

Glycine from China

Investigation No. 731-TA-718 (Third Review)

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Topics To Be Discussed

- The relevant conditions of competition in the U.S. and global glycine markets
- The volume and price effects that would arise if the current antidumping order on Chinese glycine was revoked
- The impact that these volume and price effects would have on the U.S. glycine industry

Conditions of Competition Demand

1. Glycine Uses

- Pet food and animal feed – 56 %
- Deodorant/Antiperspirant applications – 29 %
- Food/Vitamin/Pharmaceutical/Nutraceutical additive applications – 8 %
- No significant changes since prior sunset review
- No anticipated changes

Conditions of Competition Demand

2. Glycine has no substitutes and is price-inelastic
 - o Changes in glycine prices are unlikely to affect significantly the quantity of glycine demand
3. A handful of U.S. purchasers wield substantial negotiating power
4. Glycine is a commodity product
5. U.S. and imported Chinese glycine are highly substitutable

Conditions of Competition Demand

6. Price plays an important role in purchase decisions of glycine

- o As one purchaser summarized it:

“Selection of the producer is solely based on a bidding process where the lowest cost producer is awarded the business.”

Conditions of Competition Demand

- These glycine demand characteristics indicate:
 - The additional supply of low-priced Chinese glycine following revocation of the order would
 - Decrease U.S. prices for glycine
 - Displace domestic producers' sales volume

Conditions of Competition

Supply

- Supply sources to the U.S. glycine market:
 - Domestic producers: GEO and Chattem
 - Fairly-traded non-subject imports
 - Circumventing Chinese glycine transshipped through other countries
 - Subject material imported directly from China

Conditions of Competition Supply

- Chinese Capacity and Production in 2010
 - **Capacity in China:** **1,300 million lbs.**
 - Domestic Consumption: 422 million lbs.
 - Exports: 34 million lbs.
 - Total Production: 456 million lbs.
 - **Excess Capacity:** **855 million lbs.**
- This excess capacity represents:
 - **68 %** of total Chinese Capacity
 - Many multiples of total U.S. Consumption

Conditions of Competition Supply

- China's industry produces all grades of glycine, which are chemically equivalent and differ only as to purity
 - Technical-grade
 - "Other" higher-purity grades (which include USP-grade)
- Excess Chinese capacity for "other" higher-purity grades is 158 million pounds
 - By itself equal to many multiples of U.S. apparent consumption
- Without this order, exports of glycine from China would likely expand greatly

Conditions of Competition Supply

- Official Census Bureau statistics appear to understate the actual volume of glycine physically originating from China that enters the U.S. market
- A significant portion of non-U.S. imports is actually Chinese glycine transshipped through India
- Chinese glycine transshipped through India plays a prominent and injurious role in the U.S. market

Apparent U.S. Consumption

- Apparent U.S. consumption table adjusted to account for transshipments shows:
 - The U.S. market is so important to Chinese glycine producers that they resort to transshipping their glycine through India
 - Direct imports from China appear to have declined over the review period, BUT
 - Great expansion in transshipment import volumes has kept the combined total of actual subject imports very substantial
- Actual non-subject imports were stable over the period

Conditions of Competition

U.S. Producers

- U.S. Producers have taken various steps during the last 3 years to increase their ability to serve U.S. customers with consistent, predictable supplies of glycine
- 2008 – A temporary reduction in global supply resulted in an unexpected and unlikely to-be-repeated drop in Chinese glycine export volume
 - Created temporary tightness in global supply
- The domestic industry did everything technically possible to satisfy the increase in demand
- Very high U.S. capacity utilization

Volume Effects

- Revocation likely to lead to a very significant increase in the volume of subject imports from China
 1. China has a massive glycine production capacity
 2. The Chinese capacity has tripled over the period of review
 3. 68 % of Chinese capacity is excess capacity
 4. The volume of excess capacity (855 million lbs.) is many fold greater than the total apparent U.S. consumption
 5. No existing information suggests that Chinese domestic demand will increase sufficiently in the foreseeable future to absorb the excess

