UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation Nos.:
XANTHAN GUM FROM AUSTRIA	)	731-TA-1202 and 1203
AND CHINA	)	(Preliminary)

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Tuesday,
June 26, 2012

Main Hearing Room
U.S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, CATHERINE DeFILIPPO, Director of Investigations, presiding.

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P R O C E E D I N G S

(9:30 a.m.)

MS. DeFILIPPO: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping duty investigation No. 731-TA-1202 and 1203 concerning imports of Xanthan Gum From Austria and China.

My name is Catherine DeFilippo. I am the Director of the Office of Investigations, and I will preside at this conference. Among those present from the Commission staff are, from my far right, Elizabeth Haines, the supervisory investigator; Cynthia Trainor, the investigator; to my left, Gracemary Roth-Roffy, the attorney/advisor; Clark Workman, the economist; and Michael McConnell, the industry analyst.

I understand that parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones. We also ask that you state your name and affiliation for the record before beginning your presentation or answering questions for the benefit of the court reporter.

Finally, speakers will not be sworn in, but

are reminded of the applicability of 18 U.S.C. 1001 with regard to false or misleading statements and to the fact that the record of this proceeding may be subject to Court review if there is an appeal.

Are there any questions?

(No response.)

MS. DeFILIPPO: Hearing none, we will proceed with opening statements. Mr. Clark, I believe you are doing the honors. Welcome, and please begin your opening statement when you are ready.

MR. CLARK: Thank you, Ms. DeFilippo and members of the Commission staff. Good morning. We appreciate the opportunity to appear before you today. For the record, my name is Matthew Clark of the law firm Arent Fox. I'm joined as counsel today by my colleagues, Matthew Kanna and Nancy Noonan.

Appearing with us as witnesses today are Mr. Charlie Bowman, the Vice President of Marketing for CP Kelco, and Mr. Didier Viala, the Vice President of Innovation & Capabilities. We are also joined by Mr. Jim Dougan of Economic Consulting Services.

The record in this preliminary investigation that you have already developed and the information you have received in the form of the petition, questionnaire responses, the research that you're

doing, coupled with the testimony you will receive this morning, will create a clear outcome for this preliminary investigation, which is an affirmative determination that there is a reasonable indication that a U.S. industry has been materially injured and is threatened with material injury by reason of the subject imports of xanthan gum from Austria and from China and that those imports are not negligible, the two factors, for a preliminary determination.

On this question of negligibility, there's no debate to be had in terms of the volume, the first of the statutory factors that you must consider, the volume of subject imports cumulatively, and you will evaluate them cumulatively because there is no basis not to cumulate the subject imports. Those imports are material. In fact, imports have increased.

The evidence of record will establish that imports have increased absolutely and they've increased relatively relative to U.S. production and relative to the growth in the U.S. market, and the U.S. market has been growing, but imports have grown faster, which of course means that subject imports have captured market share at the expense of the domestic industry.

Price. The second consideration among the

statutory factors that you will evaluate. The evidence and the testimony that you will hear today will establish that there has been widespread price underselling by the subject imports, that subject import prices have declined over the period of investigation, that import prices have declined even during periods when raw material costs, most prominently corn, were increasing rapidly, so the evidence of record will support findings of both price suppression and price depression.

The impact of subject imports. The evidence you've already adduced and the testimony you will hear today will establish evidence of the impact of subject imports in the form of plant closings, the curtailment of production, the idling of production lines, lost jobs, decisions to curtail and to cancel capital investment all in response to subject imports.

The testimony will take you through the history of CP Kelco's involvement with xanthan gum and the xanthan gum market as the originator, the first commercial producer of xanthan gum. You'll also hear testimony today that will tell you of a multi-year effort to respond in the commercial world to the price pressure of unfairly traded imports from Austria and from China and the efforts that CP Kelco has gone

through over many years to face ever increasing, ever accelerating low-priced competition from subject import to the point where this case was brought because there are no longer commercial solutions. This history will be shared with you today during the course of our presentation.

There are a couple of legal points that you will hear developed as well. Xanthan gum is a powerful, multi-purpose hydrocolloid. It demonstrates remarkable functionality across a range of application, hence its ability to be used concurrently in oil field drilling, in toothpaste and in pharmaceutical applications. It is unique among hydrocolloids, and we will spend some time today teaching and informing you about the properties of xanthan gum.

Xanthan gum delivers all that functionality around a single molecular structure. Whatever may be the application, the molecule is undifferentiated and it is undifferentiated by country of origin supporting both cumulation and the reality that there is a single like product consisting of xanthan gum. Though there are different end users, those end users are using the same functionality. They're using the same molecule without regard to end use category.

And finally, we will comment briefly also on evidence of threat. The record will demonstrate that in addition to the material injury already suffered the threat overhanging the industry which has led to the curtailing of capital investment is real, is imminent and is material. Thank you for your time.

MS. DeFILIPPO: Thank you very much, Mr. Clark.

We will now have opening statements on behalf of Respondents. Mr. Barringer, I believe you're doing the honors. Welcome, and please begin when you're ready.

MR. BARRINGER: Thank you, Ms. DeFilippo and to the Commission staff. I'm Bill Barringer, a partner in Curtis, Mallet-Prevost, Colt & Mosle representing the Chinese Respondents in this proceeding. I'm presenting these opening remarks on behalf of all of the Respondents in the proceeding.

As you know, there are a limited number of producers of xanthan gum in the U.S., in China and in Austria. This makes it almost impossible to discuss detailed data without disclosing confidential information in a public statement. Consequently, these remarks will attempt to direct the Commission to issues of importance without providing the specifics

which necessarily must remain confidential. As such, this identifies issues, but does not attempt to address these issues fully because to do so would result in the disclosure of confidential information.

Respondents' overriding concern is that the portrayal of the market by Petitioner is distorted. This distortion begins with the very concept that the xanthan gum market is a national market, not a global market. The largest volume purchasers in both the U.S. and global markets, both in food and in oil field markets, all operate globally and purchase xanthan gum for supply on a global -- not a national -- basis and pursuant to long-term contracts.

Thus, pricing is a global phenomenon, not a national phenomenon. Even to the extent that sales are on a national basis, these prices are influenced by the global purchasers because of competition at the end user level.

Second, Petitioner's portrayal of the market as being for a homogenous product is a misrepresentation of reality. There are both product segments and geographic segments which differentiate the market and permit producers such as CP Kelco to go after the high value segments and not the commodity segment of the market.

For example, sales of xanthan gum to Japan are primarily to the food and beverage market, and the quality requirements for this market are more stringent than any other market. At the same time, the prices in this market reflect the higher quality requirement.

Clarified xanthan gum is a segment of the market in which costs of production are higher because of the use of corn syrup rather than corn starch in production and in which prices are also higher. As the technology leader in the industry, CP Kelco has tended to focus on markets for higher value products rather than on the commodity markets. Thus, a key issue in this investigation is to what extent CP Kelco's business strategy of concentrating on higher value markets rather than commodity markets has affected the growth in its production and shipments and market share.

While we cannot discuss the details in a public hearing, there is also a real question as to the issue of capacity and capacity utilization in the xanthan gum industry. What we know is that the increase in capacity primarily in China has been substantially less than the increase in demand for xanthan gum.

What can also be demonstrated from public sources is that CP Kelco shut capacity at a plant in the United Kingdom because the plant was inefficient and obsolete, shut capacity in San Diego because of environmental issues and experienced production problems in Oklahoma because of other events. All of this was unrelated to imports. We will address how these events affected its overall performance in our postconference confidential submission.

Ultimately Petitioner's filing of a petition claiming injury at this time appears to be generally contradicted by what is going on in the xanthan gum industry and market. The fact is that the xanthan gum market is expanding, both in the U.S. and globally, oil field demand has been increasing rapidly, the demand for xanthan gum for food and beverage applications is expanding rapidly in developing markets and is at least stable in developed markets, and xanthan gum is being substituted for guar gum as guar prices have gone from under $1 to over $10 a pound.

In short, this is not an industry in distress. Objective indicators such as production, capacity utilization, shipments and prices all reflect positive trends, trends which can be expected to

continue in the future. Thank you.

MS. DeFILIPPO: Thank you very much, Mr. Barringer.

We will now move to the direct testimony for Petitioners. Mr. Clark, if you and your group would join us at the table? Please feel free to begin when you're ready.

MR. CLARK: Good morning. We're going to go directly into our first witness statement, Mr. Charlie Bowman.

MR. BOWMAN: Good morning, everyone. For the record, my name is Charles Bowman. I'm the Vice President of Marketing for CP Kelco. I've been at this job since 2007 and have worked for CP Kelco since 2005. I've worked my entire career in the hydrocolloid industry and have been directly associated with biogums for 22 of them.

Kelco hired me straight out of college from Virginia Tech with a degree of Food Science and Technology, and I've been challenged with a number of rolls for CP Kelco from a chemist to a scientist, into sales, commercial business development, M&A and a wide variety of different applications.

