Before the
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

IN THE MATTER OF **CITRIC ACID AND CERTAIN CITRATE SALES FROM CANADA AND CHINA**	**ITC Inv. Nos. 701-TA-456 and 731-TA-1151–1152 (Review)**

TESTIMONY OF CHARLES ANDERSON

March 26, 2015

Good morning. My name is Charles Anderson of Capital Trade. Six years ago I testified that the economic data supported a finding of material injury. The complete turn-around of the U.S. industry since then demonstrates a strong and continuing causal connection between imports from subject countries and the economic health of the domestic industry. That link remains because the fundamentals of the market for citric acid in the United States have not changed.

First, citric acid remains a commodity product. For the most part, it is sold in only one form, in large volumes, through competitive bidding. Producers cannot distinguish themselves by special formulations, long-term customer relationships, quality, service, or other non-price factors. Thus, when the product is

undifferentiated and sold mainly through competitive annual bidding, the only differentiating factor among suppliers is price. A glance at the quarterly pricing graphs confirms the degree to which citric is a commodity. Please take a look at these graphs in the Prehearing Report, particularly with respect to how close (or not) prices from different sources are and how consistent (or not) prices from different sources trend, and I think that you will see patterns that one would expect for a commodity.

Second, there are no new uses for citric acid or citrates. While there was a spike in demand for oilfield applications during the POR, the use of citric in oilfields is not new. More importantly, the spike is over, as the recent fall in oil prices has dampened drilling activity. According to the Department of Energy's EIA, oil prices in the United States are not expected to increase significantly any time in the near future.

Third, there have been no new production technologies driving down costs. The basic deep tank fermentation technology for making citric acid has been around for many years.

Fourth, and perhaps most importantly, the market dynamics created by the type of buyers and sellers involved, and the way in which citric acid is sold, have not changed. This is still a market dominated by relatively few major buyers and a handful of sellers, with each producer's projected output for the next year being

sold through annual competitive bidding. This combination creates the conditions whereby small shifts in bid-winning prices, depending on when they fall in the negotiating season, can have a major impact on overall price levels.

That is not to say that competitive conditions in 2015 are completely unchanged from 2008. There have been a few important evolutions in the U.S. market:

1. ***Flat or declining demand.*** Demand conditions today are far less robust than during the POI. The first year of the POR coincided with the trough of the recession, and reduced consumption for a number of products that incorporate citric acid – including the most important: soft drinks. The US economy and discretionary consumer spending obviously have improved since then. But it is misleading to use the increase in consumption over the POR to project demand for the next two years. To gain a better picture, look at the three year trends in demand from 2006 to 2008 versus the trend in demand from 2011 to 2013, as shown in **Hearing Exhibit 5**. The most important factor behind softening demand is the long-term decline in soft drink consumption. Soft drinks represent by far the largest end use for citric acid. As shown in **Hearing Exhibit 6**, the trend of declining soft drink consumption is driven by two factors: 1) changes in consumer's attitudes towards diet and health, and 2) an aging population. In fact, both Coca Cola and Pepsico list these two drivers as their first risk factor in their most recent 10Ks. More recent demand trends and

market projections clearly undermine IHS's dated projection of increasing usage of citric in carbonated soft drinks, as well as its overall demand projections. Even if, contrary to our industry witnesses' opinions, demand were to increase modestly, the increase would be too small to insulate the domestic industry from the injurious effects of increasing dumped imports.

2. ***Increasing costs:*** Overall, as is evident from **Hearing Exhibit 7,** both raw material and other manufacturing costs on average are higher in the POR compared to the POI.

3. ***The changing mix of non-subject imports.*** After the imposition of the orders, subject import volumes fell dramatically. Non-subject imports from established producing countries – Israel, Brazil, Germany and Austria – replaced some of the lost subject import volume. In the two most recent years, however, new producers in Thailand, and an old producer in Colombia under new ownership, have displaced much of the non-subject imports from traditional suppliers – and at lower prices, as the Customs AUV data clearly show. The new Thailand producers – Niran, Sunshine Biotech, and COFCO Thailand – are Chinese owned, and were established to get around antidumping measures in the United States and the EU. We also have reason to believe, and the US government has confirmed, that Thailand has been used as a platform for circumvented Chinese citric acid. The sources shipping from Thailand, along with Sucroal of

Colombia, are the new downward price leaders. These new entrants have driven down import prices, as well as overall U.S. prices. Imports from these sources further tilt the supply/demand balance against the U.S. producers and leaves them more vulnerable to increasing imports from subject countries. It would be wrong to assume that a resumption of imports from Canada alone would occur in the type of market that prevailed even two or three years ago. To gain additional volume, JBL Canada would have to respond to the Thai/Colombian price, thereby driving overall U.S. prices further downward.

4. ***A divergence between prices in the United States and the rest of the world.*** During the POI, U.S. prices were as low as world prices. All of the information available show that, since the imposition of the orders, U.S. prices have remained substantially higher than prices in other major markets, including Europe, Asia, and South America. Thus, notwithstanding some recent softness, relatively speaking, the U.S. market is much more attractive now than it was six years ago.

With these current conditions of competition in mind, let's turn to a comparison of the health of the domestic industry, pre-order versus post-order. As shown in **Hearing Exhibits 8, 9, and 10** the before and after picture is clear: The performance of the industry during the POI can only be described as dismal: multi-year operating losses, prices that failed even to cover COGS, and capital

expenditures so low that they could not even keep up with depreciation. Since then, the industry has made a complete turn-around – U.S. producers have increased U.S. shipments, and, as promised six years ago, reduced exports; prices have increased; profits have remained positive; capacity has increased; and capital expenditures are up.

Six years ago, I described the dramatically better projections for 2009 that Cargill, ADM and Tate & Lyle provided to the Commission. These projections were realized in spite of the recession-driven decline in demand. Substantially better results followed in 2010, 2011, 2012 and 2013. With hindsight, we can now clearly see the nexus between dumped, subject imports and the poor condition of the U.S. industry. There is no other competitive condition that could explain the complete turn-around. In fact, to the extent that the market has changed, it is in ways that increases the domestic industry's vulnerability to injurious dumping in the event that the orders are revoked.