January 22, 1990
89025

Mr. C.H. Fancy, P.E.
Bureau of Air Regulation
Florida Department of Environmental Regulation
2600 Blair Stone Road
Tallahassee, Florida 32399-2400

Re: Proposed Modification - Kiln No. 2 Coal Conversion
PSD-FL-142 - AC13-169901

Dear Mr. Fancy:

Please find enclosed the article entitled "Antidumping Petition On Behalf Of Az-Nm-Tx-Fl Producers of Gray Portland Cement". This article was inadvertently left out of KBN's response letter dated January 15, 1990, concerning the above referenced permit application.

Sincerely,

David A. Buff

David A. Buff, M.E., P.E.
Principal Engineer

cc: Bruce Miller, EPA

DAB/mla

cc: J. Reynolds
B. Andrews
M. [illegible]
J. Goldman, SE Dist.
P. Hong, OERM
C. Shaver, NPS
CHF/JKP/BT

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KBN ENGINEERING AND APPLIED SCIENCES, INC.
1034 Northwest 57th Street Gainesville, Florida 32605 904/331-9000 FAX: 904/332-4189

ANTIDUMPING PETITION ON BEHALF OF THE AD HOC COMMITTEE OF AZ-NM-TX-FL PRODUCERS OF GRAY PORTLAND CEMENT

EXPLANATORY NOTE

This brochure consists of two parts. Part 1 contains the cover page and the "Executive Summary" portions (with emphasis supplied) of an antidumping petition that was filed on September 26, 1989 with the United States International Trade Commission and with the International Trade Administration of the United States Department of Commerce by certain domestic cement producers against cement producers in Mexico.

Part 2 contains seven graphs that depict the devastating impact during recent periods of dumped cement from Mexico upon producers in Florida, Texas, New Mexico and Arizona.

Copies of the Petition may be obtained without charge from Joseph W. Dorn, Kilpatrick & Cody, 2501 M Street, N.W., Suite 500, Washington, D.C. 20037, telephone number 202/463-2525.

Before The

INTERNATIONAL TRADE ADMINISTRATION
UNITED STATES DEPARTMENT OF COMMERCE

And The

UNITED STATES INTERNATIONAL TRADE COMMISSION

Washington D.C.

In The Matter Of: GRAY PORTLAND CEMENT AND CLINKER FROM MEXICO	Total Pages: Investigation Proprietary Business Information For Which Petitioner Seeks Proprietary Treatment Has Been Deleted From Exhibit 8. This Information May Be Released Under APO Privileged Information Also Has Been Deleted From Exhibit 12. This Information May Not Be Released Under APO.

ANTIDUMPING PETITION ON BEHALF OF THE AD HOC COMMITTEE OF AZ-NM-TX-FL PRODUCERS OF GRAY PORTLAND CEMENT

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September 26, 1989

EXECUTIVE SUMMARY

1. OVERVIEW

Since 1983, Mexican producers have been dumping gray portland cement and cement clinker into Arizona, New Mexico, Texas, and Florida. Import volumes have been significant and increasing, and import unit values have been low and decreasing. Because gray portland cement is a fungible commodity, and because demand does not vary appreciably with price, less than fair value ("LTFV") imports have displaced domestic production ton for ton. Moreover, because cement production involves high fixed costs relative to variable costs, and because LTFV imports and domestic cement are excellent substitutes, U.S. producers have had to both lower prices and to refrain from price increases in order to avoid further losses of volume to Mexican producers.

In the Arizona-New Mexico-Texas Region, LTFV imports have continued to increase in the contraction phase of the construction/cement cycle, hammering domestic producers when they are most vulnerable. In the Florida Region, LTFV imports have prevented domestic producers from restoring prices to levels achieved in the preceding expansion phase of the Florida construction/cement cycle, notwithstanding a remarkable 44 percent increase in consumption from 1983 to 1989. As a result, in both the Florida Region, where demand is booming, and also in the AZ-NM-TX Region, where demand is depressed, domestic producers' return on assets in this capital intensive, cyclical industry has been abysmal. LTFV imports are causing and threatening to cause a gradual, involuntary liquidation of cement assets, as domestic producers realize inadequate returns on their investment. The injury to date is serious and the threat of additional injury is real and imminent, as Mexican producers continue to expand grossly underutilized capacity and to invest in import terminals, clinker grinding facilities, and ready-mixed concrete operations in the regional markets at issue.

2. <u>SCOPE OF PETITION</u>

- Antidumping petition against gray portland cement and cement clinker from Mexico.

- Filed on behalf of two independent regional industries--Arizona-New Mexico-Texas ("the AZ-NM-TX Region") and Florida ("the Florida Region").

3. <u>DUMPING MARGIN</u>

- The dumping margin is conservatively estimated at **96-111 percent**.