In the world of hydrocolloids, it always starts with what we call the structure function, and

that's something that's very unique within xanthan gum. This polymer -- and everyone in this room that's associated with xanthan gum has seen with just a simple powder and some water you can transform what was a thin solution into something that can stabilize. It can thicken. It can suspend rocks.

It can be in very adverse environments such as toothpaste, and ultimately what you're finding is this suspension and stabilization, this overall shear thinning structure that comes out, gives the unique properties that we call xanthan gum.

This industry came about as scientists working at the USDA discovered xanthan gum in 1959 on a leaf of a cabbage. Later that technology was licensed by CP Kelco and actually introduced xanthan gum under the KELZAN brand in 1962. The first commercial applications were in the industrial market and were produced in San Diego, California. Later CP Kelco pioneered and actually being a food ingredient company actually got xanthan gum approved as a food additive through the Pure Food Act of 1938.

As customers became more familiar with the benefits of xanthan gum the business grew and expanded, and in 1973 Exxon actually formulated a water-based mud, a drilling fluid, which used KELZAN

XC, which also expanded this market into the oil field markets. To meet this demand, in 1977 Kelco commissioned a greenfield facility in Okmulgee, Oklahoma, and later in the mid '80s acquired a fermentation facility in Knowsley, England, to meet the global expansion of xanthan gum.

Then later, in 2000, CP Kelco entered into a tolling arrangement with their former owner, Merck, which had a fermentation facility in central Pennsylvania. CP Kelco supplied its bacteria, its strain, its know-how, and they utilized this fermentation equipment to further expand its capabilities into the xanthan gum market.

The xanthan gum market continued to expand through this. In areas such as the industrial segment you'll see it contains things like textiles, oil field, agriculture, pigment and clay suspensions for paint, coatings and even in highly acidic areas like cleaners or alkaline areas such as oven cleaners.

The food market segment exploded during this period of time as processed foods expanded. New beverages and new innovations were coming online with the use of microwaves, ready-to-drink or consume beverages, single-serving entrees and even the ready-to-serve products that all benefitted from that

earlier conversation I talked about, that structure function that xanthan gum brought.

Later the consumer market segment started to expand as the pharmaceutical and personal care and the oil care markets where these consumer brand companies were looking to get away from synthetic compounds and actually formulate with natural chemicals because it was a consumer preference to have those. All these factors combined to an expanding market for xanthan gum, and CP Kelco's role was to continue to invest and to expand the use and the opportunities. We used to call it just make the pie bigger. That's the growth mode that you would come through.

Xanthan gum being an all-natural, biodegradable product fit well within the biotechnology industry and actually was one of the pioneers, and it's to the best of my knowledge with the familiarity that I have with the marketplace, with my 20 years in the hydrocolloid industry, 20 plus years.

In terms of sustainability and productivity, CP Kelco is the leader in the hydrocolloid industry. It is the leading xanthan gum producer. We're more efficient with the use of our raw materials. We get higher yields, and we operate in safe environments for

our employees and our communities.

But by 2005, this robust and healthy market had started to change. Chinese competitors began to employ a low-priced strategy in aims of penetrating and gaining market share in the United States. In that year there was an onslaught of low-priced Chinese xanthan gum in the industrial segment, as I defined earlier. This segment is the oldest and contained some of the lowest value points for market entry.

The food and beverage market is another segment, but requires additional QC and fitness for use such as microbial, heavy metals, even kosher and halal certificates. This market was initially out of reach for the Chinese producers until Deosen actually cracked the code and penetrated some global key accounts that translated into the North American market.

Deosen continued penetration more and more into these accounts by supplying not CP Kelco, but a product that was good enough in fitness for use for the U.S. and beverage market. CP Kelco responded to this onslaught of low-priced Chinese xanthan gum in a number of ways, initially by focusing on expanding our food and beverage businesses at a faster rate while maintaining our market share. In the industrial

segments we even customized private label products, new products, unique technologies that we had for our top customers as a means to increase the innovation, but to expand that market and give our customers a competitive advantage.

Ultimately, CP Kelco began to attempt to differentiate our xanthan gum products to maintain and justify our selling prices, but every innovation we made was countered by a low-priced, foreign-produced xanthan gum. Over time, both the Austrians and Chinese replicated our product innovations, while always using low price as their competitive advantage. These low prices from Chinese and Austrian producer Jungbunzlauer fully seized these opportunities and used their me-too marketing strategies that simply featured an alternative to the CP Kelco portfolio and always at lower and sometimes significantly lower prices.

This is evidenced by the branding strategies of JBL and FuFeng, a leading producer in China, as neither company attempted to brand their xanthan gum, but simply promote it as a commodity, xanthan gum with a low price. In fact, during the period of review this low-price strategy accelerated in spite of some pretty high inflationary pressures.

For example, the USDA publishes what the price of corn comes out in their statements. In 2009, the average price of corn per bushel was $3.70 a bushel. By 2011, that price was $6.20 a bushel. Now, corn is a key carbon source, as Mr. Viala will talk through in the technology around the fermentation. It's the feed. It's the sugar source of the xanthomonas.

During this period of almost a 40 percent inflation, we actually saw prices go down. We also saw some pretty heavy other increases in raw materials, which we'll talk about in a second. But the largest xanthan gum producer, FuFeng, continued to drop their prices and said so publicly in their annual report on numerous quotations that we put into the petition that confirm what has been said and found to us to be painfully obvious.

Over the past seven years, FuFeng has adopted one competitive strategy: Even higher production volumes combined with even lower pricing to expand and to grow their market share. Their innovation is to extract from others and not to expand the market for xanthan gum.

As we have been monitoring this situation over the past five years, we've gradually seen FuFeng

make attempts to penetrate the food and beverage market after they and other Chinese producers decimated the profitability of the U.S. produced xanthan gum sales in the industrial and oil field markets.

As far back as 2006, we realized our market position could not be sustained unless dramatic action was taken. As Mr. Clark articulated, our efforts intensified to reduce our cost, to reshift our product offering. We began a series of actions to maintain our market share. Our first action was actually to source xanthan gum from Deosen, from China, as a means to supplement and to blend in to extend our product, but to lower the cost. We later licensed and outsourced some of the leading brands, KELZAN XCD, as a means to maintain market share and hold onto its brand reputation in the industry.

In the second half of 2006, CP Kelco had acquired a xanthan gum plant in Wulian, China, in the hope of realizing the cost advantages that we had been experiencing in the marketplace. The initial plan was to mix production in San Diego and Oklahoma facilities and focus these markets into the food and consumer segments while producing lower cost xanthan gum for the industrial segments out of our Wulian, China,

plant.

That strategy was simply not successful because of the unrelenting price from competition from imports as they pushed the Wulian operations underwater. By the end of 2006, CP Kelco prematurely ended its tolling arrangements for xanthan gum production at Merck's Pennsylvania fermentation facility because the product was no longer competitive into the marketplace. Shortly thereafter, that facility ceased production of xanthan gum.

In 2008, CP Kelco shut down its Knowsley facilities in the United Kingdom and shifted all manufacturing focus for xanthan gum into the U.S. market while we've tried to fix what was going on in the Wulian facility to be competitive in that marketplace. We were essentially forced to abandon the European xanthan gum market in the face of predatory prices from JBL. That same year, JBL announced expansion of its production by approximately 40 percent and subsequently exported its me-too generic brands around the globe.

By 2009, caught in the pincher maneuver of price of Chinese product and low-priced Austrian, CP canceled capital investments in both San Diego and Okmulgee, shut down one of its lines in San Diego

which were operating. In addition, personnel were laid off. Employment levels were simply not able to be sustained. Ultimately we were forced to cede the majority of the industrial markets to the Chinese and the Austrian players. In that same year, Tate & Lyle completely shut down its xanthan gum facility in Decatur, Illinois.

Even with these reductions in production capacity, prices continued to decrease, going down so far that CP Kelco could not even cover production costs in many instances. In fact, if CP Kelco would have continued to maintain its market share at these imported low prices, we've calculated we would have lost nearly $85 million.

By 2009, the Chinese had aggressively moved up the value chain, now meeting the regulatory requirements of the food industry and creating an industry of good enough products which once served the leading brand of KELTROL. When faced with customers who still had concerns about the qualities of Chinese production, the Chinese simply reduced their price.

Additionally, JBL intensified their me-too market strategy by targeting our customers with their generic products, using price cutting and underselling to take our business across all market segments of the

industrial, the food and beverage and even in the consumer markets. Between the period of 2009 and 2011, global raw material costs significantly increased, not just in corn, but also in energy and in basic chemicals.

But by 2011, we began seeing Chinese imports of FuFeng and Deosen in the United States markets priced below the cost of our production in our own Chinese facility. It was at that point that we knew we were up against and could not long-term maintain our market strategy or profitabilities in the face of this competition. Our position was made even more tenable by JBL continuously undercutting us on price at every turn.

