Before the
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

IN THE MATTER OF **CITRIC ACID AND CERTAIN CITRATE SALTS FROM BELGIUM, COLOMBIA, AND THAILAND**	**ITC Inv. Nos. 701-TA-581 and 731-TA-1374-1376 (Final)**

TESTIMONY OF CHRIS AUD

May 14, 2018

Good morning. My name is Chris Aud. Since 2013, I have worked at Cargill as Assistant Vice President, Cargill Starches and Sweeteners, Acidulants Product Line Manager. My main responsibilities in that capacity include leading the Citric Acid business for Cargill Starches and Sweeteners North America.

Cargill is a privately held, family owned company that celebrated its 150th anniversary just a couple of years ago. Founded in Conover, Iowa, Cargill has grown into an international company that produces and sells agricultural-based products, like citric acid, all around the world. For the U.S. market, we produce and sell citric acid and citrate salts out of our facility in Eddyville, Iowa. Our Eddyville plant is part of an integrated Bio-Refinery and corn processing complex, which provides approximately 1,000 well-paying jobs. The Eddyville citric acid

plant uses a share of the dextrose produced in the adjacent corn wet milling complex as the fermentation carbohydrate source for citric acid production.

While modest in its location in South Central Iowa, Eddyville is connected to a truly global market. Citric acid is globally produced and traded. The demand side of the equation is also global. The largest citric acid purchasers are global in nature and scope. They have offices and buying agents in foreign countries and purchase citric acid from non-U.S. producers for consumption in many different markets, including the United States. They are well aware of the world's supply and demand, pricing, and availability of non-U.S. citric acid.

They are motivated to obtain the lowest prices, because almost all citric acid is interchangeable regardless of source or end-use application.

Three of the major exporting countries are Belgium, Colombia, and Thailand. For these countries, the total production capacity for citric acid far exceeds domestic consumption. As a result, all three countries are major exporters, and due to the orders on imports from China and Canada that were imposed in 2009, prices in the U.S. market were higher than elsewhere in the world for a few years. That all changed, however, when the Chinese producers responded to the U.S. orders on imports from China by establishing production facilities in Thailand. Niran started producing in Thailand in 2010, Sunshine Biotech started production in 2011, and COFCO started production in 2013. All of these Thai

producers are affiliated with Chinese producers, and all were established in Thailand after the orders on imports from China were imposed in the United States. There are only a handful of Chinese producers that are world-class and can compete with domestic producers for the largest U.S. customers. But it was these world-class Chinese producers that shifted production to Thailand in order to circumvent the orders in the United States. It is a classic "whack-a-mole" situation, and the imports began to have an injurious impact in 2014.

Like the imports from Thailand, the Colombian producer has taken advantage of the effectiveness of the U.S. orders on imports from China and Canada and filled the void with low-priced citric acid. The U.S. is now by far the leading export destination for Colombian citric acid.

With respect to Belgium, Citrique Belge has also taken advantage of the relatively higher prices in the United States to dump its excess capacity in the U.S. market. Although the volume of imports from Belgium is not as high as those from Thailand and Colombia, the merchandise is being dumped at significant margins and is just as injurious as the Colombian and Thai imports, given the high degree of fungibility of imports from all three countries and domestic production.

Because citric acid producers strive to run their plants at full capacity, there are powerful economic incentives driving producers in Belgium, Colombia, and Thailand to price below their fully absorbed cost of production. Every year during

the period of investigation, our customers received extremely and increasingly attractive price offers for subject imports. This downward price pressure has resulted in numerous lost sales and revenues, with the expected and harmful impact on our bottom line.

After minimizing investments in our plant due to declining profitability caused by imports from China and Canada, Cargill made significant investments after those orders were imposed that enhanced our productivity and expanded our capacity. We also increased our investment in general plant maintenance to be able to reliably and consistently supply customers. Unfortunately, the surge in low-priced subject imports that started in 2014 prevented us from achieving the expected return on those investments. This forced us, again, to curtail our investments and to postpone a number of plant maintenance projects. Fortunately, the imposition of preliminary duties in this case has brought citric acid prices back to sustainable levels. As a result, we have already started to reinvest in our plant and to work on the backlog of maintenance projects. However, without final relief from dumped and subsidized prices, Cargill will, once again, be forced to reduce investment in these same areas.

At Cargill, we focus our customers on what we believe is Cargill's superior supply reliability and service. But the reality is that price is the overwhelming driver in the market for this product. Price in this market is magnified by the way

in which most citric acid is bought and sold in the United States. In November and December of every year, Cargill, along with other U.S. producers and importers, negotiates with purchasers to sell most of our total output for the following year. Because most sales are negotiated well in advance to cover a one year period, performance related to non-price factors – such as quality, delivery, availability, timeliness – is a given. If you are large enough to warrant a place at the negotiating table, then purchasers assume you can deliver quality product, on time.

