

TESTIMONY OF ERIC SHAO, GENERAL MANAGER, RZBC

1. Good afternoon. My name is Eric Shao and I am the General Manager of RZBC Import and Export Company, the largest producer of citric acid in China. I have come here today from Shandong, China on behalf of my company and the Chinese citric acid industry as a whole. And on behalf of the industry, I would like to thank the Commission for permitting me to appear here today to share with you first hand our perspective on the claim that the Chinese industry has injured the U.S. domestic producers.

2. The Chinese citric acid industry has evolved and changed significantly over the past few years, particularly from 2004 to 2009. The last time Petitioners brought this case there were over 100 producers of citric acid in China. However, since 2002 there has been a great amount of consolidation in our industry and the number of producers has been greatly reduced until now there are less than 20 producers of citric acid still in business in China.

3. One of the driving factors behind this consolidation in our industry is China's tight environmental regulations. Citric acid production causes serious pollution in the form of waste water and solid wastes. In 2003, the Chinese government implemented a series of strict environmental regulations which limited the right to produce citric acid for export to entities which comply with standards regarding wastewater discharge and air pollution. Since 2006, the number of Chinese companies in compliance with these standards and approved to produce citric acid for export dropped from 21 to only 15 in 2008.

4. Building and operating facilities which are in compliance with these tough environmental standards is very costly which means that it is increasingly difficult to create or add citric acid capacity without incurring costly measures to ensure compliance.

5. While the Chinese citric acid market has traditionally been somewhat export oriented, the most important market for Chinese producers is the EU, not the United States. The EU countries have always been the number one export market for Chinese exports of citric acid. Even after an antidumping case was filed in the EU and provisional duty rates were put in place, the EU remained our top export market.

6. The EU market is attractive for a number of reasons. First, the EU does not allow the importation of genetically modified organisms, or GMOs. Corn, one of the primary inputs to citric acid, is genetically modified in the U.S. but is not in China. Therefore China has a competitive advantage when selling into the EU market since China produces GMO-free citric acid.

7. There is also a supply shortfall in the EU market which ensures that Chinese imports will maintain their presence in that market for the foreseeable future. Immediately after definitive duties were imposed in the EU antidumping case, the EU accepted price undertakings from six Chinese exporters. This reopened the EU market to these exporters with guaranteed minimum prices but with no volume restrictions or mandatory price levels (other than the guaranteed minimum). The European Commission noted that the EU requires imports from China and elsewhere to meet demand and that even if operating at full capacity, the EU's own citric acid industry would only be able to meet about 75 percent of European demand. The price undertaking ensures that Chinese exports will continue to meet this demand – in fact, Chinese exports to the EU have increased every month since the price undertakings were accepted.

8. Citric acid producers in China have also satisfied supply shortfalls in the U.S. market.

9. Demand in China and our other export markets has been strong, and we believe it is likely to remain so even in the face of the global economic slow down. First, demand is growing in the Chinese market. The beverage sector in China is believed to consume the greatest share of citric acid production and the Chinese beverage market is expected to grow. Chinese people consume, per capita, less than a third of the quantity of beverages of people in other countries. The popularity of beverages such as sodas, fruit juices, sports drinks, and tea drinks is growing in China with the consumer market. For instance, two major beverage manufacturers in China have increased their orders for citric acid by 30% in 2009.

10. Thank you and I will be happy to answer any questions you may have.