After having lost the industrial and oil field market and seeing our share in the food and beverage market erode after being tenaciously attacked, it was inevitable that we would eventually lose the food and beverage market to low-price imports in spite of new product innovations, market expansions and continued development. In 2011, for the first time we lost a consumer account to a Chinese manufacturer based on low price.

We've seen and felt the impact of this pattern of behavior in the past, repeating itself over

and over with the outcome easy to predict. The Chinese and Austrians will continue to follow us up the value chain using only their competitive leverage they have -- low price to gain market share. That is why we're here today.

Ironically, CP Kelco has been on both sides of this proceeding. We've sat on that side of the room and now on this side of the room. We do not file these petitions lightly because we understand this is really the last option you bring to the table. For seven years we have fought and used every competitive tool available to us. We've remixed our product line. We've changed our mix. We've even changed the aggressive production strategies to promote new segments in the industry.

We've innovated and expanded the market only to see our business lost to competitors who follow behind us with this me-too low-price strategy, offering nothing more than generic alternatives at a lower price. We've cut our cost to the bone and made significant investments in our production only to see our Chinese competition price their products below the production cost.

We ceded the European market to JBL in order to focus on our U.S. assets only to see JBL increase

its capacity and use the profits and sales in Europe to undercut its pricing into the U.S. Our best competitive efforts cannot in the long term maintain our profitability.

If protection against illegally priced imports from China and Austria is not provided, we will eventually have to face the inevitable of further layoffs and the potential closure of San Diego, eventually the closure of Okmulgee and potentially a complete exit of CP Kelco from the xanthan gum market, the company that actually started this business. This would be a cost of hundreds of jobs for us, significant asset writeoffs by CP Kelco and would negatively impact the communities in which we serve. The only question we have is not when that would happen. The timing of when that would happen.

That's the end of the initial stage of this presentation. You can go two slides ahead, and any questions I can answer I'd be more than willing to do so.

MR. CLARK: Our second witness is Mr. Didier Viala. And just picking up on Charlie's point, the slides that we gave you, the ones up on the screen, you have a duplicate in front of you.

The first two slides address points that Mr.

Bowman made. Then you have a timeline of CP Kelco's involvement and the competitive dynamic in the market. The second slide is the so-called value pyramid, the relationship of the market segments.

Behind that Mr. Viala will address some of the technical characteristics of xanthan gum as a hydrocolloid, and he'll touch on the points you see in the slides to come. So with that, I'll turn it over to Mr. Viala.

MR. VIALA: Thank you. Good morning. For the record, I am Didier Viala, Vice President, Innovation & Capabilities, for CP Kelco. I have 21 years of experience in the biogums and xanthan gum industry, and I've been working for Kelco and CP Kelco since 1991 in various roles from field technical support to sales management, business development and marketing.

As Vice President of Innovation & Capabilities, I am currently responsible for product and process technology, customer applications and support, with formulations of product into the applications, quality and regulatory affairs globally. This morning I'm going to take some time to explain what is xanthan gum and how it is used in different applications and in different markets.

As Charlie mentioned, Kelco was the first company to manufacture and commercialize xanthan gum. So what is xanthan gum? That's a polysaccharide, meaning a long, complex sugar chain made only of sugars, which is produced by fermentation using a carbohydrate source, most of the time corn derived, and bacteria. The strain, called Xanthomonas campestris, is unique for xanthan gum and is what brings the functionality of xanthan gum, which is what again we sell to the markets and to our customers, and we'll see a bit later what it means.

So this xanthan gum is one of the members of the larger family of product called hydrocolloids, and those hydrocolloids are a product that when in solution into water develop a functional property. That includes lots of other products such as guar gum, carboxymethyl cellulose or CMC, carrageenan and pectins.

I want to highlight that CP Kelco actually produces several hydrocolloids, other hydrocolloids than xanthan gum, so for us it's key to have a deep experience and understanding and knowledge of what xanthan gum brings versus other hydrocolloids and what is unique to that so that we can promote it and position it as to the other hydrocolloids.

So for xanthan gum itself, of all hydrocolloids it's really a unique one, and that's due to a combination of a unique rheology, and that's the viscosity, the deformation, what it does when you put it into water, how thick it is, how fluid it gets, how suspended it is. That's a unique functionality, but also a unique stability, and that's why we think that when it is used it can outperform any other hydrocolloid in the industry in the end use application.

If we look at the slide that we have here, we are featuring some of the key properties of xanthan gum. It starts with rheology, as I said, with a very high viscosity. Go back one slide, please. With a very high viscosity, a low concentration, but also a very high viscosity when we don't shear the product, meaning at rest.

So we mentioned that when you want to stabilize a product it doesn't have a lot of shear because the product is just there sitting in a bottle or a product so it's at rest and has a very high viscosity. Now, if you apply a force to that -- you want to pump it, you want to spray it, you want to pour it out of the bottle -- then you apply more shear to it and then the viscosity drops dramatically so

it's easier to pour.

But as soon as you stop that, applying this force, this shear to the product, then the viscosity recovers, meaning you can spray it and stop having the high viscosity, but as soon as it gets out of the nozzle it will recover the viscosity, which stabilizes the emersion, which suspends the airs. It would be doing that immediately. This is very, very unique in the marketplace. None of the other hydrocolloids do have the same functionality.

So when you look at the comparison chart, and we took that out of some well-known universities and it's kind of public knowledge. If you look at the right-hand column, the Pseudoplasticity, which is the shear thinning of the plastic behavior, we say xanthan gum is having this characteristic obviously. Some others, such as CMC, are known to have an equivalent one, but it's not as remarkable as for xanthan gum. We are also a manufacturer of CMC, and we know how to position those and how to compare them. When we need to look at elasticity or strengthening, we promote xanthan gum, not CMC.

Same comment. If you look at the stability of it, and these tables show a very high ionic strength of heat. You can heat treat product. It

would be stable and not degrade during that. You can sterilize it, pasteurize it. Even in cans it will remain stable. It's stable to pH.

Why is it important? You have some products that are low pH because they have acid in that. If you take a cleaner you have a descaling property so you use some acid to actually kind of solubilize the lime or the carbonate there so that it washes well, but you want that to be stable in the product itself. Xanthan gum brings the viscosity so that it clings to the bath or tub or the toilet bowl, and the acid can then do the magic and dissolve the calcium carbonate.

If xanthan gum were not stable to this low pH it would degrade. It would be very thin and like putting water, and then it would wash on and would not clean. That's one of the key applications to that. So the same thing. We say xanthan gum is stable.

You see there are other products, and if you look at the guar, the second line, guar gum is known to be stable as well, but again nothing like xanthan gum. If you look at high ionic media at low pH, at temperature, by far xanthan gum is the most stable hydrocolloid. And again, I mean, that's why we're promoting it in some applications. That's why customers liked it. That's why the market has been

growing because of this specific functionality. So again, I mean, a very, very unique product.

So what we call this combination of functionality is what we call the function. And why is that? It's because of the molecule itself. And this relation, and you heard Charlie talking about that. This relation in between the molecule and how it is and the functionality is what in the industry, in the jargon, we call structure function, meaning that a different structure in molecule will not have the same functionality. So that's another structure function.

All right. And this unique structure function comes from the bacteria itself, the bacteria that makes the molecule, and any Xanthomonas campestris manufacture the same molecule. So this structure function is really what drives the end market, what drives the customer adoption and formulation, and that's why as the pioneer of xanthan gum that's what we've been promoting over all those years actually.

If you would go to the next slide, please? So as we say, this offers really unique features from stability and viscosity at an extremely low use rate. Typically in an application you're talking about .1

to .3 percent, so a very low concentration in that. Some applications are even lower than .1 percent.

As we said, this rheology of shear thinning, absolute plasticity, which is the product getting less viscous when you apply a force to it or a shear and then it recovers immediately, it's very unique to xanthan gum and its regains its original viscosity immediately when the shear force is removed. And also because of the stability it maintains its viscosity and unique characteristic under extreme stress and different media.

Again, no other hydrocolloids or even synthetic polymers derived from petroleum products and manufactured by chemical processes, none of those offer this unique sort of high performance structure function characteristics. That's what makes xanthan gum unique. That's what made it successful over the years.

So again, I mean, it comes from the molecule itself. I don't want to go into many details in there and bore you to death, but what we have there is when you look at the backbone itself to the left on the chart, and I'm talking about this slide here. We have a cellulosic backbone, so essentially this will be the same as CMC.

Now, what makes xanthan gum unique is here is the side chains that you see. Those side chains are made of only three sugars, and that keeps repeating that so this pattern in the xanthan gum product repeats like 2,000, 5,000 times, okay, and that makes it very unique because they are charging to that. So if you look to the right at a representation into space in three dimensions you see this big backbone here and there, but the side chain is wrapping up around the backbone, and that's what is protecting it and that's what the bacteria actually makes.

So if I take CMC I've got the backbone, but I don't have the side chains. So you've got acid hydrolysis. You've got enzyme attacking it. That's why CMC is a fragile molecule. Now, when I wrap it with those side chains I protect it so the enzyme cannot go and attack and cut the link here in between the glucose units. The pH can undo the acid hydrolysis, and the temperature one, it helps keeping the molecule there.

