

CANADA BORDER SERVICES AGENCY

***Complaint pursuant to Section 31 of the Special Import Measures Act Concerning
Alleged Injurious Dumping and Subsidizing of Certain Copper Pipe Fittings
Originating in or Exported From the Republic of Vietnam***

Statement of Peter Howell

September 11, 2017

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I. INTRODUCTION

1. My name is Peter Howell and I am the Vice President of Sales & Marketing for Cello Products Inc. (“Cello”). I have held this position since October 2002. I am responsible for all sales and marketing initiatives in the Canadian market.

2. Cello is bringing this case forward because low-priced imports from Vietnam have increased significantly over the last few years, causing Cello to lose sales and/or to reduce its prices in order to keep some business. Vietnamese imports have been increasing ever since Canada put a finding on copper pipe fittings from the US, China and South Korea.

3. Cello sells copper pipe fittings primarily to wholesale customers who, in turn, sell to plumbing contractors. Plumbing and heating wholesale is fairly concentrated in Canada, which means that just a handful of customers make up the lion’s share of Cello’s business. Historically, wholesale customers would either buy from Cello or from master distributors who imported products from various countries. Starting around 2015, we learned that wholesale customers like [***] and [***] were importing copper pipe fittings directly from foreign manufacturers. This development drove pricing down the toilet because not only did Cello have to compete with the landed prices of imports but because it also led distributor importers to become more and more aggressive on pricing in order to stay in the game. Unfortunately, this practice has become more and more common.

4. Copper pipe fittings, no matter where they come from, are essentially the same and price is king. It is very unfortunate but Cello has largely become a fill-in supplier in its own market.

5. After Canada put a dumping finding against the US, China and South Korea, it wasn’t long before we started seeing product coming in from other countries. We saw spikes in the market from countries like Brazil and Mexico here and there. But Vietnam

was a whole other story. As far as we know, there is one major copper pipe fittings producer in Vietnam – Hailiang Metal Products (“Hailiang”). Hailiang is somehow related to Zhejiang Hailiang Co., which is part of the Hailiang Group that claims to be the largest manufacturer and exporter of copper tube and copper pipe fittings in the world. Zhejiang Hailiang in China had been a big exporter of fittings to Canada but instead of participating with the CBSA in the 2007 dumping case, they just opened up a factory in Vietnam and started exporting from there.

II. ACCOUNT SPECIFIC INJURY ALLEGATIONS

6. Below I summarize various situations in which I have either lost business or had to reduce my prices in order to compete with low-priced Vietnamese imports. Each allegation is supported by notes and emails prepared when those situations arose.

(a) [...]

7. [...] is a plumbing wholesaler in [...]. Over the last few years, Cello has tried very hard to do business with [...] but we have faced very stiff pricing competition. [...] is a [...] of copper pipe fittings from Vietnam but they also buy Vietnamese fittings from importers like [...]. As a result, Cello only gets a small portion of [...] total copper pipe fittings business.

8. In March 2016, [...] and we offered to reduce our pricing by [...] % in order to get the business. I met with the owner [...] and was told that our pricing was still [...] % too high relative to the pricing he could get from Vietnamese sources.¹ Later in October 2016, I approached [...] again and was told that I would need to lower my pricing more aggressively if we wanted some of their business. I agreed to adjust our discounts further in order to compete with importers like [...].² Despite my efforts to gain [...] business, we have seen few orders from them and really only where we had to lower our pricing below

¹ See Report dated March 14, 2016.

² See Report dated October 26, 2016.

reasonable levels. The bulk of [...] business goes to Hailiang, whether they import directly or by purchasing from importers.

(b) [...]

9. [...] is another plumbing and heating wholesaler in [...]. Our sales volume at this account has declined steadily over the last few years from [...] pounds in 2014 to just [...] pounds in 2016. This decline is due to our inability to compete with low-priced imports from Vietnam.

10. In November 2015 I met with [...] to see what we needed to do to stay as one of their top 3 suppliers. As a result of that meeting, I agreed to lower our discount multiplier and it seemed for a while that we would get some of their business.³

11. Despite lowering our prices, the orders from [...] continued to decline. In October 2016, I met with [...] again and dropped my pricing by almost [...] % to try to get some of their business.⁴ Despite this, [...] has given the bulk of their business to [...], which import from Vietnam.