- According to the President of the Construction Materials Section of the National Chamber of Commerce of Monterrey, **the same cement sold in Mexico is being sold at half the price in the United States.**

4. <u>PREDATORY PRICING BY MEXICAN PRODUCERS</u>

- Not only are Mexican producers selling cement and clinker at LTFV under U.S. antidumping law, they are also pricing cement and clinker exports into the two regions at **less than their cost of production.**

- Unit Customs values of Mexican cement ($24-25 per ton) are well below the Mexican production costs recently reported by the Commission in its Investment Barriers Investigation ($27-35 per ton).

<u>MEXICAN IMPORTS INTO AZ-NM-TX ARE SIGNIFICANT AND INCREASING</u>

- From 1983 to 1988, **imports** from Mexico into the AZ-NM-TX Region **more than tripled**, notwithstanding the fact that **demand decreased 20 percent**.

- From 1983 to 1988, imports from Mexico into the AZ-NM-TX Region increased relative to consumption, from 3.1 percent to 14.0 percent.

- From 1983-1985 to 1986-1988, **average annual imports doubled**, and import penetration jumped from 4.9 percent to 11.9 percent of consumption.

6. MEXICAN IMPORTS INTO FLORIDA ARE SIGNIFICANT AND INCREASING

- From 1983 to 1988, imports from Mexico into Florida **increased more than six-fold.**

- From 1983 to 1988, import penetration increased from 5.1 percent to 22.4 percent of consumption.

- From 1983-1985 to 1986-1988, **average annual imports increased 113.3 percent**, as import penetration increased from 12.1 percent to 22.0 percent of consumption.

7. CEMENT PRODUCERS ARE VULNERABLE TO LTFV IMPORTS

- Gray portland cement ("cement") is a fungible bulk commodity.

- Because domestic cement and LTFV imports are excellent substitutes, domestic and LTFV import suppliers compete on the basis of price.

- Because a small price change for such a homogeneous product can induce large shifts in market shares, even a small dumping margin will result in a large loss of volume for domestic producers if they do not meet the lower import price.

- Cement is a capital intensive production process characterized by high fixed costs relative to variable costs.

- Trade barriers allow Mexican producers to exercise price discrimination and pursue different pricing strategies for their home and export markets. Mexican producers can price much more aggressively in the U.S. market since they only need to cover their variable costs and they do not need to be concerned over retaliatory pricing. The low variable cost structure of cement production gives Mexican producers significantly more latitude than domestic producers to decrease prices in order to capture market share.

- Because of the economic incentive to maintain capacity utilization to minimize fixed costs per unit of production, domestic producers must match lower prices of LTFV imports to avoid loss of market share.

- Because demand for cement is derived from demand for construction, and because cement represents a negligible share of the cost of construction, the demand for cement does not vary appreciably with price. Accordingly, the lower prices of LTFV imports do not create any additional demand for cement. Rather, **LTFV imports displace domestic production ton for ton.**

- Because cement producers have high fixed costs relative to variable costs, sales lost to LTFV imports not only reduce revenue, they also substantially increase per unit production costs and decrease earnings on remaining sales.

8. THE CONDITION OF THE DOMESTIC PRODUCERS IN THE TWO REGIONS IS UNHEALTHY AND DECLINING

- Based on Bureau of Mines data aggregated for the two regions, from 1983 to 1988 utilization of clinker capacity dropped from 83 percent to 73 percent, the quantity of portland cement shipped by AZ-NM-TX-FL producers decreased 14 percent, the value of cement shipped decreased 27 percent, and **the average value per ton shipped dropped 15 percent.**

- Since 1983, **7 cement plants have closed in AZ-NM-TX and 2 cement plants have closed in Florida.**

- Based on petitioner's prefiling survey of cement plants in the two regions, the average unit shipment value (FOB plant) of all cement products decreased 22 percent from 1983 to 1988.

- **Aggregate operating income in the two regions declined from $60 million in 1985 to an operating loss of over $6 million in 1988.**

- Relative to sales, operating income dropped from **16 percent in 1985 to a negative 2 percent in 1988.**

- Aggregate cash flow in the two regions **dropped from a positive $76 million in 1985 to a negative $14 million in 1988.**

- Moreover, the regional producers' return on assets has been abysmal. In 1988, returns on the whole were negative, and not one producer in either region had an operating income to asset ratio that exceeded the risk free rate of return of a U.S. Treasury bond.

- As Congress indicated in the legislative history to the 1988 Trade Act, an industry is materially injured if imports prevent the realization of a return on investment sufficient to justify capital investment to maintain and expand capacity. A higher rate of return on investment is required to cover the risks associated with capital intensive, cyclical industries, such as the industry producing gray portland cement.

- The fact that even the most cost efficient producer in the two regions cannot achieve an adequate return on investment in the face of unfairly priced imports underscores the material injury being suffered by these regional producers.

9. <u>LTFV IMPORTS FROM MEXICO THREATEN ADDITIONAL MATERIAL INJURY</u>

- Cement capacity in Mexico is underutilized and increasing.