It also when it's at rest there gives very, very rigid molecules, and that's why the viscosity is high. When I shear it those molecules can move because you don't break anything. That's why the

viscosity drops. And then you stop and it recovers immediately. So again, I mean, it comes. We can go from the molecules to the function and actually from the bacteria to the molecule to the function.

Okay. So really what we see in all markets is xanthan gum. And regardless of the market in which it is sold, this is the same functionality so the specific end use application corresponds to this list, and this is the same molecule and the same structure function and the same functionality that we are delivering.

So, I mean, I drew the example of a toilet cleaner earlier, but whether it is sold in a toilet cleaner, in a drilling mud, in a salad dressing, in a low-calorie beverage, in toothpaste -- sorry for those comparisons -- that's the same, including pharmaceutical products when you need to suspend antibiotics. We're just selling the same functionality, and basically we're using the same molecule.

However, and that's to reassure everyone, obviously the quality requirements and the compliance requirements are different depending on the industry you're selling to, so that's the same molecule with slightly different specifications. Obviously the

different market segments for xanthan gum are regulated, and those regulations are largely the results of government offices and regulation. They are not again the result of performance differences in between the grades that we're selling. It's just that the regulations are different.

For example, we are selling consumer and food and beverage applications are grades that could be used in the oil field, right? You can go from there to there. However, what we sell in the oil field or industrial application we could not sell in food and beverage. I think, I mean, it's logical. We could formulate the product that would be as stable as the one, but obviously they would have impurity or they will have bacteria counts or antigens that you don't want to have in food and beverage. But the functionality would be the same. It would work.

If you would go to the next slide, please? If we look at the bottom of the value pyramid with industrial and oil field applications, those markets are regulated by the Environmental Protection Agency, the EPA, and that's essentially because of wastewater treatment regulation. It's what we do with a product, where it can go and how it reacts. As Charlie said, this is a biodegradable product, so it's very widely

approved.

But the most important distinction between the xanthan gum normally used in the oil field and industrial market and the one used in higher value segments is that there is no minimum requirements for microbiological counts. What we use in the industrial and oil field we normally don't even specify to our customer what the microbiological content is of the product. Again, people are using preservatives or they're using very high temperature or they're putting on the soil where you've got lots of bacteria already, so that's not an issue, so we don't have to do that.

So the xanthan gum manufacturing plant that's not ideal to good manufacturing practices, known as GMP or CGMP most of the time or that doesn't have the similar quality control measures cannot be used in food and beverage application or toothpaste or personal care or pharma but obviously can be used in oil field and industrial.

So that's really the first trench and that's why we put it at the bottom of the pyramid. It's there is no GMP, no constraint. However, again, it still provides the same structure function. It's just that you have potentially additional unwanted bacteria, contaminants, heavy metals or foreign

materials in the product.

Now if we move up on this pyramid and go to the food and beverage, in order to improve the quality of xanthan gum so that it can be sold and used into the food and beverage market segments then the producer must more tightly control the production process in order to assure that the final xanthan gum product provides the same structure function, but at the same time does not contain dangerous extraneous bacteria, pathogens, yeast and molds, foreign matters, heavy metals or what the requirements are for food and for actually regulatory compliance.

So it has nothing to do with changing the functionality of what we call the structure function. It's only that we need to concentrate on maintaining a clean production, that we need to test raw materials better and that we need to have all the standard operating procedures in place and the expertise to control the fermentation process, making sure that only Xanthomonas campestris can grow.

Imagine that we have a lot of sugars, carbohydrates in the fermenter, so any bacteria loves that. So you tend to have other strains that want to compete and grow in there. To make food grade you really want to be very, very, very careful and have a

noncontaminated fermenter and allow only Xanthomonas campestris to grow so that you don't have any other things in there.

So that requires kind of to run very clean, to have some further attention, some more stringent standard operating procedures, but again the same basic process, same basic fermentation, same basic molecule idea. It's more other things that are in the fermentation broth that you want to control better.

And then once you have done the fermentation and you recover the broth, you obviously want to control it from this pint going downstream in the process up until the dry powder form. You don't introduce any other contamination, being bacteria, yeast and mold in products. So again extra attention, but fundamentally the same process.

So when we're talking about food and beverage now, those products are not regulated by the EPA, but instead by the USDA, the United States Department of Agriculture, in the case for milk, meat, poultry and seafood end use applications or directly by the Food and Drug Administration for food, beverage, pharma and cosmetic applications.

So again, those regulations are in place not to guarantee the functionality at all. They're just

in place to protect the U.S. public from poor quality, meaning contaminated somehow products. That's why they are in place, but they're not dealing at all with the functionality or the structure function of the product.

And now if we move to the top of this pyramid with what we call the consumer grade xanthan gum, it requires somehow to be the same as food and beverage, but more of that. And why is that? When you go into pharma or personal care products you've got active drugs or you have some very expensive cosmetic ingredients that you put in there, some sensitive formulation in terms of bacteria growth in there for the final product. So the norms and the customer requirements are even more stringent for that.

And you've got further microbiological tests, further impurity criteria or nonpresence of impurity criteria that have to be met, so that makes it even more difficult to comply. But again, I mean, extra attention, extra processing steps to cover through some standard operating procedures so that you have the right raw materials so that you make sure that every stage of the process doesn't include any impurities or any chance or potential for

contamination.

Okay. So again, I mean, increased process, decreased bacteria, yeast and mold counts and ultimately improved purity. Same function. Same structure. Same molecule as for the bottom of the pyramid, the industrial and oil field, and the middle of the pyramid, the food and beverage.

So those applications now, talking about consumer products, are only and solely regulated by the Food and Drug Administration and again in place to protect the U.S. consumer from adulterated products. So fundamentally that's how we would segment the market.

Now, if you want to look at the different grades or type of xanthan gum that are promoted there are different things to adapt to the customer to make the ease of xanthan gum easy in those applications, but essentially those are the same tricks that we're using in all segments. It's just how to put it in the water, how to formulate it into the products.

So those variations, and there are a number of those. I will go through the major ones, but there are plenty of them. But those variations I would say, they can be made to any xanthan gum. They don't change the structure function, and they are kind of

minor tweaks so that we can use the product.

For example, you can mill. I said it was a powder in the commercial form, but you can mill it at different particle size, exactly like at home you're using flour from different particle size. The finer, the quicker it will go in the solution and it will develop the viscosity, but it may create lumps. So depending on what equipment in the plant, the customers have to make it up. Actually they will with all the different particle size.

What you do is just take the fibers out of the driers and you mill them in different ones. So no big deal, and we give the customer the choice of what they want. If you make bakery mix, for example, you will use a very fine mesh because you blend it together with the flour and you want that to be evenly distributed. Again, we just mill it to a finer mesh particle size on the same equipment. We just decide which one we want.

What you can do is you can also coat the powder with other products so that in the chemicals for industrial and oil field, or that can be oil, food edible oils for food, so that you can put the product into water and you will hydrate immediately so it's easier to disperse without making any lumps. So you

can do that, but again that's at the very end of the process. You're having the same product. You take the powder out of the milling equipment and you add this coating to it. So that's a tweak that we do at the very end of the process to help the dispersion.

We can also try to tweak a bit the viscosity, but again that is xanthan gum. If some customer wants to have a high viscosity because they want to suspend things or they want to have it be lower so that it pools a bit better, we can vary that a bit, but not fundamentally. The pseudoplasticity or shear thinning will still be very, very dominant in xanthan gum.

We can also, and I think it was mentioned earlier, have some enzymatic treatment that can be used to clarify the product. If you take a native product and it starts out xanthan gum it will give a cloudy solution. It's okay if you have a milk drink or if you have a soup. It's not okay if you have a nice, clear toothpaste or a lotion in personal care.

So what we're doing there, and again that's the same molecule because you want to remove everything else but the xanthan gum from the fermentation broth because that's what gives the opacity. So what we do is when you do a startup

xanthan gum type you kill the bacteria obviously, but you leave the bacteria cells and the bacteria debris into the fermentation broth, and those small pieces of bacteria, dead bacteria, give the opacity of the product.

What we do to clarify it, we're using enzyme to actually degrade those debris so that they're not in solution anymore, and then you only have xanthan gum molecules, which are in solution, in the foggy transparent solution. But again you see that from starting out xanthan gum to the clarified xanthan gum this is the same molecule. You're just removing what is around the xanthan gum so that it's clear, okay?

So those are the tweaks that we can do and those are different commercial available grades that we've chosen in our sales force and Kelco's other force are choosing to meet the customer requirement. But again, I mean, the decision to push xanthan gum is coming from the structure function. Then we adapt what is the best type of xanthan gum for their needs because fundamentally again we're talking the same molecule and the same functionalities.

So that's for the technical part. Now, historically what have we seen when we consider this pyramid. Charlie mentioned in 2005 there was a

perception in the United States that the quality of Chinese made xanthan gum maybe was not as consistent quality or performance-wise as the one from U.S. or European manufacturers of xanthan.

