No questions.

MR. DEYMAN: This morning I asked for information on the breakout of crude and finished imports from some of the major source countries of the product. Do you agree with what the petitioners said this morning? For example, for Japan, they indicated that most, if not all the imports they thought were crude product. Would you agree with that?

MR. WANG: Not as far as we know. We tried

to contact Mitsui years ago, and they tested our material, and they said that everything's Okay, except the strength is a little low. They ended up finishing dispersions. So they still buy from Japan. Mitsui in California, they have a plant, a special plant, they buy from Japan.

MR. PERRY: I mean, one of the persons I talked to specifically said, if the Chinese finished pigment, the Violet 23 doesn't come in, Matsui's going to clean up. They're the one where all the business is going to go. So I would think it's not just crude, it's coming in the finished.

MR. DEYMAN: All right, what about Mexico and the United Kingdom, from which imports have increased recently. The petitioner said that there is no crude production that they know of in those countries. Possibly some production finished in Mexico. What do you think?

MR. PERRY: We'll answer in our post-conference brief. We didn't hear of any crude production in the UK and Mexico. There may be a finishing plant in Mexico, we think.

MR. DEYMAN: And likewise, German and France, which the petitioners are going to supply information on in their post-conference brief, so if

you could address that, too.

MR. PERRY: Definitely.

MR. DEYMAN: This morning we asked Sun, in its post-conference brief, to indicate which customers at which it has not been able to qualify its product, if there are any such customers. Could you that sell Violet 23 also do that in your post-conference brief?

MR. PERRY: We'll be talking to a number of the customers, and find out -- we'll probably have to provide a lot of it in confidence, but we understand there are a number of situations. One's right here.

MR. DEYMAN: And finally, the gentleman from the Embassy of India stated that based on official US statistics for the months October 2002 through September 2003, the imports from India are negligible. Could you comment on this now, and I would like you and the petitioners to comment in your post-conference briefs, and I'm sure you will, on the issue of negligibility. But given the allegations of inaccuracies of volume data in the official import statistics.

MR. PERRY: Yeah, I think that's one of the problems. I knew where you were coming from. There's obviously a problem with the quantities, because of the presscake issue, and that would affect the

negligibility argument. That's why, in a way, I think you're going to be back at the questionnaires when you see the total questionnaires as to whether that issue really is going to come out. Because the quantity just seems to be all over the lot, is the presscake problem.

MR. DEYMAN: Very well. Any other staff questions.

MS. HAND: I have a followup to David's question about the number of producers in the US. I think that we probably shouldn't wait til the post-conference brief to get a handle on that. You could just send me an email this afternoon telling me who you think the producers are in the US of the finished products, and we could settle that.

MR. PERRY: Maybe we'll just come right up to you after this conference is finished.

MS. HAND: That would be fine. We don't need to wait until Wednesday for that. Thanks.

MR. DEYMAN: Any other staff questions?

Well, thank you very much for your testimony and for you responses to our questions. We'll take a ten-minute recess and then we'll have the closing statements of up to ten minutes each for each side, beginning with the petitioners.

(A brief recess was taken.)

MR. DEYMAN: Could you please be seated?

Welcome, Mr. Dorris and Mr. McGrath. You have ten minutes together for the post-conference statement.

MR. DORRIS: Thank you, Mr. Deyman. For the record, Greg Dorris from Pepper Hamilton. And just so I can be a reporter for a moment: late-breaking news: Commerce has initiated this case, which is good, we didn't waste our time here today, and they did initiate on the same margins that were in the petition, and if you remember those margins are significantly high, and that's something to keep in mind when you're making the preliminary determination.

I must admit that in making this rebuttal it's a bit difficult to respond because, to me at least, there are various explanations being offered, and it's sort of a little bit jumbled as to what the respondents are trying to say. So pardon me if my particular order is a little bit nonsensical. I'm just going to try to follow some certain arguments and make a few points, which is about the best you can do in rebuttal anyway.