- Mexican producers have targeted the AZ-NM-TX-FL markets as the dumping ground for excess and growing capacity.

- CEMEX, the largest cement producer in North America, controls over 70 percent of Mexican cement capacity.

- CEMEX is aggressively buying up import terminals, clinker grinding facilities, and ready-mixed concrete operations in the AZ-NM-TX region in order to ensure a growing share of the regional market.

10. <u>CONCLUSION</u>

- Mexican producers have been dumping gray portland cement into Arizona, New Mexico, Texas, and Florida since 1983.

- The estimated dumping margin is 96-111 percent.

- LTFV imports from Mexico have displaced domestic production of gray portland cement, have decreased capacity utilization and thereby increased per unit costs of production, have depressed prices, and have materially depressed operating income.

- LTFV imports from Mexico have made it impossible for even the most cost efficient producer to achieve an adequate rate of return on cement assets.

- LTFV imports have **materially injured** domestic producers both in the AZ-NM-TX Region and also the Florida Region.

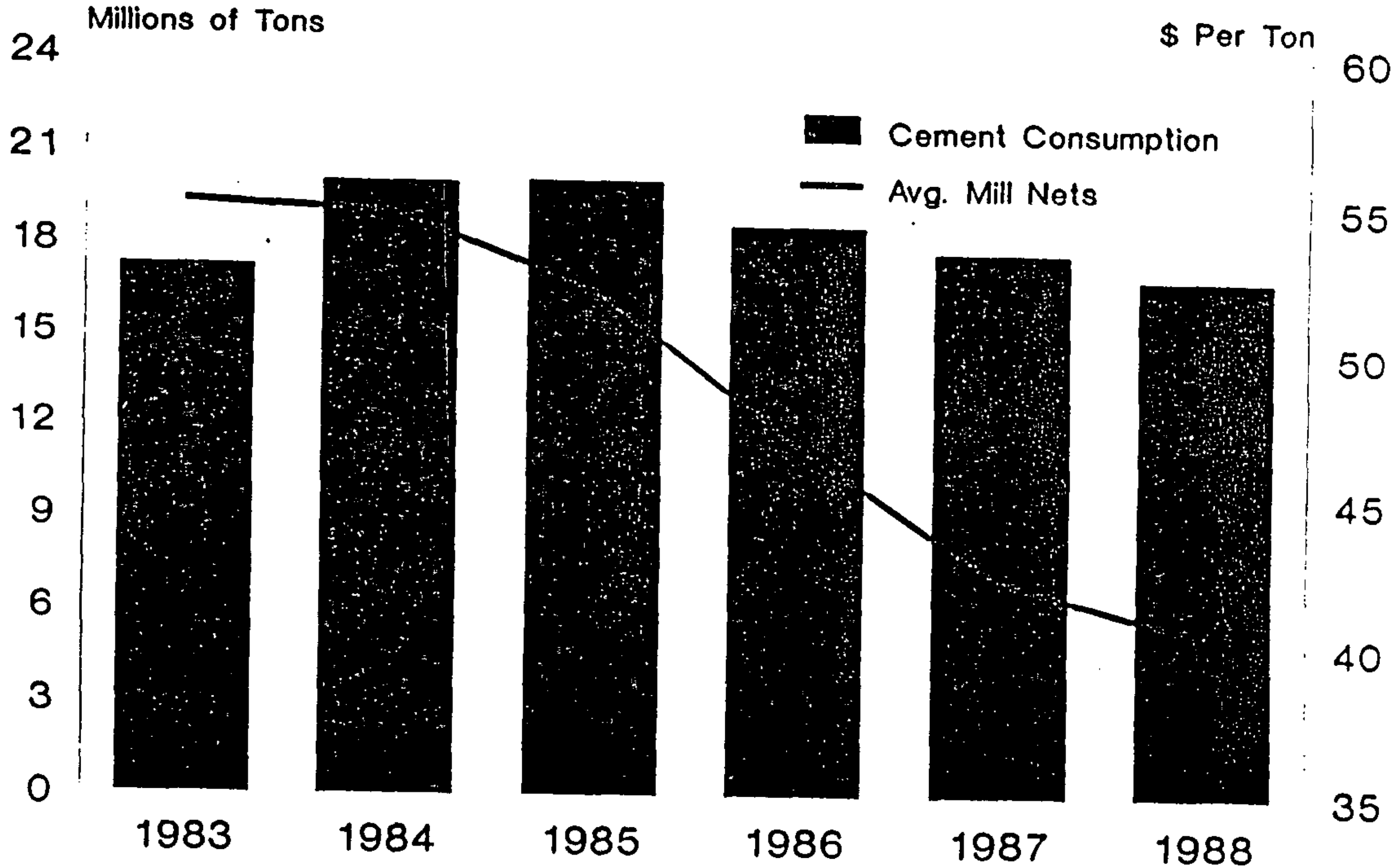
- **The threat of additional injury is real and imminent**, as the Mexican producers continue to build export-oriented capacity aimed at the regional markets at issue.