In 2005, that may have been true from actual batch variation and that, so some were performing well. Some of them were not performing that well. But that perception actually changed dramatically over the past few years as Chinese producers have increased the quality and the reliability of the products and also simultaneously massively increased their production and reduced the price.

So what we saw is over and over in the U.S. actually is customers that were somehow reluctant to try those material, but actually were induced to test it because of very low price and found out that quality was I would say good enough or performance good enough and eventually converted to those.

Some of the customers stopped using U.S. produced xanthan gum and went directly to Chinese xanthan gum. Others actually tested Chinese product, but somehow were still, I would say, hesitant to buy or reluctant to buy, and that's where they were kind of still attracted by the lower price, and those were the customer segment that went to the low-priced

Austrian product. So I would say that you had a price trigger discussion, and depending on the level of risk or passive risk that those customers were willing to take they went with Chinese or Austrian based product.

But in every market what we saw that the Chinese have penetrated, again using price to open the door, we actually saw Austria following up and right after that offering up their own generic low-price alternative. You say you don't want Chinese, but you like the price? I've got Austrian, western-made product. Take it. That we saw, and we saw that starting in the industrial and oil field market, and we saw that going up the pyramid up to the level now in consumer products. So since 2005 I would say that was the tipping point, and then we saw that trend accelerate.

So in summary, we saw some xanthan gum flooding into the U.S. market originating from China and from Austria and sold into the same markets, the same customers using the same channels of distribution and somehow I would say of acceptable quality. That is the first point.

The second point is that the xanthan gum sold into the oil field and industrial market and the higher markets, again what makes the difference is not

the structure function or the molecule or the xanthan product itself. It has to do with the purity and the compliance requirement and the specifications of the product, not the structure function, and those specifications are anything like bacteria, total pellet count, yeast and molds, foreign material.

The last point. Most of the product coming from China and Austria are identical to the product produced in the United States and more and more identical, and the only difference that we see in those are the price.

So I thank you for the opportunity to appear this morning, and I would be happy to answer any questions you may have.

MR. CLARK: Thank you. We have just a few for closing remarks. My colleague, Mr. Kanna, is going to speak briefly about cumulation, and then Nancy is going to speak briefly about threat factors.

MR. KANNA: Good morning. For the record, my name is Matthew Kanna with the law firm Arent Fox. I just want to briefly discuss the issue of cumulation.

The statute provides for the purposes of determining material injury the Commission shall cumulatively assess the volume and effect of imports

of the subject merchandise from all countries with respect to which petitions were filed on the same day if such imports compete with each other and with domestic like products in the U.S. market.

In this investigation, the petitions against Austria and China were both filed on the same day, so we only need to examine the question of competition. In making the finding regarding competition, the Commission examines four factors: First, the degree of fungibility of the products. Second, the presence of overlapping geographical markets. Third, common channels of distribution; and, last, simultaneous presence in the market of the products.

Based on the evidence that we provided in the petitions and the testimony you heard today from Mr. Bowman and Mr. Viala, and the questionnaire responses that you have gathered, you will see that all four conditions have been met.

As Mr. Viala explained in his testimony just now, there is a high degree of fungibility between the xanthan gum manufactured in China, Austria and the United States. Producers in all three countries compete vigorously in the oil field and industrial market, in the food and beverage market, and now that competition is extending into the consumer market

segment.

Producers of subject imports and domestic like product do compete globally, but within the United States they do compete against all geographic regions. Products are sold through similar channels of distribution. The subject imports and domestic like product have been and are currently simultaneously present in the marketplace.

Because the statutory criteria for cumulation has been met, you should cumulate the subject imports from China and Austria in conducting your analyses of material injury and threat of material injury.

Thank you for your time, and I'll turn it over to my colleague, Ms. Nancy Noonan.

MS. NOONAN: Thank you. Nancy Noonan from Arent Fox.

We have established that the U.S. industry is suffering from material injury caused by the subject imports. I will briefly discuss the evidence on the record that shows that the domestic industry is also threatened with material injury by reason of imports of the subject merchandise.

First, the subject countries have unused production capacity or have imminent substantial

increases in production capacity which they will likely use to substantially increase imports of subject merchandise into the United States.

FuFeng, for example, has publicly announced its plans to increase its annual xanthan gum production capacity to 50,000 tons in 2012 to capitalize on its business opportunities. In our petition at Exhibit 1-10, we provided FuFeng's 2011 annual report in which they stated that.

Deosen has publicly announced on May 18, 2012, that it has reorganized its management structure to support high growth in xanthan gum sales in the United States. That article was provided at Exhibit 1-9 of our petition.

JBL in Austria has applied for a permit to expand its glucose production, which it converts to syrup to feed its citric acid and xanthan gum production operations.

Both subject countries are export oriented, and neither country has a significant home market. The United States is the largest market for xanthan gum in the world. It is likely, therefore, that the additional production will be directed toward substantially increasing imports into the United States.

Second, the U.S. producers have lost market share in a growing market, which indicates a significant rate of increase of the volume and market penetration by subject imports. Substantially increased imports are highly likely in view of the penetration into other market segments, as discussed by Mr. Bowman earlier today.

Third, imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices and are likely to increase demand for further imports. As we've already discussed, the subject countries have taken market share solely on price, and the U.S. producers have lost market share to subject imports in a growing market.

Finally, the subject imports will have actual and potential negative effects on the existing development and production efforts of the domestic industry. Already the U.S. industry has shelved capital expenditures in the United States and will continue to be unable to invest in its own industry unless price discipline is imposed through an order.

Prior efforts to develop a derivative or more advanced version of the domestic like product have simply led to subject imports undercutting the

prices on those products and taking the business. Both Mr. Bowman and Mr. Viala testified earlier today that every time CP Kelco innovates and offers a new product they shortly thereafter see the Austrians and Chinese producers coming in with a me-too product and taking the business based on price.

If nothing changes, the investment economics that now face the domestic industry are clear. Continued loss of market share and volume will preclude any further capital investment in the industry and will cause the eventual closure of current production assets. In short, while the record shows that the U.S. industry is being materially injured by subject imports, the record also shows that the U.S. industry is threatened with material injury. Thank you.

MR. CLARK: And that concludes our direct testimony. I'm happy to return to you the unused minutes, and we'll do our best to respond to your questions.

To the extent that your questions will take us into the area of confidential information, we'll note that and we'll expand or provide that answer in the postconference brief.

MS. DeFILIPPO: Absolutely. Thank you very

much, and thank you to the panel and especially to Mr. Bowman and Mr. Viala for coming today. It's always very helpful having the industry witnesses here.

Among the many things I learned, I learned I should have paid more attention in high school chemistry because the pictures were a little over my head, but I appreciate your explanation. We will turn to staff questions and start with Ms. Trainor.

MS. TRAINOR: Cynthia Trainor, Office of Investigations. Mr. Bowman testified that due to --

(Construction interruption.)

MS. TRAINOR: This is construction on our second floor bringing us a better facility.

That part of the production from San Diego, if I've gotten this correctly, was moved to the facility that was purchased in Wulian, China, to serve the oil well market. Am I understanding that correctly?

MR. BOWMAN: Sorry. Do I have to state the record?

MS. DeFILIPPO: We definitely need the mics today.

MS. TRAINOR: We definitely need the microphone.

MR. BOWMAN: This is Charlie Bowman from CP

Kelco. When we purchased the Wulian facility, the xanthan gum facility in Wulian, China, we had already had xanthan gum productions both in San Diego and in Oklahoma.

MS. TRAINOR: Understood.

MR. BOWMAN: What we did is we shifted our mix, our production mix around --

MS. TRAINOR: Right.

MR. BOWMAN: -- to help seize the opportunity that we believed was there with the low-cost production in a China facility that we would be able to have.

So we did shift some of the production from San Diego to Oklahoma, some of the Oklahoma production to Wulian, and honestly some of the material that went from Oklahoma was shifted to San Diego to get the optimization of the production mix.

Didier, you helped engineer that. Was there anything you wanted to add?

MR. VIALA: No. That was the plan to try and fight using the same tools somehow, but it didn't work.

MS. TRAINOR: Okay. You say it didn't work, and earlier Mr. Bowman cited that -- again, correct me if I got this wrong -- the Chinese plant was under

water --

MR. BOWMAN: Uh-huh.

MS. TRAINOR: -- currently.

MR. VIALA: At that time.

MR. BOWMAN: At that time. The strategy of producing -- excuse me. The strategy of producing xanthan gum in China for the industrial market was not sustainable in that facility in those grades that we were participating in in that industrial segment.

MS. TRAINOR: And other than the alleged pricing issues, are there any other reasons that there were problems with the issues in China? I mean, you don't have the EPA to deal with in China so that should be one regulatory issue removed. I don't know, but I would assume that the labor costs would be less and probably energy costs.

You probably can't answer this now, but posthearing could you please further clarify the problems with the Chinese plant that it was unable to sustain the strategy that Kelco put in place?