First is the argument about the HTS numbers. I'm not sure it really matters in the end how you

slice or dice the numbers. The volumes are so high that even if there is a need, and I don't agree that there is, to make an adjustment for the presscake because some people may have reported the presscake numbers incorrectly -- as we hear today, Ms. Lee gets it right, Mr. Wang got it wrong. It doesn't mean that everybody else got it wrong. It might be that everybody else got it right and just Mr. Wang got it wrong.

So you really have to decide as best you can on the data that you have. But even if there is some slight adjustment, the volumes are still going to be very significant, as is the surge in those volumes. In fact, given my brief review of the APO data last night, and I won't reveal anything here -- other than trends as Ms. Hand mentioned -- from what I saw it may actually inure to the benefit of petitioners when the data is recalculated, because it may show that there were lower volumes in earlier years, and now most of the product is finished. But again, I've only briefly looked at the data. And again, I'm not sure we have sufficient data on the record to replace the HTS information. I'm afraid we're not going to get sufficient information from the Chinese or the Indians to use something other than the HTS data, which

clearly show significant volumes coming into the US.

In terms of how that affects the unit values, I would only say that I don't think there is an impact on those values. But remember that there is an incentive, obviously, to lowball those values in some respects, because there is a duty on this product right now.

Second, the repeated position of the respondents is that if there is an order, the prices are going to be high and there's going to be a lot of negative things that happen if the prices rise significantly. And I would just make two points. I don't hear them saying, in making that argument, that they're not dumping. I think they're almost assuming that they are dumping, and that the margins are going to be high, and therefore if an order is in place they'll be forced out of the market entirely. I don't really hear them saying we're not dumping, I just hear them saying look what's going to happen to everybody else if you put this order in place.

And I also would add that it seems to me that -- they keep saying that there will be a significant increase in price if they are not in the market. Remember, they weren't in the market before. The prices were not significantly higher. I mean,

significantly high so that other people couldn't use the product. People were using the product. The market was running along fine until the Chinese came in and destroyed the pricing.

So it isn't that the Chinese aren't dumping and therefore cannot pay the market duties and import into the US -- remember, an order doesn't prevent them from importing to the US, it just makes them price it fairly. The prices are not going to immediately skyrocket to a very high value. No one here has a monopoly. There are other importer countries, as we all know, that can sell into the US, and there are other US producers that compete in the market. It's not going to be the significant increase that's going to have these negative impacts that they claim.

Third, if I really understand their argument, and I must admit, it's a bit strange to me, they're claiming that the dumped low prices have increased demand, so there's no net harm to the US industry, or the US. I find this theory almost absurd. In other words -- when I think of this I think of my kids. I don't like to buy them a lot of toys or a lot of junk things that will clutter up the house that they're not going to play with. But invariably, when you go to McDonalds, you know, you

buy the Happy Meal and you get the little toy, and of course they're happy to get this little toy. It's not that they need it, but they've got it and they're going to play with it. And yet, it clutters up the house.

And I think of that analogously, thinking, the Chinese are saying -- I mean, they're saying that we're dumping our product, it's real cheap, so we're creating new uses for it, and therefore there's no real harm to anybody. But the harm, of course, is they destroyed the entire market in terms of pricing. They're not creating new demand; they're destroying the pricing in the market. There is a negative impact, and it's a lot more serious than just cluttering up the house.

Fourth, I am troubled by what INX says in their testimony. Sun has no problem with their quality as far as they're aware. And I was a little confused on the testimony this morning as to whether the claim was that they had bad quality, which I've been informed by Sun that it's not. There's two issues going on. There's the issue of quality, which is whether you're going to make a good product, which certainly Sun can and has done in the past and will continue to do in the future. There's a issue of

whether you can meet a particular specification for a customer at a particular time. Even then, what I heard, at least I thought from the INX testimony, was that Sun couldn't meet the specifications and the price at the same time.