- Petitioner does not seek to choke off imports or **deter fair import competition.**

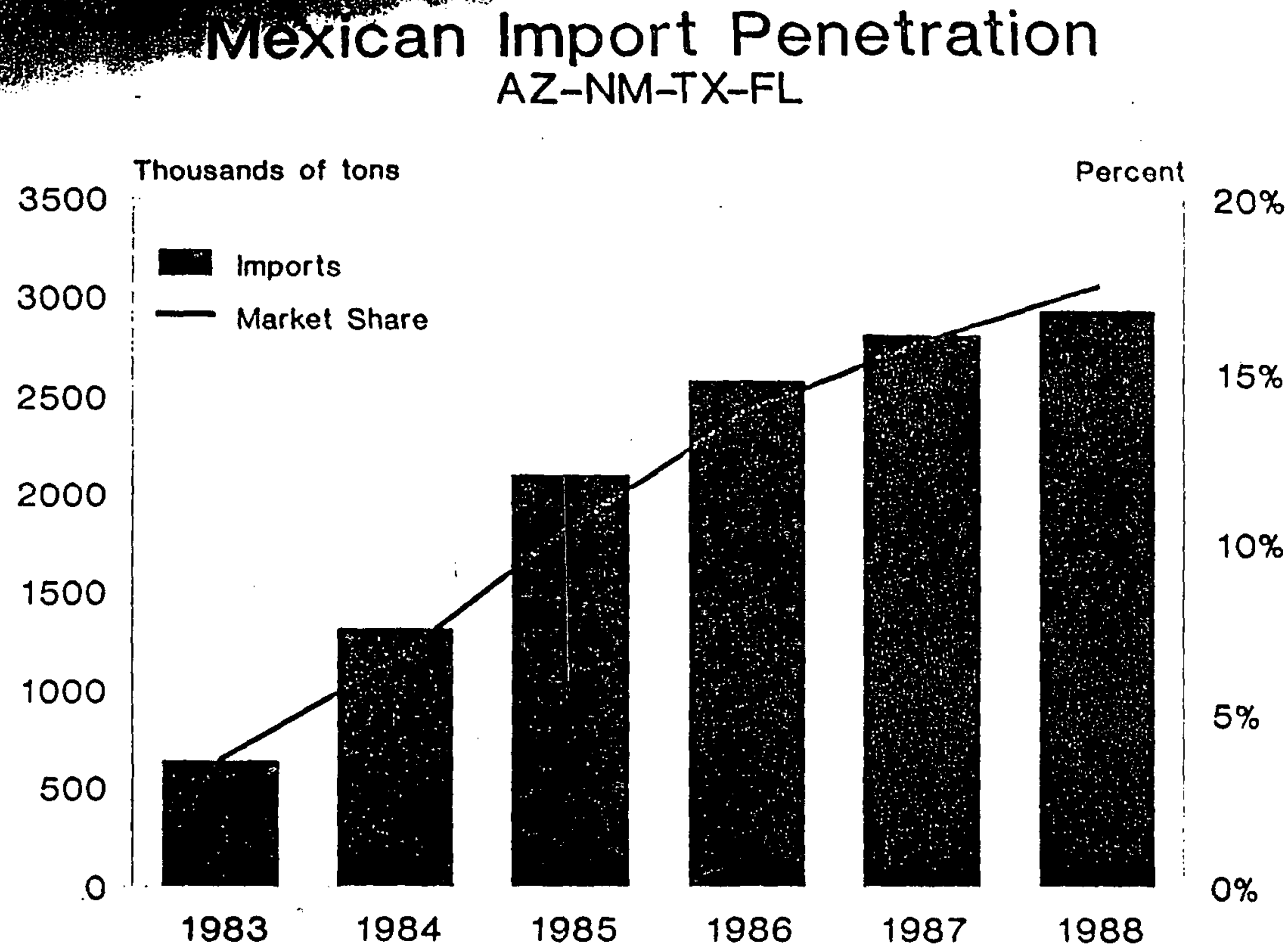
- Petitioner merely **seeks the enforcement of U.S. law** and an end to **illegal dumping.**