MR. BOWMAN: We can. We can address that in the questionnaire I think it's called.

MS. TRAINOR: Well, it's a little --

MR. BOWMAN: Postconference. The postconference questionnaire.

MS. TRAINOR: Yes.

MR. BOWMAN: We can address that part.

MS. TRAINOR: It's a little bit of a questionnaire, but I would like that flushed out further.

MR. KANNA: May I just add something to that? Matthew Kanna with Arent Fox.

I just wanted to make clear that the shutdown of the production line in the San Diego plant, that was not to transfer physical assets to the Chinese facility. The assets that were idled in San Diego are still in San Diego and could be brought back online.

MS. TRAINOR: Okay. Thank you very much for that.

MR. VIALA: There's one point that we can do in the public hearing is your comments about EPA. As CP Kelco, part of the general company, we would comply to EPA regulations even if we are making it in China because we have just one typical quality, and under the umbrella we would not go to the minimum requirements.

MS. TRAINOR: Okay.

MR. VIALA: I just wanted to react to that, and then we will come back on the rest.

MR. BOWMAN: It has to do with as much of our product quality and with the end use, but also the safety of our employees and the environments we went in.

We don't have one set of rules for one part of the world and another for -- we have one set of rules that we live by, but we'll expand on that in the postconference.

MS. TRAINOR: Okay. Just a second. Okay. Again, given the Chinese facility and your statement that again the strategy was to, if I understood it correctly, supply the oil well drilling market I'm assuming in the United States from that facility, why shouldn't CP Kelco be excluded as a related party in that postconference brief?

I believe it was Mr. Viala that was talking about Chinese quality, that in 2005 it was suspect vis-à-vis the U.S. and European products and now that quality was good enough for the price. Toward that evolution, does not any product have to be qualified at a customer and meet customer specifications, and what is the length of time for that qualification?

MR. VIALA: It obviously depends on which part of the pyramid.

MS. TRAINOR: A range.

MR. VIALA: A range would be that most customers do have ISO certifications and the raw material approval would be documented in the ISO certifications for the customers, but typically they would ask for five different batches which they need to try, so they would try a batch and analyze it. If it's fine they will run one industrial trial and then full-scale trials.

So that would be a monitoring process that would be anywhere from three months to six months to convert. And I'm talking about the more stringent part. If you go in the industrial and oil field obviously the adoption can be a lot faster.

MS. TRAINOR: Okay. Could you provide us with an estimate of the qualifications for the three market segments that CP Kelco has captured, has presented?

MR. VIALA: I would say industrial/oil can be one month on average.

MS. TRAINOR: Really?

MR. VIALA: It can be very quick, a very fast adoption cycle. I would say food would be a minimum of six months.

MS. TRAINOR: Okay.

MR. VIALA: And consumer products, it would

vary a lot. If you're talking about a drug that's regulated it can be very long. A personal care product can be about a year I would say.

MR. BOWMAN: Yes. Yes. To build on Didier, this timing also depends upon when the new markets or products are being introduced into the marketplace, why the end customer is quantifying these products and what they're trying to establish.

If it's a brand in the food and beverage that is going to extend geography or go global from the standpoint they're going to actually start exporting the material, you may see that adoption a little longer just to get the supply chain lines set up from their production facilities. So that three months to six and then six to 12 and 12 to 18 to 24 months is probably pretty fair for those market segments.

MS. TRAINOR: Okay. You were talking about new products and innovation just now and in your testimony, and I believe I heard with our --

MS. DeFILIPPO: With our banging.

MS. TRAINOR: With our friends here that I believe you stated that if you come out with a new or innovative product that it is only a short period of time, and I'm paraphrasing now, that that would be

pirated or ripped off or mirrored, to use your word, by a Chinese product that would take away some of that business.

Given the times for qualification of a product, could you please put that into a little bit more context? If that's confidential you can do it postconference, but if not please now.

MR. BOWMAN: We're willing to put that into the postconference brief.

MS. TRAINOR: Okay.

MR. BOWMAN: But just to identify, the first is we have to understand what the unmet need is, so there's a lot of conversations with our customers about what they want to do. That may take to get them to understand what they're trying to create, and that goes through a lot of different folks.

MS. TRAINOR: But that's your product. That's your innovation.

MR. BOWMAN: That's correct.

MS. TRAINOR: Right. And then once that is done, once you meet whatever the product requirements are of your customer --

MR. VIALA: Correct.

MS. TRAINOR: -- there is a time lag of some period, and then you would see a knockoff --

MR. VIALA: Correct.

MS. TRAINOR: -- Chinese product. And what I'm saying is wouldn't that need to be requalified, that Chinese product?

MR. VIALA: That is correct.

MS. TRAINOR: So in addition to whatever technological time or research to generate this product modification, if not innovation, by the Chinese added to the time to requalify I would think the product with the customer, what is the typical time lag between CP Kelco's new product hitting the customer and, with all that I just said, Chinese knockoff?

MR. VIALA: And we will provide a lot more details postconference.

MS. TRAINOR: Okay.

MR. VIALA: But generally speaking, what we see is we come with an innovation, formulate it with the customer in a new product. So depending on the ramp up curve and the product cycle at the customer, it takes about six to 12 months during while manufacturers will not touch the formula. Then they see if it's successful or if it's not, and then they will initiate cost reduction.

In current days this cycle shortens because

manufacturers want to go quicker and go in cost saving modes faster than they used to, so I would say you may end up and see Chinese or Austrian, by the way --

MS. TRAINOR: Yes.

MR. VIALA: -- countertypes.

MS. TRAINOR: I'm sorry.

MR. VIALA: Yes.

MS. TRAINOR: I didn't mean to just focus on the Chinese.

MR. VIALA: Countertypes coming in. So I would say it would take the six to 12 months plus the six months reformulation, so you may see --

MS. TRAINOR: So that would be 18.

MR. VIALA: -- 12 to 18 months' time.

MS. TRAINOR: Okay.

MR. VIALA: Yes. And that cycle has been accelerating since we have been in the business a long time. It used to take years, and then it had been compressed to three years and two years, and now we're reaching the limits of this kind of technology.

MS. TRAINOR: Right. Technology evolves --

MR. VIALA: Correct.

MS. TRAINOR: -- and the time --

MR. VIALA: Yes. Compresses.

MS. TRAINOR: -- compresses.

MR. VIALA: Yes.

MS. TRAINOR: Right.

MR. VIALA: Yes.

MR. CLARK: So in the postconference we'll provide some examples of this. And it runs to the point that Mr. Bowman addressed, and Didier did as well, that it's in the last two years where we have seen an accelerating pattern of incursion into consumer and the food and beverage market, more of it more aggressively.

And it's coming at a point where once this transference takes place and we've been dislocated there isn't a recapture opportunity there other than through meeting price or, more often now, losing that business.

MS. TRAINOR: There's something I want to say about the pricing products, but I'm a little bit concerned about business confidential material. Well, I'm not going to talk about any companies.

I have been asked questions about how to present pricing products by Respondents because of the breadth of the pricing products, that even if say a company does all oil well there's different values for different products in the oil well, but unfortunately they're all encompassed in Like Product 3. And then

of course you have the whole industrial parts too, which gives you quite a range of pricing products within one pricing product.

How do you suggest that the Commission present this to capture these differences and yet stay true to the pricing product? Again, that's something you cannot possibly respond to right now, but I would like your thoughts on that postconference.

MR. BOWMAN: Actually this is the way in which the market has developed and the industry standards and specifications were developed. We've been privileged being a part of the beginning of this business with the KELZAN --

MS. TRAINOR: Understood.

MR. BOWMAN: -- all the way through to the newest, XANTURAL, which is in the pharmaceutical segments.

So when we see this this is part, but we'll come back to you and address this pricing in these different segments of how it comes. But a lot does go to how the market and the end users' requirements and those specifications they ask. We sure will. We'll address that.

MR. CLARK: And just to elaborate slightly, one of the challenges is the Commission naturally

wants to limit the number of pricing products.

MS. TRAINOR: Understood.

MR. CLARK: In crafting pricing product definitions that are highly specific, you run an equally large risk of capturing one competitor, but missing the other two or three or four or five, so you end up with a different type of skewing phenomenon that takes place.

And because you have a consistent molecule, every end market, every customer, is purchasing that molecule. There will be different gradations of specification around purity, so if you write your pricing products around purity levels you will have a slippery slope of purity definitions.

MS. TRAINOR: I wasn't suggesting that as the level or wasn't making any suggestion as to level. I was simply asking given what appears to be the breadth of products within a single pricing product with the different prices to these products.

Rather than present a homogenous product which is going to contain a whole range of prices, do you have a suggestion as to how we can present this to capture a more unique pricing to different products within a product category? I'm probably not making any sense.

MR. CLARK: We understand what you'd like to accomplish. We'll give it some thought and try to offer suggestions in the postconference.

MS. TRAINOR: And I would be happy to discuss my suggestions to Respondents with you offline later as well. And for this round that concludes my questioning.