Volume Effects

6. China has responded to the U.S. antidumping order by transshipping Chinese glycine to the U.S. through India
 - o At least 4 million lbs. of Chinese glycine entered the U.S. through transshipments through India in 2010
7. The U.S. remains the last major world market for glycine that Chinese producers do not yet dominate
 - o Last European producer recently exited market due to competitive pressure from China
8. U.S. Consumers are clearly already willing to purchase Chinese glycine

Volume Effects

Importer Statements

9. Importer statements indicate the likely adverse volume impact of revocation:

- *“We currently buy from the U.S. producer because of the anti-dumping duty... If the duties are removed, ...we will immediately begin importing material directly from China.”*
- *“We would probably start purchasing glycine from China again.”*
- *“Revocation of the order would likely result in {our} customers switching ... to Chinese suppliers.”*
- *“If the price is better on Chinese material more companies will buy Chinese to save money and less U.S. material will be sold.”*

Volume Effects: Importer Statements

- “{U.S.} Sales would drop due to large volumes of Chinese glycine imported into the U.S.”
- “U.S. market will be flooded with low-priced Chinese product.”
- “Logic dictates if the antidumping duty is revoked a company would be importing more Glycine due to cost benefits as a historical pattern for goods coming out of China.”
- “We would re-visit landed costs of Chinese glycine... It is believed other large customers of glycine would do the same.”

Price Effects

- Revocation likely to lead to adverse price effects that would harm U.S. producers
 1. In the original investigation, the Chinese subject imports undersold U.S. producers in 72% of the quarterly comparisons
 2. During this sunset review, direct imports from China undersold the U.S. producers in more than one-half of the quarterly price comparisons
 3. Prehearing Brief indicates the very low-priced offers at which Chinese direct imports are available
 4. Commerce Department determined that termination of the order would likely lead to continuation or recurrence of dumping at a margin of 155.89%

Price Effects

5. High degree of substitutability between U.S. and Chinese glycine means that new flows of low-priced Chinese imports would depress U.S. producers' prices
6. The transshipments of Chinese glycine through India are themselves exerting negative impact on U.S. prices
7. Current importers and purchasers of glycine have stated that they believe revocation of the order will result in significant price effects

Price Effects

Importer/Purchaser Statements

- *“We will probably buy more Chinese material because they will be lower in price.”*
- *“...I would expect price reduction due to increase availability of Chinese material in the U.S. market.”*
- *“We would expect the cost of the material to decrease.”*
- *“As a distributor we would probably shift our buying from the U.S. producer to the Chinese producers because their cost would be better.”*

Price Effects Importer/Purchaser Statements

- *“Thus we think that if the dumping duties were lifted, pricing would erode even further and most likely in our estimation to around \$1.40/lb duty cleared USA...”*
- *“We would start buying from China again...”*
- *“{It} will improve our gross margins by reducing the cost.”*
- *“In case of order revoked, there is possibility the pricing of glycine from China will become more competitive.”*

Price Effects

- Relatively few end-user purchasers comprise the U.S. market
- Each such purchaser has significant negotiating power in its ability to shift blocks of consumption between domestic and import supplies
- Therefore, such comments bode poorly for domestic producers

Impact on The Domestic Industry

- Revocation likely to lead to adverse impact on domestic industry:
 - Increased imports of low-priced, interchangeable Chinese glycine would be very attractive to U.S. purchasers
 - U.S. producers would either lose sales volume directly or be forced to cut prices
 - Lower shipment volume would reduce production volume and reduce capacity utilization
 - Increase in per-unit production costs in conjunction with reduced prices would reduce or eliminate profit margins

Impact on The Domestic Industry

- It is likely that revocation of the order would force the cessation of U.S. production of glycine within a reasonably foreseeable period
- The jobs associated with glycine operations would ultimately be lost
- The excess capacity of the Chinese glycine industry and the conditions of competition make U.S. producers highly vulnerable