Cement Consumption & Mill Nets

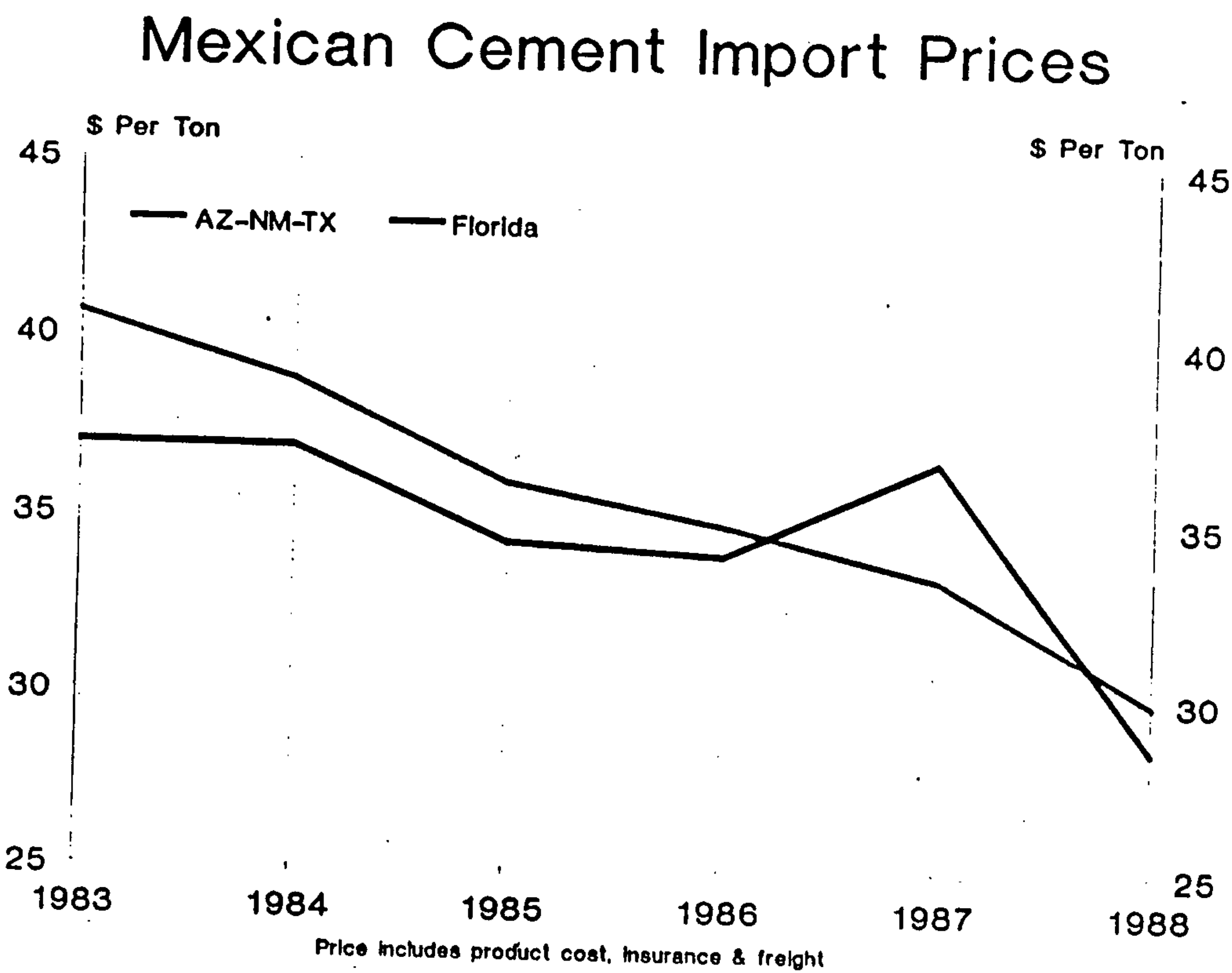
AZ–NM–TX–FL



GRAPH A

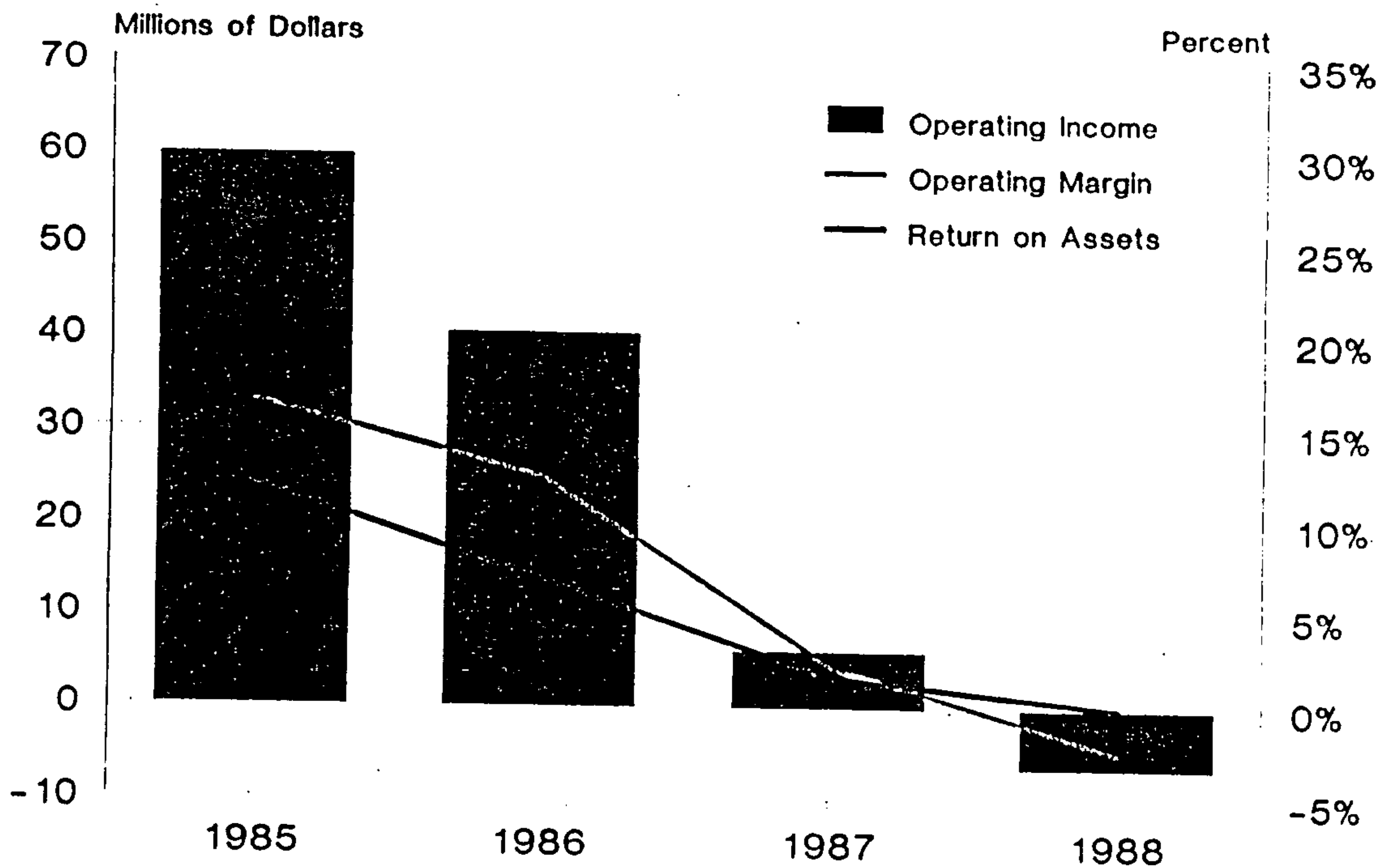

Mexican Import Penetration
AZ-NM-TX-FL
Thousands of tons
Percent
3500
3000
2500
2000
1500
1000
500
0
20%
15%
10%
5%
0%
Imports
Market Share
1983
1984
1985
1986
1987
1988