MS. DeFILIPPO: I can't multi-task that well. Thank you, Ms. Trainor. We will now turn to questions from Ms. Roth-Roffy.

MS. ROTH-ROFFY: Good morning. Grace Roth-Roffy from the Office of General Counsel. I have a few questions regarding the like product.

This morning your testimony was very helpful in terms of the manufacturing process. While I understand the various grade have the same basic manufacturing process, I also heard about quality control and tweaking the product.

Now, for the various grades like food versus consumer and the oil and industrial applications are they made in the same facilities, on the same machinery, employees, et cetera?

MR. VIALA: Most of them, yes. Remember I talked about good manufacturing practices? So I can talk in detail about us postconference, but I can give

you examples.

Sometimes in the same plant you will have several lines which are CGMP, so with good manufacturing practices, so they will be capable of making any of the products in there, and you may have one line which will not be CGMP, so they could make only industrial and oil field products, because historically that's an old line or the line is not reliable enough or very tight control.

So sometimes you'll have that, or sometimes you'll have plants that are only CGMP making all sorts of products. So you have all possibilities, but basically this is the same equipment. It is just that they are capable of having more stringent standard operating procedures and process control.

Otherwise this is the same fermenters, the same recovery, the same milling and drying equipment, so that would be the very, very same process.

MS. ROTH-ROFFY: Okay. Thank you on that. Also I heard the terms customization, specialized, specialization and also generic bandied about and commodity in terms of this product.

Now, are some more generic grades sold to particular segments of the market or more segments of the market require more specialized products?

MR. VIALA: I would say you would have the standard xanthan functionality, which we described, would be the standard grade for all of the segments.

And then you would have a customer that would say in a personal care product I cannot shear too much because I don't want to incorporate any air bubbles in my product, so I want a product that will go in a solution without making any lumps, but I cannot shear it a lot because I incorporate air.

Others we say I don't care. I can go. So I want a product that go very, very fast into that because I want to show cycle time, though it's more I would say adapting the basic functionality to the customer plans and process and specific requirement than anything else.

And then you will have differentiation in a sense that you would say this product is having a very, very low bacterial count, much lower than what the regulatory requirement would be. The customer can say yes, I want that because I have in my product I have some compounds that are very sensitive to bacteria degradation, or I don't want any preservative in the products or I have a neutral pH product or I keep the product in high temperature, which is more sensitive.

So you've got lots of things that are opportunities for product differentiation, and that goes through the sales force understanding the customer needs and the technical support guys as well walking through there with the customer and say I want to develop the basic functionality of xanthan gum. How can I differentiate a product so that it fits your formulation and your processing needs? That's more how you walk.

So you go from the standard product type, if you will, and functionality in the oil field and industrial or in the food and beverage or in the consumer and then you differentiate from there depending on what the customer wants.

MS. ROTH-ROFFY: Okay. Thank you for that. In terms of the various grades -- the food, consumer, whatever -- is the marketing strategy different? Is it marketed differently to the various segments of the market?

MR. BOWMAN: We have different brands for each segment, which goes back to those qualifications that we've seen the industry ask for us over the years.

From a standpoint of molecule, we sell one xanthan gum, one structure function that we bring in

all the attributes. Then we expand those applications as we continue to try to grow and expand the marketplace.

What we see is what you said earlier with Didier is that some customers may have a plant that today is making toothpaste, but because a new product expanded or they want to shift something or they downsized suddenly they want to make toilet bowl cleaner. And this is an actual example.

And so the pumping equipment was different. The ability to have heat in that facility was not there because toothpaste is normally made cold. And so when they went through this different process they also, because they still made toothpaste on other lines, they had regulatory concerns within that facility. All those things come into what that product needs to be, and customized often comes specifically for that customer.

Other areas in the oil field markets or in the food markets where a customer approaches us where they want a slightly different product to give them a competitive edge in the marketplace, and that's where we try to compete and that's where those customizations come through.

It can be as simple as a packaging which

allows them to open up a bag, use the entire package for that batch, which would be different than what you would normally see grade. It's still the same xanthan gum, but it is a specific product to meet their needs. And ironic when we talk about packaging, sometimes -- and one large grocery chain actually has four different packaging depending upon when they built their plants and what the local regulations are for them to be able to handle the product.

It's still the same product. It's still the same structure function benefits they're getting out of the KELTROL molecule. It just meets their needs for their local OSHA requirements, which had some difference state to state. So that's some of the areas we mean about customization.

Some truly did go into a lot more detail, but that's when we actually worked hand-in-hand with the customer to develop a brand new market. In those areas there's a lot more development around to tailor that molecule and that structure to exactly what that customer is, and that's some of the value I think CP Kelco brings to the marketplace.

MS. ROTH-ROFFY: In terms of the interchangeability, which you just touched on a bit, it was testified this morning that a consumer or food

could be used in the industrial oil applications. Could be used, but to what extent is it used? And what would prevent a customer from using a food-grade versus oil? I mean, I understand that the consumer in foods would not be using the oil in the industrial application.

MR. VIALA: Yes. That would not be in compliance. The thing I would say, you know that prices are somehow different as well, so obviously buying un-proposed food and beverage product to use in oil field application would not make economical sense, I would say.

Now, for us, we try, and we had, as you understand, migrate to the top of the pyramid, so we have to tell our plan you need to make consumer products -- when you want to make consumer products, you need to make food and beverage product when you want to make food and beverage. So we tend to really target product and sell in those industries.

You can also have, and I don't want to talk for others, but a plant that will make lots of Xanthan gum and then you cherry pick and you decide what you want to sell. And at the end, you may have too much of a food type specification that you set in oil field, but I don't know that.

Anything is possible, if you will. It's just that buying on proposal food and beverage grade to sell in oil field would not make financial sense.

MS. ROTH-ROFFY: Right.

MR. BOWMAN: Examples that we've seen happen is maybe material is getting older in age, sometimes it will be moved into those other segments as opposed to let the product go obsolete, so you'll see a consumer product that will go down into the industrial and sometimes even in the food.

Pet food is one of the areas which is, really, it's somewhat undefined. It normally should have the same. We sell in the same specifications as the food industry because there are folks that from time to time do consume pet food, so we don't want to have a chance of something that would happen, but hose specifications would fall in the industrial spec.

And we do know that buyers and customers looking for low price will often say, well, we'll take the industrial grade even though it's not going to human consumption.

It's not a good practice, but those are areas where we've seen people try to interchange, and that's where you've got to make sure that you understand what the end customer and regulations are

for the product, the fitness of use, and then leverage that back with the different brands.

That's why we have different brands for each product line because there is a difference in the fitness of use.

MS. ROTH-ROFFY: Okay, well, that finishes my questions since I'm sure accumulation and related parties will be addressed in the briefs. Thank you.

MS. DEFILIPPO: Thank you, Ms. Roth-Roffy.

Mr. Workman, questions for this panel?

MR. WORKMAN: Yes. I have a few questions. My name is Clark Workman, and I'm from the Office of Economics.

You mentioned -- the focus of the case, of course, is import competition from China and Austria. Are there any non-subject countries that also compete in the United States?

MR. VIALA: There are Xanthan manufacturers in France, two factories in France, and from what we saw, we did not see the volume or the actions that necessitated to include that in the case.

MR. WORKMAN: So they're very small in the United States?

MR. VIALA: They are smaller -- one of it is sizable, but again, I mean, the practices, if you

will, do not justify considering.

MR. WORKMAN: Okay. Now, in terms of -- I wanted to talk a little bit about costs and material inputs. I understand from what you've said that the price of corn is a factor that drives your material costs very strongly.

MR. VIALA: Yeah.

MR. WORKMAN: Are there other variables, any other input costs that are --

MR. VIALA: Yea. Depending on the plans and the countries, and all that, but just to give you a size, raw material is about 25 percent, and within the raw materials, carbohydrates, therefore, corn is the largest one.

MR. WORKMAN: Okay.

MR. VIALA: Then solvent being IPA or ethanol depending on the technology that you have would be the next one.

MR. WORKMAN: Oh.

MR. VIALA: And the third one would be caustic that you use to regulate the PH during the fermentation because when the bacteria degrades to sugar and makes the Xanthan, that drops the PH, so the bacteria to keep walking, you need to compensate that. So yeah, there are a lot of caustic into the

fermentation. That would be the third one. So that's the big input.

The next big variable is obviously the energy.

MR. WORKMAN: Okay. So if I were to, looking at material cost, if I were to draw out of material, you know, say a cost variable from one of the Government sources and put it in there, that would be appropriate putting in a, you know, trends in prices of corn, for example?

MR. VIALA: Uh-huh.

MR. WORKMAN: Or ethanol, I guess, either way.

MR. VIALA: Correct. Yes.

MR. WORKMAN: Okay. I have one other question. Talking about, you know, if you're looking at any aggregate economic variables, are there any particular things that you would say kind of drive the demand for Xanthan gum, for example, the gross national product, consumer expenditure, something of that sort?