Because we must sell a substantial percentage of our output for the following year within a very short window near the end of the year, a few large customers have tremendous negotiating leverage. While the annual contracting process begins in the early fall, with discussions about volumes and price trends, at some point toward the end of the year Cargill and other sellers must meet the customers' price requirements in order to book sufficient volumes to keep our plants operating. If one producer misses out on a major sale or two early in the selling season, the pressure to lower prices to make up the lost volume can become enormous. Thus, just a small amount of incremental volume, if offered in this contract market at low prices at a critical time in the negotiating season, can shift the market dynamics decidedly against all suppliers.

An issue that has been raised in this investigation is the impact of demand for citric acid that is marketed or labeled as not genetically engineered or modified,

also known as "non-GMO". Currently, there are different and competing definitions and certifications used in the marketplace to label products as "non-GMO". The citric acid produced by Cargill, which contains no detectable GMO DNA, has been certified as non-GMO by the global testing and verification firm SGS. Another standard present in the U.S. market is the Non-GMO Project standard. In contrast to the SGS standard, the Non-GMO Project standard does not allow GMO derived fermentation nutrient sources (e.g. dextrose) above a threshold of 0.9 percent. Because the U.S. CACCS industry relies heavily on U.S. grown field corn for its nutrient source, it does not meet the Non-GMO Project standard.

Despite the proliferation of definitions and certifications for "non-GMO", actual demand for citric acid where a non-GMO label is required is very small. Almost all demand in the United States is GMO-indifferent. A vast majority of beverage uses for citric acid do not require a non-GMO certified product, and over 20 percent of the citric acid sold in the United States is used in detergents and for industrial purposes that do not require a non-GMO product at all. For the vast majority of sales in the market, whether citric acid qualifies as non-GMO under a specific standard is immaterial. Indeed, citric acid that is labeled as non-GMO under one standard competes against citric acids without such labeling and citric acid that is labeled as non-GMO under another standard.

We conservatively estimate that the market for non-GMO citric acid (which includes product sold under any definition or certification, not just the Non-GMO Project standard) accounts for, at most, 5 percent of the total U.S. market, but the actual level of demand is most likely significantly lower. Certainly, demand for Non-GMO Project standard citric acid is considerably lower than 5 percent of the market.

The lack of clarity in the market is compounded by the absence of an official definition from the U.S. government. While the United States Department of Agriculture released a proposed rule for a National Bioengineered Food Disclosure standard earlier this month on May 4th, we estimate that it could take up to a year (and perhaps longer) before the final rule is rolled out.

We currently make a non-GMO product. We believe that the USDA definition will help bring clarity in the market and that our product will not be defined as a GMO product under the final rule promulgated by the U.S. government. The domestic industry has the ability, albeit after significant investment, to alter production processes to make citric acid to any specific standard it does not already meet. There is no business case to change our processes or invest our resources to meet the Non-GMO Project standard, however, because there is not significant demand for this product in the United States and the product does not command a price premium.

Given the global nature of the citric acid market, the large available capacity in the subject countries has an impact on the negotiating behavior of both the major purchasers and the sellers in all markets, including the United States, regardless of the issues surrounding non-GMO product. In recent years, additional supplies of lower priced imports from Belgium, Colombia, and Thailand have shifted the existing supply/demand balance in the United States and have caused U.S. prices to fall rapidly. Because prices in the United States are still higher than the rest of the world – due to the orders on China and Canada – the subject producers have increased their sales to large volume customers in the United States by using aggressive and unfair pricing.

The market impact of the overcapacity in the subject countries and the increasing imports is not lost on our major customers. They enjoy a clear view of product availability and pricing from the subject countries. Unrestrained import pricing from Belgium, Colombia, and Thailand in the U.S. market has caused material injury to our citric acid business. Without relief on imports from Belgium, Colombia, and Thailand, the volume of imports will continue to increase, and prices will continue to fall. We will lose more volume to subject imports that undersell our product, resulting in lost sales volume and overall revenue. The negative impact on our operations has already been significant. The lower market prices caused by increased underselling by subject imports have placed our citric

acid operations at risk. Continued volume losses compromise our ability to operate at the high levels of capacity utilization that are necessary, and lower prices and profits have translated into a reduction in investments in our assets.

Since the preliminary duties were imposed in January of this year, market conditions have improved significantly. Without final duties on imports from Belgium, Colombia, and Thailand, those recent gains will be reversed, and continuation of our citric acid operations will be in doubt. We respectfully ask the Commission make an affirmative determination in these investigations.

I look forward to responding to your questions. Thank you.