GRAPH B

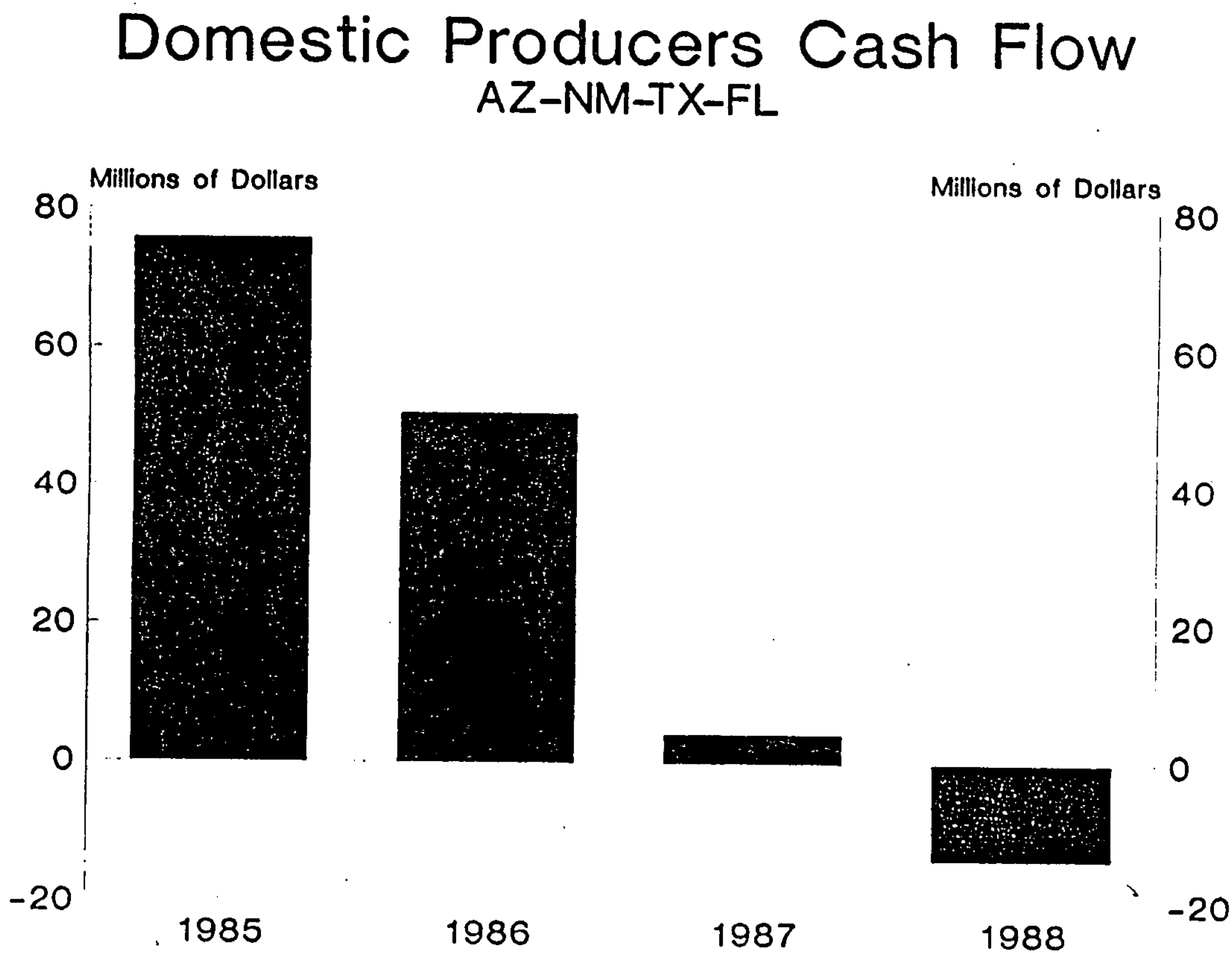

Mexican Cement Import Prices
$ Per Ton
$ Per Ton
45
40
35
30
25
AZ-NM-TX
Florida
1983
1984
1985
1986
1987
1988
Price includes product cost, insurance & freight

GRAPH C

