

TESTIMONY OF KAREN GRUBER

Aqualon Company, February 15, 2011

Hello, my name is Karen Gruber. I am Global CMC Business Director for Ashland Aqualon Functional Ingredients, known to the Commission as Aqualon.

I have a bachelor's degree in chemistry and a master's degree in Chemical Engineering from Texas A&M University. I worked for 12 years in the specialty minerals and pigments business at Engelhard Corporation, now a part of BASF. In 2001, I came to Aqualon and, since 2004, have been associated with the CMC business, first as CMC business manager and later in my current position.

I joined the business in the year prior to the imposition of the antidumping duties. I have seen the business recover and have worked hard since then to keep it healthy. My colleague Zissis Pappas will be speaking to you shortly about the energy and specialties markets for CMC. First, I will share some of my experiences about the food and personal care markets, which use regulated grades of purified CMC.

Food applications for CMC include syrups, juices, cocoa, tortillas, and even pet food. CMC is used to make the pet food gravy thicker and allows it to cling to the morsels making it more appetizing, at least to the humans who watch the TV commercials. In human food it serves as a thickener, stabilizer and rheology enhancer, which means it affects how things stick together when they pour or how the final product feels in your mouth. In the US, the CMC used in these applications is required by law to be at least 99.5% pure. This is not the case in some emerging markets.

Personal care applications include toothpaste and denture adhesives, laundry starches and detergents and other products. CMC serves as a thickener, flow facilitator, anti-deposition or bonding agent.

In my role as Global Business Director, I oversee the business aspects of Aqualon's Hopewell, Virginia CMC factory. I make sure that our products meet customer requirements and product quality. It is also my job to maintain profitability, which means I decide on pricing and collaborate with the sales and manufacturing team on business strategy.

In this capacity I am constantly aware of competitive pressures and have to make the decisions on whether to meet the prices of import competition.

I would like to share with you several specific, recent examples of situations where respondents CP Kelco, and Quimica Amtex have attempted, and in some cases succeeded, in taking business from Aqualon by underpricing. Our prehearing brief sets out the details of customer names, quantities and pricing for each of these examples.

In one instance, a producer of laundry detergent approved our new product that we developed for that customer. We made test plant runs at Hopewell, but we ultimately lost the business to CP

Kelco at pricing that was reported as much as 20% below ours. If we were to try to meet that pricing, we would lose money on every sale.

In another case, we stepped in to help a pet food customer of CP Kelco after the Netherlands plant went down, but recently, due to the increased price of cellulose, we had to raise our price, and as a result, we were told that CP Kelco came in at a lower price from its Finnish plant, and we lost half of the business. Besides indicating that CP Kelco is willing to underprice in order to take business from Aqualon, this shows that the CP Kelco Finnish plant is picking up the volume that had been produced by the Netherlands operation.

We have subsequently dropped our price, notwithstanding our increased costs, in order to try to hold on to this business. We are waiting on the customer's final decision. Revocation of the orders will make it much less likely that we will retain this business.

Perhaps this is a good point to say a few words about the impact in general of CP Kelco closing its Swedish and Dutch plants. Closing the Swedish plant was a planned event, and it really had little or no impact on the market. CP Kelco had arranged for its scheduled production to be moved elsewhere and customers were not left short. The explosion and fire at the CP Kelco Netherlands plant was, of course, unanticipated and it did have a measurable short-term impact. We at Aqualon were approached by several of CP Kelco's customers, and we did our best to supply them. This contributed to good years for Aqualon in 2009 and 2010, notwithstanding the recession. However, CP Kelco appears now to have rationalized its production. It is increasing its shipments and is able to satisfy all its pre-existing accounts. What's more, it appears to be moving more aggressively to capture business from Aqualon in the United States.

For example, when we tried to pass our recent cellulose cost increases on to a U.S. producer of juice drinks, we were told that our price is higher than that of CP Kelco and we would have to share the business and could soon lose it all. What's even more surprising, this grade of CMC uses either high viscosity wood pulp or cotton, which have both seen significant cost increases. I suspect that CP Kelco is probably just trying to keep its huge plant full and spread fixed costs.

And Amtex, too, has also been quite active, in food, in oral care and in other personal care submarkets. We have recently learned that Amtex is bidding against us for business at a major dental care account, and we have lost part of our position at another producer of a home care item, due entirely to price. We have also lost our entire position at a domestic tortilla manufacturer where Amtex underbid us by a significant amount. It had been mentioned that our products have quality issues in tortilla applications, but that is not the case. Several manufacturers are able to use our products, they just cannot choose them with such a wide difference in price between us and Amtex.

As for Akzo, they haven't been able to sell as much CMC into the U.S. market due to their substantial antidumping margin. However, Akzo is selling a product that is not within the scope of this investigation, croscarmellose CMC. This is going to a major U.S. customer where Akzo is already qualified to sell subject CMC. Before the orders were imposed, Akzo undersold us aggressively at this customer and we can anticipate it doing so again if the orders are revoked. Loss of this single customer would be very harmful to Aqualon.

As John Panichella described, the antidumping orders allowed us to go from a dramatic decline to a healthy financial state within a short period of time. Because of our improved position, our CMC business has been able to get authorization from management to make several necessary investments and to spend on research and development and applications support for our customers and potential customers.

In recent years that R&D has focused on producing CMC grades with improved characteristics such as ease of solution, speed and evenness of dispersal, and uniformity of viscosity. Thus, for both the laundry detergent and the juice drink customer I just mentioned, our research and development allowed us to develop new grades with enhanced performance. We immediately stepped in when there was the issue at the CP Kelco Netherland plant, but we still find that price is a major factor when selecting the purified CMC.

On the personnel front, we were able to increase pay and by so doing employ more skilled people who are capable of performing a multiplicity of roles in our plant. Over the long term, after time for the requisite training and broad experience, this personnel upgrade has allowed us to operate with fewer total staff.

I'd also like to take a few minutes to give you some more details of the capital upgrades John mentioned that we have made as a result of our improved financial posture. At the Commission hearing in the original investigation, we spoke to the need for upgrading our drying capacity. As a result of our improvement in return and showing that, under fair market conditions, we can have a sustainable business, we started a dryer automation project in 2010 and we are continuing this upgrade. This has allowed us to operate with more control and increased capacity.

Another place where the orders have helped us is in addressing the requirements of many of our customers for different particle sizes for their applications. As a result, we have changed our particle size control by investing in a diverter system. This will allow us to provide the coarse particle size grades.

These two investments wouldn't have been approved when the business was in a downward spiral because of the unfair market conditions.

We have also hired an engineer to optimize our milling systems and process technology. Along with a team in Hopewell, he is focused on making sure that we can meet the US market demands.

Without these Orders, future investment in the business would once again be under great duress and we will not be able to continue to invest in our business to serve the U.S. CMC market.

I will now let Zissis speak to his market segments.