

**BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION  
XANTHAN GUM FROM AUSTRIA AND THE PEOPLE'S REPUBLIC OF CHINA**

**TESTIMONY OF RON BOLEN**

**VICE PRESIDENT OF SALES MARKETING – GRINDING AND SIZING CO.**

**MAY 23, 2013**

Good afternoon. For the record my name is Ron Bolen. I am currently employed by Grinding and Sizing Company, or G&S. G&S specializes in the sale of a variety of drilling fluid products, including xanthan gum products, with applications in the oilfield sector. In my capacity as Vice President of Sales and Marketing at G&S, I oversee both customer and vendor accounts associated with xanthan gum sales and purchases. I have been working in the oil field sector for more than 25 years and know the oil field market for xanthan gum quite well. In addition, I worked for CP Kelco for nearly 30 years, and so know something about the domestic industry in this case as well. I left CP Kelco for G&S in September 2007. My last position at the company was Oil Field Sales Manager for the Americas region. I am pleased to be here today to discuss G&S's experience in the market and to answer any questions you may have.

Let me start by telling you a little more about G&S. G&S serves as a custom blender and packer of a variety of products for the oil services community.

Our objective is to be a “one stop shop” where our customers can procure all their drilling fluid products requirements. In terms of xanthan gum, we blend xanthan-based products based on our customer’s own formulation and also serve as a distributor of prepackaged product. Most of our own purchases of xanthan gum are in bulk so that we can provide additional services to our customers. This might include packaging the bulk xanthan under our own customer’s label or preparing various powder or slurry blends based on customer specifications. As background, slurries are a fluid preparation in which we pre-disperse xanthan gum in a carrier system and the product is delivered to the drill site in this pre-dispersed state. This is a common product for smaller drilling companies and drill sites that lack mixing equipment at the drill site to properly mix dry xanthan gum. While powder and slurry blends contain more than just xanthan gum and the prices are based on the total makeup of the product and service provided, the xanthan component can be tracked and the price quantified. And this is how we have reported it to you in our own purchasers’ questionnaire.

G&S is not a dedicated re-distributor of any particular brand. We buy from both domestic and Chinese sources, although the majority of our bulk purchases are of Chinese origin. On the domestic side, most of our purchases have been from ADM, who actively solicits our business. The same cannot be said for CP Kelco. CP Kelco does not actively call on us. And we have had some difficulty in getting

CP Kelco to return our calls. Last September we requested a quote and followed up with them again. They finally responded, indicating that they had little volume to offer. I can only speculate on CP Kelco's possible reasons for excluding G&S as a prospective xanthan gum customer. They used to be more active in the oilfield sector but even before my departure they began a substantial reduction in their sales force for this segment on a global basis.

In terms of demand, I can make this assessment of the market as far as the domestic industry's ability to meet it: In my opinion, the domestic industry does not have the capacity. I know that from public announcements and from earlier testimony that CP Kelco has announced a 40 percent increase in capacity at their San Diego facility. Based on most capacity increase announcements made by producers, whether in China, Austria, France, or the United States, this usually means the addition of new fermentation capacity. Given the very public circumstances surrounding the costs facing CP Kelco at its San Diego facility, such as utility, environmental and other rate increases, I can only wonder if this is a real increase in new fermentation capacity to produce xanthan.

As for xanthan gum demand itself, there is no question that it will continue to grow driven by a number of factors. First, drilling activity worldwide continues to grow, which is a bellwether for xanthan demand. The more rigs, the more xanthan. It is as simple as that. The global rig count is up, and we do not expect

that to change. Admittedly, some of this drilling activity has no direct connection to xanthan demand, as it involves exploiting unconventional petroleum plays that depend on hydraulic fracturing, or “fracking.” Nonetheless, the result is more xanthan gum demand and let me explain why. Fracking requires guar gum, and the industry’s most recent experience with guar is that the market price and supply can be highly volatile. This creates an incentive to look for substitutes to limit exposure. Xanthan is an imperfect substitute for Guar and the industry is still working on solutions, but sometimes substitution is an indirect phenomenon. More guar consumption in the oil sector leads to more guar substitution in sectors like food, including a shift to xanthan, where there are more ready applications. And fracking will not always be a U.S. phenomenon – it will begin to take hold in other regions as other interests traverse the learning curve, make the necessary investments, and resolve other logistical issues.

The bottom line is that demand is going to be strong both inside and outside the United States and there is no evidence in my mind that the domestic industry is up to the task. It was not adequately meeting demand or was not interested in that demand in strong markets prior to the existing duties. So I am confused as to why additional duties would change that situation. In my mind, any difficulty the domestic industry is facing is not about imports. It is about its own internal issues.

And let me quickly address one aspect of these “internal issues” that is quite relevant here. There has been a lot of discussion about the xanthan market being all about price. That is simply not true. Let me give you an example. In mid-2011 G&S was approached by Kachina Drilling Chemicals regarding their xanthan supply requirements. Kachina had been a committed customer of ADM, but had grown frustrated with ADM over service and reliability issues, and other business practices. This was a significant account. Kachina was wary of purchasing Chinese product over quality concerns and expressed those concerns with us. Over a 6-month qualification period we convinced Kachina that Chinese product could reliably meet their specifications. Price was the last thing that we talked about, not the first. We had to be competitive with ADM product, but that meant more than price and price was not what drove Kachina to us. Kachina came to us over non-price issues and we were able to address those issues where ADM had failed. This is not a unique story.

And with that, I will conclude my remarks. Thank you for your time and I look forward to your questions.