Condition of the Domestic Producers
AZ-NM-TX-FL

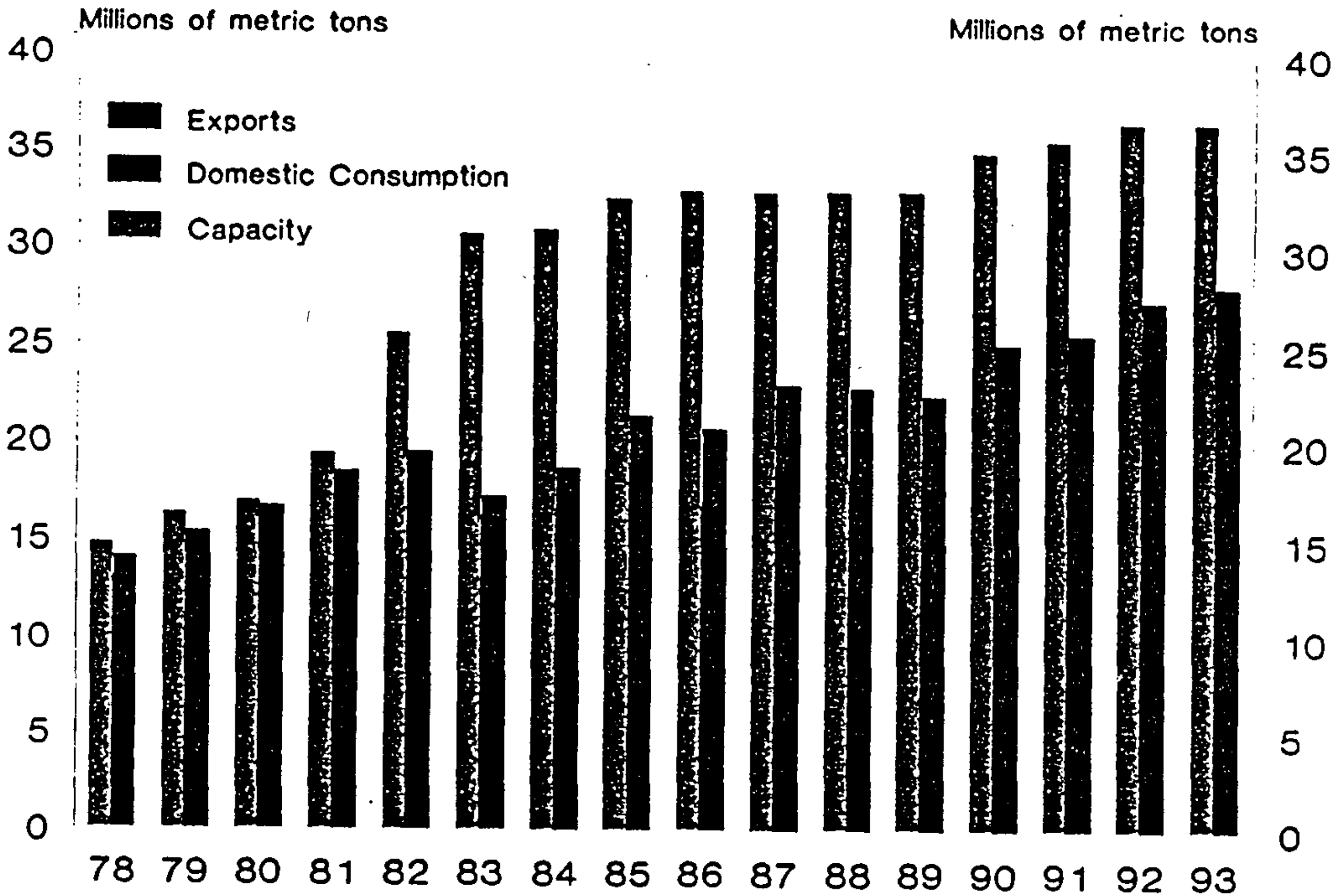


GRAPH D


Domestic Producers Cash Flow
AZ-NM-TX-FL
Millions of Dollars
Millions of Dollars
80
60
40
20
0
-20
1985
1986
1987
1988