(c) [...]

12. [...] plumbing and heating wholesalers, with [...]. Historically, [...] had been one of Cello's [...]. Well before our case against the US, South Korea and China, we used to do you close to [...] lbs. of business at this account. When the dumped imports from those countries started to come in, we lost a significant amount of business at this account. The situation improved somewhat when the finding against those countries was put in place but it was not long after that [...] started sourcing from [...], either directly, or through importers. In recent years, our sales volume of this account has dropped from [...] lbs. in

³ See Report dated November 12, 2015.

⁴ See Report dated October 25, 2016.

2014 to [...] lbs. in 2016. This drop has been as a result of low-priced imports from Vietnam.

13. I met with [...] in October 2015 to discuss Cello's role [...] and was told that I needed to move pricing down in order to be competitive. In an effort to keep our position at [...], I lowered my prices by [...]%.⁵ Despite this price reduction, our volumes at [...] continued to decline.

14. In September 2016, I spoke with [...] again and agreed to lower our then current pricing by an additional [...]% in order to gain their business.⁶ Despite this effort, our sales at [...] did not increase.

(d) [...]

15. [...] wholesale suppliers of plumbing and heating products to the construction industry in Canada. Despite [...] in the Canadian market, Cello has a small fraction of their copper pipe fittings business. Cello has attempted to increase its position in [...] without success due to the presence of low priced imports, initially from countries like the US, China and South Korea and, in more recent years, from Vietnam.

16. In October 2015, I approached [...] to see if we could take more business from importers of Vietnamese product. I offered a [...]% discount from our then current pricing but was unable to make much progress.⁷ Over the course of 2016, our sales at [...] improved slightly from [...] lbs. in 2015 to [...] lbs. but this was still a small fraction of the business they could offer and we were still being used as a fill-in supplier. I approached [...] again in April 2017 in an attempt to improve our position. I offered to

⁵ See Report dated October 28, 2015.

⁶ See Report dated September 27, 2016.

⁷ See Report dated October 23, 2015.

lower our net pricing by [...] % to be more competitive with imports from Vietnam.⁸ So far we have not seen much improvement at this account.

(e) [...]

17. [...] and they have supported Cello for many years, although we have routinely had to lower our prices to remain competitive with importers of Vietnamese product like [...]. I spoke with [...] in September 2015 and they advised that [...] had lowered their pricing, so in order to maintain our position, I lowered Cello's prices by nearly [...] %.⁹ By July 2016, it had become obvious that [...] was turning more and more to Vietnamese imports through [...]. In order to recapture our position, I lowered net pricing by [...] %.¹⁰ A few months later, it was obvious that my price reduction had not been effective and that they were again turning to Vietnamese imports. In September 2016, I lowered our then net current pricing by [...] % to remain competitive.¹¹ More recently, we again have had to reduce our pricing in order to compete with Vietnamese imports. I spoke with [...] in May 2017 and they advised that they were placing orders with [...] who had recently adjusted their pricing as they had no choice if they wanted to themselves remain competitive. In response, I offered a [...] % net price discount hoping that it would bring business back our way and allow [...] to keep its own market share.¹²

18. In most recent weeks, the pricing pressure from Vietnamese imports has intensified even more. On June 9th, 2017, I spoke with [...] again when they advised me that [...] had dropped their price level by a further 10%. In order to protect our position at [...], I lowered our net pricing by another [...] %. Combined with the May price reductions, this new price level reduces Cello's gross margins will be under [...] % and represents a new low.

⁸ See Report dated April 13, 2017.

⁹ See Report dated September 28, 2015.

¹⁰ See Report dated July 19, 2016.

¹¹ See Report dated September 27, 2016.

¹² See Report dated May 14, 2017.

(f) [...]

19. [...]. Over the last few years, Cello has had to routinely reduce prices at this account in order to compete with Vietnamese imports. I spoke with [...] in September 2015 and was told that we were no longer competitive with [...], so I lowered our net pricing by [...]%.¹³ I again spoke with [...] in July 2016 when it became apparent that we were not getting their business. [...] advised me that we were not price competitive with Vietnamese imports through [...]. In order to maintain our position, I lowered our then net pricing by [...]%.¹⁴

(g) [...]

