Before the
United States International Trade Commission

Certain Potassium Phosphate Salts from the People's Republic of China

Inv. No. 701-TA-473 and 731-TA-1173 (Final)

TESTIMONY OF ANGELA SCHEWE

Good morning. My name is Angie Schewe. I am the Business Director of Industrial Phosphates for ICL Performance Products LP. In this position, I have management responsibility for the industrial phosphates business, which includes all of our technical grade phosphate salts. I am personally responsible to set prices, authorize discounts and establish our marketing strategy. I also have financial responsibility for the industrial phosphates business and report directly to our President.

I had the pleasure to appear before the Commission two years ago during the investigation of Sodium Hexametaphosphate, or "SHMP." Since the antidumping order on SHMP, price levels in the U.S. market increased sharply. Even today, price levels are up over 30 percent from 2007. Our sales revenues have more than doubled and our profits have similarly improved. In 2009 and 2010, our SHMP business is earning strong profits and an adequate return on investment. In our portfolio of phosphate chemicals, SHMP is now one of our best-performing businesses.

The Commission might be interested to know that the company that invented SHMP, Calgon, left the market before the antidumping case was filed. But, after the antidumping order was issued, Calgon—now owned by Nalco—restarted its SHMP plant. Today, Calgon is back in business producing SHMP.

By comparison our potassium phosphates business is depressed. Over the same period that SHMP profits increased, profits on potassium phosphates have declined. From our perspective, the real difference between these product lines is the large and increasing volume of imports from China.

To understand the market, it is important to understand that the Chinese imports compete head-to-head with our products on the basis of prices. At the preliminary conference, I reviewed our Certificates of Analysis, or "C of A's." These documents are issued with respect to every sale. I understand that some of you visited our plant in Carteret, New Jersey. You toured our laboratory and saw the Certificates of Analysis that are tied to each batch of phosphate salt. These documents show that every batch of phosphate salts is tested for purity, particle size and the level of contaminants. In our business, you cannot sell phosphate salts without a C of A.

The Chinese also test their phosphate salts and issue C of A's to accompany every shipment. Examples of these documents were included in Exhibit 5 to our prehearing brief. The Chinese producers can produce virtually the same quality phosphates salts as any U.S. producer. In fact, the Chinese producers use thermal phosphoric acid, which is a very pure raw material. In the United States, we generally start with "Purified Phosphoric Acid," which is made from green acid or "Merchant Grade Acid." Although Purified Acid is less expensive to produce, it is not as high in purity as thermal acid.

We have seen over and over that Chinese imports will start selling to customers that do not have a very difficult specification or very high quality requirements. For example, in the SHMP case, the Chinese imports first started selling in the Kaolin market, in other words, the clay fields. These end-users are not particularly demanding because the SHMP is used to disperse the clay to help it flow. Once customers use the Chinese material, however, they discover that the quality is quite good. Over time, the Chinese producers will then penetrate deeper into the U.S. market, moving up to the most demanding customers. In the SHMP case, we saw the Chinese SHMP start in the clay fields. Eventually, though, Procter and Gamble was buying Chinese SHMP to use in the most demanding applications.

In this case, Chinese DKP has penetrated food grade customer accounts across the market. The Chinese product is readily accepted by customers and substitutes for our product. Similarly, Chinese MKP has penetrated food grade accounts and technical grade accounts that call for very high quality material. Also, Chinese TKPP has been accepted for use in water treatment and paints and coatings.

The Chinese imports of MKP have not been confined to less-demanding applications, such as fertilizer. In fact, review of the import statistics from ships' manifests and bills of lading shows that a large percentage of Chinese imports are food grade. And, whether or not our customers are buying Chinese material, they are certainly quoting the Chinese price when our salesmen call.

We sell through two channels of distribution: distributors and directly to end users. Distributors generally stock a significant inventory of phosphate salts to resell to their customers, who are end-users. The largest end-users, however, prefer to deal directly with the manufacturer and may want to purchase rail cars or truckloads.

Distributors generally supply end-users that do not require full truckload quantities. Distributors will maintain an inventory and ship less-than-truckload, or "LTL" quantities to these customers. Distributors may also consolidate different products into a single truckload delivery. In some cases, even for our direct customers, we may supply the customer out of the inventory of a distributor in order to keep inventory close to the customer.

Historically, we would issue a price list, offering the same price to all distributors for shipments into their inventory. The typical distributor would receive a discount from the list price, allowing the distributor to resell phosphate salts at the list price and make a reasonable margin on the sale. In some cases, a distributor would approach us about a specific customer account where our list price was above the competition. In such cases, we might provide a so-called "support" price, discounted below the normal distributor price in order to respond to competition.

In 2008 and 2009, however, our distributors began receiving quotes from brokers supplying Chinese imports at prices well below our list prices. In order to keep these accounts, we were forced to depart from the normal list price plus discount formula. It is now the case that about 80 percent of our distributors are buying at "off-list" prices. In effect, we are re-negotiating prices roughly every three months, or until the next Chinese offer.