GRAPH E

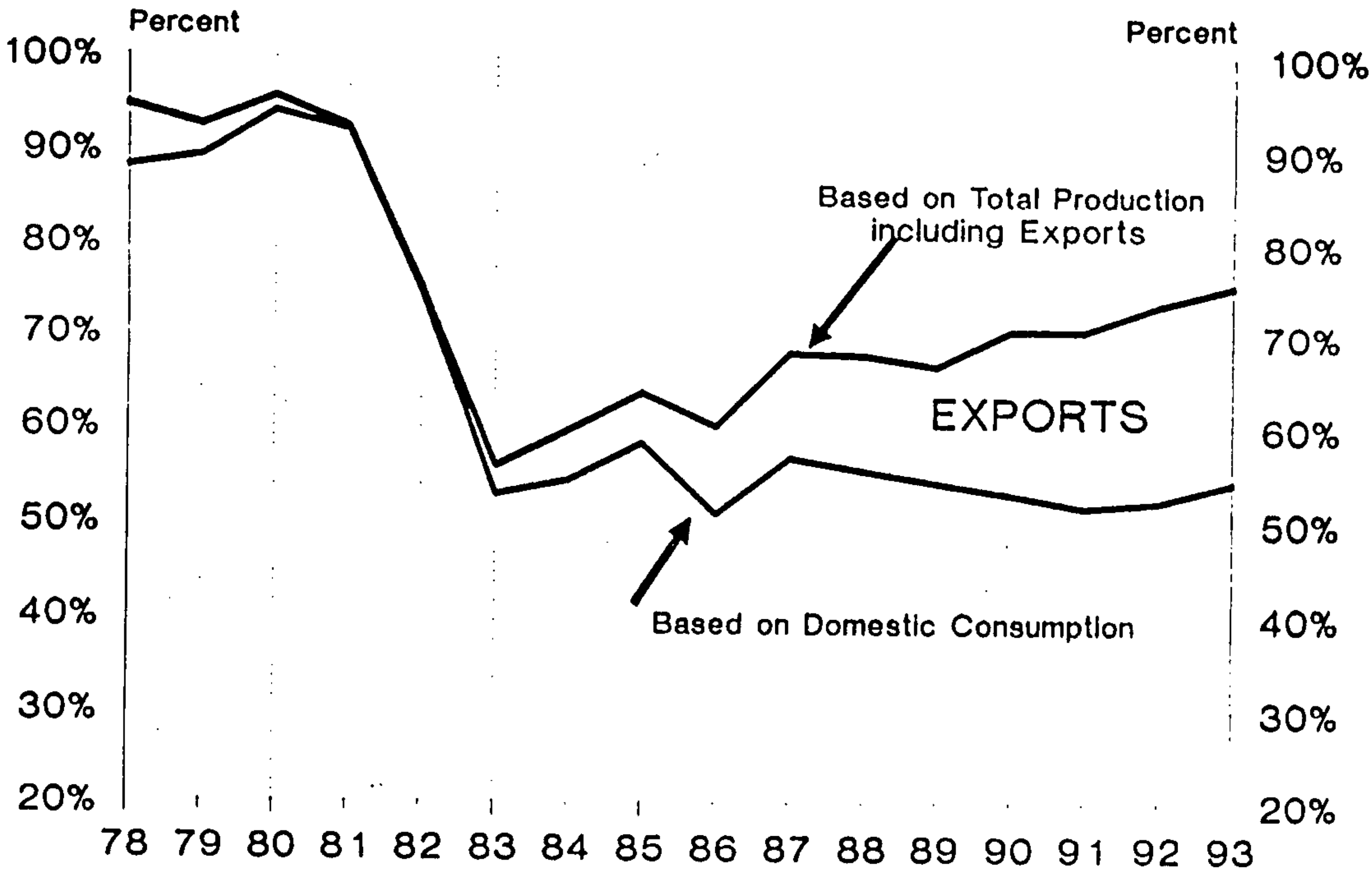
Mexican Cement Industry



1989 through 1993 projection assumes that all capacity increases are dedicated to the export market

GRAPH F

Mexican Cement Industry
Capacity Utilization



1989 through 1993 projection assumes that all capacity increases are dedicated to the export market

GRAPH G