It's not that Sun can't make the product that INX needs. What it means is that Sun can't make the product at the low price that the Chinese are willing to sell it for. And if the Chinese make the same product and sell it to them real cheap at these dumped prices, I have to admit, why not buy the product. I think that's more the issue going on than this whole issue that Sun can't compete on a quality basis or can't compete on a specifications basis.

Finally, and, fifth, I guess, is -- you know, you hear this in every case, that the respondents try to raise the fear that if you put an order in place you're going to raise the prices and therefore you're going to force the downstream producers out of business, and you're going to hurt the US economy more than you're going to help the US economy. And it was shocking to me, almost, that Mr. Perry, who -- he and I have gone way back now on the sulfanilic case, probably further than he knows -- that he would argue that sulfanilic acid is an example

of where this has happened.

In fact, as Mr. Dickson testified, for Nation Ford Chemical Company, the sole producer of sulfanilic acid in the United States, this is a poster child for the success of a dumping case. This is a case in which the US industry would have gone out of business against imports from China and India, without the protection from the orders. With the orders, the low, unfairly priced competition was forced out of the market, and Nation Ford was allowed to continue and survive and now prosper and grow. And in doing that, in continuing their sales, they haven't forced any downstream producers out of business. Those producers are still here today.

And in fact, Mr. McGrath, which is a great segue, will eventually tell you about that, since he represents Clariant, which is one of the purchasers of the product.

And finally, really in conclusion, I would agree with Mr. Wang that I, too, am afraid. But I'm afraid for the US industry, not for any individual company, but for the entire US industry. And we would ask in this case that you allow it to proceed to the final investigation, because these unfairly traded imports from China and India are continuing to injure

the US industry, and in order for that industry to survive and faithfully serve their customers, they need this protection. Thank you.

MR. McGRATH: Thank you once again -- thanks to the petitioners for having us testify with them and for accepting our late appearance. Again, I'm Matt McGrath, Barnes, Richardson and Colburn, for Clariant. I just have a couple of points to add. We heard a lot of testimony from the respondents which I think fit very well into confirming once again that it's not here about a question about quality or any other sorts of downstream possible impacts of having a dumping order. It's simply a matter that this case appears to be one which is very classically an affirmative dumping situation. Imports have gone up, average unit values have gone down, no matter which basis you use. The subject imports have captured a very largely increasing percentage of domestic consumption, and there's a considerable number of instances of underselling, which wouldn't make sense if there was a quality factor that was overriding price.

And, Mr. Westrom did admit that where there were some changes in sourcing there was a combination of quality and price. I just wanted to comment on the two cases that Mr. Perry did cite with approval here,

basically as a warning to those who might look at the potential consequences of a dumping order, and there's a good reason why the Commission doesn't look at potential consequences. You can only guess at what might happen. On sulfanilic acid, as Mr. Dorris just said, Clariant were involved, we were involved. We opposed that case. The order was issued, Clariant purchases sulfanilic acid from NFC. The order and the law appears to have worked as it was intended to work. It's a one-company industry, and the industry is still in business. And Clariant, as a consuming industry is also still in business.

Indigo, I think is a very interesting one to look at as well. I was involved in that, and indigo, during the case, we all talked about how indigo accounted for perhaps two to three percent of the cost of manufacturing jeans. Jeans is the only market basically for indigo. There's other small markets, but jeans is it. And they move offshore, not because of the cost of indigo, that's for sure. It's because of other factors. To cite indigo as being -- or Levis moving offshore as being a reason to go in the negative in this case is totally irrelevant. There are too many other markets involved, and furthermore they didn't move offshore because of the cost of

indigo.

