Before the
United States International Trade Commission

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

Inv. Nos. 701-TA-473 and 731-TA-1173 (Final)

TESTIMONY OF BETH ALLEN

Good morning. My name is Beth Allen. I am the Vice President for Finance and Procurement and the Corporate Secretary at Prayon, Inc. I have been with Prayon since April 2002, and I currently serve on the Board of Directors and on the Capital Board. I regularly interface with our parent company and make decisions on capital spending.

Our parent company is a fully integrated phosphates producer. Prayon SA is a joint venture between a Belgian producer of phosphoric acid and phosphate salts and a Moroccan producer of phosphate rock. Through our parent company, we have access to phosphoric acid. However, our company is measured by its own performance in the U.S. market. Our parent company establishes benchmarks for all of its operating subsidiaries and divisions. That is, our owners establish a minimum contribution margin, or gross profit margin, that we are expected to meet.

Our raw materials are purchased from U.S. producers or our parent company. In the case of potassium hydroxide, or "KOH," we purchase raw materials from various U.S. suppliers. In the case of phosphoric acid, we purchase from PCS Corp. or import from our parent company. In either case, we pay market value. Our imported phosphoric acid is valued using a formula based upon the world-market price for phosphoric acid, determined from *Fertilizer Week*, FOB

Antwerp, and adjusted for transportation costs. This cost is revised every month. We therefore incur the same raw material costs as any other producer of phosphate salts, and we are expected to earn a reasonable return on the business.

As you heard from Angie Schewe, there have been enormous increases in raw material costs during the period of investigation. As shown by the chart on page V-2 of the staff report, phosphoric acid prices increased over 400% between 2007 and the middle of 2008. Potassium hydroxide (or, "KOH") prices increased 300% between the third quarter 2008 and the second quarter 2009. For this reason, Prayon has been forced to increase prices to cover just our variable costs of production, let alone the fixed costs of running our plant. Chart 1 illustrates the trend in raw materials prices.

Historically, our strategy was to meet the market price and attempt to fill our capacity. However, at the end of 2007, our management decided to change this strategy. Our CFO decided to raise prices on phosphate salts to a level that would recover reasonable profits and try to hold onto our sales volume. Because we are a relatively small player in the market, I was very skeptical that we would be successful. However, our parent company produces phosphoric acid. They could see that demand for fertilizer was soaring and that phosphoric acid prices would surge in 2008. And they were right.

Not only did phosphoric acid prices increase, but the market was also very tight in early 2008. Then, as the year went on, the strike at PCS caused a shortage in supply of KOH. In order to meet the demand for potassium products, we were forced to find alternate sources of potassium, but at much higher prices, the prices for KOH tripled. So, even though we had potassium salts to sell in the U.S. market, we had to increase prices in order to cover higher costs. In some cases, although we should have been able to increase our market penetration during the PCS strike, we did not. Instead, lower-priced imports from China took business that could not be supplied by ICL or PCS.

Because of the increase in Chinese imports of TKPP, we were forced to abandon our strategy of maintaining profitable price levels. Faced with increasing imports, we cut prices in 2009 in order to regain sales volume. At the same time, costs kept rising. Because KOH prices were increasing through the second quarter 2009 our unit variable costs in 2009 were higher than our unit cost in 2008.

Capacity utilization is now roughly one-half our total potassium salts capacity. Because of the loss of TKPP volume, we have had to campaign the plant, shutting down several times over the past year because of a lack of orders. In fact, when the ITC staff visited our plant last October, we were not operating the production line due to a lack of orders. Last summer, we shut down for the Fourth of July and asked our workers to use their vacation. Workers that did not have any vacation were temporarily laid off.

To date we have avoided permanent lay-offs by using our employees to do maintenance and to assist with the ISO recertification, an NSF audit and other tasks. We are extremely reluctant to lay off employees. That is one of the great things about Prayon. The company is extremely loyal to its employees. Instead of laying off our workers, we have been using production employees to perform maintenance work that formerly was out-sourced to subcontractors. We have greatly reduced overtime and we have shortened production campaigns, which makes it very costly to run the plant.

To fill our capacity and maintain our employment levels, we must find sales volume.

At the same time, we cannot afford to sell phosphate salts at a loss simply to keep the plant open. We cannot maintain high prices against Chinese imports that blanket the market with offers to sell below our costs. If we do not respond to the lower prices quoted by the Chinese suppliers, we inevitably lose sales volume. A healthy ratio of profits to net sales is not at all healthy if net sales shrink to zero.

Lack of adequate return on investment also has a negative impact on our capital and R&D spending. You can see from our questionnaire response that our R&D spending is inadequate by any measure. We try to spend about $2 million per year in our plant in capital improvements. Our plant was originally built in the 1960s, and we need to replace older equipment and upgrade the plant. In 2008, because we could increase prices for phosphate salts, we invested $2.5 million of our profits in a new packaging line, designed to improve our ability to deliver food grade salts to our customers. In fact, we purchased a new packaging line because Prayon SA is committed to the U.S. market and to production of phosphate salts in Augusta. But, as the staff witnessed during the plant tour, our cooling equipment is long overdue for replacement. To justify additional capital spending, we need higher prices and stronger margins.

For these reasons, we strongly urge you to find that imports of potassium phosphates from China are causing material injury to the U.S. industry. Thank you.