I am one of three business managers at ICL. Among other things, we establish pricing policy for the company. Every week we hold a sales meeting to review all of the trip reports and emails from our sales force. We then decide whether to hold firm on offered prices or reduce those prices. If we agree to reduce prices, we will send a letter to our customer identifying the new terms. Or, in the case of long term contracts, we will prepare a new contract.

In 2009, I cannot tell you how many times we debated whether to cut prices or respond to competitive offers. Over the course of the year, however, our strategy changed.

First, I should provide some background. As you are probably aware, there was a major increase in raw materials prices starting at the beginning of 2008. Phosphoric acid, which is one of two materials used to produce phosphate salts, increased by 400% in May 2008. Also, one of our suppliers of phosphoric acid had supply problems in January and February 2008, forcing us to seek additional raw materials in a very tight market for phosphoric acid.

In this market, with raw material costs increasing faster than we had ever seen before, we increased our prices at the beginning of 2008 to cover these higher costs. At the same time, because phosphoric acid costs had taken such a huge jump, we issued prices that were firm for 90 days, rather than six months or a year. Because of contract commitments, our prices did not increase across the board immediately. But, by the middle of 2008, a majority of our customers were paying higher prices.

I was honestly surprised by the fact that the market accepted the higher prices announced in 2008. As luck would have it, Chinese producers experienced various problems that reduced their U.S. exports at the same time that we were experiencing problems getting raw materials.

Then, in August 2008, there was a strike at the PCS plant that supplied potassium chloride to the North American market. Potassium chloride is the raw material used to produce potassium hydroxide ("KOH")—our raw material to make potassium phosphates. Once again, our raw material costs increased dramatically, this time for KOH. And, as the strike continued, we were forced to put our customers on allocation. We limited customers to 80 percent of their contract quantities starting September 5, 2008 and ending in mid-November of that year.

At the same time that we were experiencing difficulty obtaining raw materials, the Chinese imports really began to increase. By the end of 2008, we were talking about new Chinese prices in every weekly sales meeting.

Going in to 2009, though, we did not want to reduce our own prices. Our raw materials costs had become so high that we could not cut prices without losing money. So, in our weekly sales meetings we told our sales staff that "ICL will fight down prices." In other words, we refused to respond to offers of Chinese imports at prices below our prices.

By the middle of 2009, though, this strategy had cost us an enormous amount of sales volume. The Chinese imports were capturing sales volume, particularly at distributor accounts. In every market, Chinese imports were the price leader. Because we did not cut our prices, our shipments of all three potassium salts declined between the first half of 2008 and the same period in 2009.

Our response was to gradually give-in to the low prices set by the Chinese potassium salts. Over the course of 2009, we cut prices of DKP, MKP and TKPP in order to keep sales volume. At our Monday sales meetings, we were continuously responding to Chinese prices, reducing our price and writing letters every week to our customers with new prices.

Our business not only suffered depressed prices and rising costs. We were also forced to lay off workers, cut back severely on overtime, eliminate contractors and otherwise reduce our operations. We have tried to operate our plant at Carteret on a five-day-a-week schedule in order to avoid overtime on weekends. But, without orders, we only produced TKPP for 11 days in January and for less than two weeks in March and May of this year. In fact, we did not operate the plant full-time in any month in 2009. In other words, our capacity utilization is not adequate to support the plant.

We have already announced 5 percent layoffs and largely eliminated outside contractors. Rather than lay off additional workers, we used our hourly workers to perform maintenance. As a result, we have terminated contractors that used to supply various services—in effect reducing the overall employment at the plant, even though these workers are not counted in "production and related workers."

Increasing imports, rising raw materials costs and the loss of sales volume have had a serious, negative impact on our business. Since the Commission examined our industry late last year, conditions have only gotten worse. We have suffered operating losses on two product lines in 2009 and our efforts to cut prices resulted in a loss in the fourth quarter with respect to the third product.

Before concluding, I would like to address the arguments made by Valudor. Valudor argues that the Commission should not find injury with respect to MKP because its imports of MKP are only sold in the fertilizer market. First, we compete in the fertilizer market, at accounts such as Miller Chemical and Fertilizer Corp. We were selling U.S.-made MKP to Miller in 2008, not imports from Israel.

Second, and more importantly, the imports from China are not confined to customers producing fertilizer. As I have explained, we have seen many times that Chinese imports start out in less-demanding applications but quickly move through the market to more-demanding customers. Our largest customers for MKP are producers of pharmaceuticals and food and beverage makers. In fact, one of our largest customers uses MKP in a sports drink. Because we saw our sales volumes fall sharply in 2009, we decided in the fourth quarter 2009 to match the Chinese price even at this large customer account. As a result, we regained sales volume but our profits disappeared.

In sum, the dumped and subsidized imports of all three products, DKP, TKPP and MKP, have had a major impact on our business. The contrast between 2008 and 2009 tells the story. Because Chinese imports of phosphate salts did not respond immediately to increased prices in 2008, we experienced an increase in profitability even though our materials costs were raised to all-time high levels. But, as soon as the Chinese producers began shipping increased volume to the U.S., we started a steady decline that has not stopped. Without relief from dumped and subsidized imports that are intent upon penetrating the U.S. market, our industry will inevitably suffer. Thank you.