And finally, I would say, I guess, that Mr. Perry's observation about the three and a half inch micro-disc case was totally inaccurate in one respect. He and I were not young lawyers back then. We were already getting gray hairs from too many short turn-arounds on briefs. But the one factor in that case that remains true today is that respondents often argue that quality is the reason for importers to purchase their product, even though that product is cheaper. And in that case, whenever it was, twenty years ago, resulted in an affirmative determination and an order that lasted for several years and we think all the factors are there for an affirmative determination here as well. Thank you.

MR. DEYMAN: Thank you, Mr. Dorris and Mr. McGrath, for your concluding statements. Mr. Wisla?

MR. WISLA: Ron Wisla, from Garvey Schubert Barer, and I just have a few brief comments to make. First is that we think that the record does reflect major problems with the import statistics. Mr. Wang, who has had substantial imports, especially during the last year, testified that there was a mistake, which overstates quantity and obviously understates the per unit values. So although Commerce was quite happy

enough to go ahead with its initial analysis, I think the Commission, which is obviously looking at a much different issue, I think will take this into account, and obviously will look at the questionnaire responses.

Another issue we'd like to bring up is that again, with the pricing, we think obviously the pricing would go up significantly if there's an antidumping order in place, and it would affect the consumption of the product because the domestic industry, one, there's not a perfect substitute for Violet 23, but there will be economic alternatives, either they would come up with new designs, so packaging would have to, could use different products, or they would just use alternate materials which might not be a perfect substitute, but because of the pricing pressures, would be a viable, economically a viable alternative.

Another point we'd like to make is, obviously, any injury suffered by the domestic industry has to be by reason of imports, and I think there's information on the record showing that injury can be attributable to other sources. One of them, again, is just the general price decline in chemicals in general and this product in particular. The price

decline began at least 10 years ago. It was, maybe, at the $40 price range ten years ago, and obviously it's declined to half of that. And, of course, you can't blame -- you know, the first seven years you can't even blame Chinese imports because they weren't present. So it's a continuation of a long-term trend.

And we also saw, as Mr. Wang testified, the input prices for the products that go into Violet 23 have declined by 50 percent in the last three years. So I don't think it's surprising then that the prices of Violet 23 would be declining in the same period. And, of course, this has nothing to do with the presence or the non-presence of Chinese imports.

Another possible causation problem in the domestic industry is the quality problems. We're not here to say that Sun makes a terrible product. Obviously Sun is a large company and obviously has good products, but the testimony from INX today said that for this certain product, for this one product, for two-thirds of their applications of Violet 23, Sun does not qualify. And INX is the third-largest inks company in the country. So I think that is an important fact.

And the last thing we want to say is, it's been our experience, especially in the last year, that

the pricing pressure is coming from Sun itself, as it's trying to capture market share back. Our clients are trying to sell at, you know, established price levels, and are forced to come down to meet Sun's aggressive pricing.

Perhaps it was part of it's trying to develop the petition, but there's testimony that Sun was seeking foreign sources and aggressively driving down the prices and asking for them to submit it in writing. So, you know, part of the price decline is partially due to that, because obviously Sun is a very big consumer, and most people would like to supply them.

In summary, we believe that the Commission should carefully look at the record and, you know, when it's making its determination. We believe there is some indication that the causation link may not be as strong as stated by the petitioner. Thank you.

MR. DEYMAN: Thank you, Mr. Wisla.

The deadline for both the submission of corrections to the transcript and for briefs in the investigations is Wednesday, December 17. If briefs contain business proprietary information, a non-proprietary version is due on December 18.

The Commission has scheduled its vote on the

investigations for January 5 at 11 a.m. It will report its determinations to the Secretary of Commerce later that day. Commissioner's opinions will be transmitted to Commerce on January 12. Thank you for coming. This conference is adjourned.

(Whereupon, at 1:08 p.m., the conference was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Carbazole Violet Pigment 23

INVESTIGATION NO.: 701-TA-437

HEARING DATE: December 12, 2003

LOCATION: Washington, D.C.

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: December 12, 2003

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

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Donna Kraus
Signature of Court Reporter