20. [...]. Over the last couple of years, [...] has increased its purchases of Vietnamese products through importers like [...]. I met with [...] in December 2014 when I learned that they were buying Vietnamese product through [...]. In order to keep some of their business, I offered to reduce our then current net pricing by [...]%.¹⁵ In June 2016, [...] contacted me to advise that we were no longer price competitive. We went back on forth on pricing and when I met with them in June 2016, I agreed to lower our then net pricing by [...]%.¹⁶ I spoke with [...] again in October 2016 and we were told that we needed to lower our pricing in order to remain competitive, so I lowered our pricing by [...]%.¹⁷ Later in December that same year, [...] advised me again that market conditions made it impossible for him to place orders with Cello. In order to keep some of their business, I lowered our pricing by a further [...]%.¹⁸

(h) [...]

¹³ See Report dated September 30, 2015.

¹⁴ See Report dated July 19, 2016.

¹⁵ See Report dated December 2, 2014.

¹⁶ See Report dated June 14, 2016.

¹⁷ See Report dated October 4, 2016.

¹⁸ See Report dated December 13, 2016.

21. [...] and has historically been [...] for Cello. In 2014, we sold [...] lbs. at this account but this dropped to [...] lbs. in 2015 before picking up to [...] lbs. in 2016. Over the years, we have had to routinely lower our pricing at this account just to keep a small part of their business.

22. I spoke with [...] in September 2015 following a big drop in orders from them and was told that we were not competitive with Vietnamese imports through [...]. In order to gain back some of their business, I lowered our then net pricing by [...]%.¹⁹ In June 2016, I spoke with [...] and they informed me that we were not competitive with [...]. In response, I offered an additional [...] % discount by way of a special rebate.²⁰ In October 2016 I once again spoke with [...] and was told that we were not competitive with Vietnamese product in the market. In order to keep their business, I offered to lower our then net pricing by [...] % and to provide them with special net pricing on selected items.²¹ More recently, the situation has further deteriorated. I met with [...] in May 2017 and learned that [...] had dramatically lowered its pricing on Vietnamese fittings. In response, I offered to lower our pricing by another [...] % in order to keep some of their business.²²

(i) [...]

23. [...] is a plumbing and heating wholesaler in [...] and has been an important customer for Cello. Over the last few years, our sales at [...] have declined as we have not been competitive with importers of Vietnamese product. In 2014, we sold [...] lbs. at this account but the volume dropped to [...] lbs. in 2016.

24. I spoke with [...] in September 2015 and learned that our pricing was not competitive with [...] who was importing Vietnamese fittings. In order to keep some of their business, I offered to lower my then current net pricing by [...]%.²³ Despite that

¹⁹ See Report dated September 28, 2015.

²⁰ See Report dated June 21, 2016.

²¹ See Report dated October 25, 2016.

²² See Report dated May 12, 2017.

²³ See Report dated September 28, 2015.

price reduction, our sales volume at [...] continued to decline. In May 2017, I met with [...] and was told again that we were not competitive. In an effort to regain our position at this account, I offered to revise our discounts further by [...] % and to increase their loyalty bonus by [...] %.²⁴

III. CONCLUSION

25. The situations described above are just a few examples. Over the years, the same or similar scenarios have played out at some of our other accounts. The net result is that we continue to lose sales to low-priced imports from Vietnam. Our response has been to try to continue supplying these customers with our own Canadian production but this has not always been possible. The price competition is such that we have, over the years, had no choice but to import some products from Vietnam as well just to stay in the game. This explains why our production has declined from nearly [...] lbs. in 2015 to [...] lbs. in 2016.

26. In 2017, the pricing competition from Vietnamese imports has continued and Cello has taken very aggressive measures to keep business so that the plant has something to do. We have managed to capture more volume at [...], but only by dropping our prices by a further [...] %. Similarly with [...], volume has increased slightly but I've slashed prices by [...] %. During this period, the COMEX price of copper has been fairly steady. Compared to January to June 2016, sales volume continues to decline at some key accounts. Sales volume at [...] is down another [...] %, [...] is down [...] %, and [...] is down 23%. We have been able to maintain or increase volume at some accounts but there is virtually no gross margin on those sales at our current costs.

RESPECTFULLY SUBMITTED

Peter Howell

²⁴ See Report dated May 18, 2017.