MR. BOWMAN: Yeah, I want to clarify the question. The question is are there other economic indicators that we can use to predict the growth of Xanthan gum?

MR. WORKMAN: Yeah.

MR. BOWMAN: Is that the question?

MR. WORKMAN: Yeah, just something you normally focused on in that area?

MR. BOWMAN: To the best of my ability -- and I get asked this question a lot internally, so I'm going to give you my reference to them -- Xanthan gum follows consumer spending.

MR. WORKMAN: Okay.

MR. BOWMAN: And so I believe from my years of history and my recommendation is the discretionary income globally -- it doesn't matter in the U.S. anywhere.

The impacts of discretionary income will impact the growth because whether you're making, as we said earlier, some form of cleaner in your house, whether it's an indulgence in the food or rather a stable food item, a beverage item, whether it is in you're driving a car and you're getting -- or natural gas in the extraction, as consumers spend, that relates best to the growth in the opportunities in the Xanthan gum market, and that's the areas that we look at.

Now, there are external sites that will monitor because Xanthan gum in the food and consumer

has to go on a label, so there are trackings that tell you how often Xanthan gum is on the label, but for the industrial segments, it's a phantom.

So in those areas, you have to track in the applications where Xanthan gum is at, and that's why some of those applications are very old but they've been very nice businesses for CP Kelco and others in this room for years because they're really hid into the marketplace because there's no real advertisements of those products.

MR. WORKMAN: I see.

MR. BOWMAN: But that discretionary income in GD -- that is the best measurement of the growth of Xanthan gum.

MR. WORKMAN: Okay. Would energy production, anything of that sort, be applicable too, do you think, or do you think that's just too small to be bothered with?

MR. BOWMAN: No. That's a great question. We have debated this internally for decades. The number of new rig counts, will that correlate with the expansion into the industrial segment of the oil field industry, and what we found is, depending upon the depth, off shore, yes.

On shore, the depth of those oil field

drilling mechanisms often aren't to the point where they use Xanthan gum. They'll use something else into that media.

And so, although there was some statements about Guar gun being substituted for Xanthan gum, those are typically in those shallow wells. When you get into over -- there's other experts, but when you get into a certain level of depth, those are where Xanthan gum and the properties really come through.

We monitor that. The downside is when you have swings in geopolitical and oil prices swing, you suddenly see drilling activity slow down, but we still see the -- those drillings that are already on place continue so that it doesn't correlate during sudden swings in market prices in the price of oil and now with natural gas.

MR. WORKMAN: Okay.

MR. DOUGAN: Mr. Workman, if I may, just in response to your earlier question about the raw materials, in the petition, we did provide some indices of the key raw material from public sources, and we conferred with the folks at CP Kelco to see if those trends were consistent with their experience in the marketplace and they are, so that may be at least one place for you to start with respect to IPA, and

corn syrup, and other key material inputs.

MR. WORKMAN: Okay. I'll look at that. Thank you.

Okay. I don't have any other questions now. That answered my questions very well. Thank you.

MS. DEFILIPPO: Thank you, Mr. Workman. We'll now turn to Mr. McConnell for questions for this panel.

MR. MCCONNELL: Yeah, thanks. I just had -- Michael McConnell from the Office of Industries. I just had a couple questions primarily related to the production process.

I guess the first question, in the petition in your description of the production process of Xanthan gum, you made mention of a seed take which kind of came in between the expansion of the strain and before the fermenter. I was wondering if you could just clarify a little bit in terms of what the role of that state of the process was.

MR. VIALA: Yes. Very good question. What you want is, imagine that you start with a very small flask, a laboratory one, and you end up with a big fermenter which is the size of a two-story or three-story house.

When you go into the big fermenter to

proceed, that's where the fixed cost are, so you want those fermenters to be used to make Xanthan gum and only Xanthan gum.

So what you want to do is, you've got a phase during which you would multiply the cell, so you want the bacteria not to produce Xanthan gum. You want the bacteria to multiply itself so that you've got more cells available.

And then when you get into the big fermenters, you want the bacteria not to multiply anymore. You want them to produce Xanthan gum and as much as you can.

MR. MCCONNELL: So it's really like an extension of the --

MR. VIALA: So the --

MR. MCCONNELL: -- of the extension.

MR. VIALA: -- the seed time is a way to get that, the smaller tank which is cheaper in which you put the processing condition so that the bacteria is forced to multiply itself and not to produce Xanthan gum but the question is -- and that's a way to scale up, if you will, and be as cost-efficient as you can.

MR. MCCONNELL: Okay. Thank you. That's helpful.

My second question is related to when

talking about the different regulatory requirements needed. When producing Xanthan gum for -- to meet particular FDA requirements, are there any additional staffing or facilities that are needed to be adjacent to the production line in order to --

MR. VIALA: We have QC labs in -- again, us, but we have QC labs in each and every plant and the product that tested during the process and the final one, and they need to then comply to some internal specifications and external specification which we share with the consumer to pass and be approved for sale into food and beverage final.

And then there will be FDA compliance or more, our choice. And sometime we might have agreement with customers to test for some more parameters and put out a certificate of analysis, but yes.

There are extra FTA's or laboratory technicians that are used to test for those products.

MR. MCCONNELL: And that's for, would you have those same QC's for oil field --

MR. VIALA: No.

MR. MCCONNELL: -- application?

MR. VIALA: No. We do a lot less for that.

MR. MCCONNELL: And then would there be any

fundamental differences in, say, one of your U.S. production facilities versus your Chinese facility in terms of how those QC stations would be set up or how they would be staffed?

MR. VIALA: No. For us, that would be the same tests. Again, when we produce the product, it's a CP Kelco product, it's got our logo, so the tests would be the same.

MR. MCCONNELL: Okay.

MR. VIALA: What we tend to do in China is that they are applying the test but they're not developing the test, if you will, but then they are transferring what they have.

MR. MCCONNELL: Next, with regard to your different production lines, how challenging is it to switch a production line from different grades? How much additional time and cost would it take to move from an oil field application to food, and then back and forth. I guess, how much flexibility do you have in your --

MR. VIALA: Right.

MR. MCCONNELL: -- in your --

MR. VIALA: Correct. We try to run as much as we can, but it's not free. We call -- cleaning, we call it bake out, you would understand --

MR. MCCONNELL: Uh-huh.

MR. VIALA: -- so it's kind of, we call it that way because you sterilize everything. You don't want any bacteria growth. And when -- we're dealing with sugar, right, so one tiny amount of bacteria are left somewhere into the process, in a pipe, or attached to a steering equipment, or whatever, would then grow the strain, and that create lots of issues.

So we have cleaning procedures. Some of them that are rotating in between two batches, if you change from one to the other. Some other that are mandatory, let's say, everywhere, and I don't want to go in details there, but because of frequency every week, every month, then we have those things. But you've go extensive turnaround times, yes.

MR. MCCONNELL: Okay. One thing that's been brought up, there's a spoilage time for the product? There's a shelf life for the product? Is there -- would you mind a little more details in terms of --

MR. VIALA: So maybe look at it as a best before date, if you will. The product is a powder, so it tends to be very stable, but still you've got, depending upon a product, between 12 and 16 percent humidity left. So it's not fully inert.

So you will have -- you will see a slight

decrease in viscosity before you've gone far. So what we typically do is we guarantee the product for 18 months for food and beverage and 24 months for a mature in oil field.

MR. MCCONNELL: Okay.

MR. VIALA: On consumer, it would depend, but let's say 12 months on average. Now, if a customer don't have product and, say, I still have inventory on that, we sometime retest for them, and if he passes all the specs, the product will not go bad so it's not a health hazard. It's just that the functionality, remote structure function, may be a bit lower than what it was. That's all.

MR. MCCONNELL: Okay. And finally, I just wanted to ask about the global market, and do the trends in the global market today kind of parallel what's going on in the United States or are there any key factors that distinguish what's going on in the U.S. market versus in International markets?

MR. BOWMAN: Yeah, globally, Xanthan at market has expanded as consumers have expanded their consumption. So we see the global market, a robust market.

We are as born to the pioneers as the starters of this business, we have a large global

business, export business, from the U.S. operations in our -- as well as the domestic.

What we see that the one area that's really changed is the price points and the customers. We see a lot of -- this is the biggest market in the U.S. by far. The next largest market is the Russian market for Xanthan gum.

And as such, what you're seeing is the dynamics that go in this market, the price points -- it's a lot more aggressive. You also see a lot more of this speed as Didier talked about of the me too and we inno -- it takes time to understand what a customer needs.

It takes time to create that product to tailor to their equipment, to really work with them to get it to work, and then to come in and have this speed in which reformulation has occurred has really dramatically increased in the last couple years especially.

So what I see here is because of the size and the fact is the global recession. The U.S. was one of the first economies to pull out of that. What I believe is you're seeing more activity to try to expand sales into this economy. So in that area, we see some pretty fierce competition.

As relates to the overall Xanthan gum market and the role of consumers, consumers around the globe love those properties of making products taste better, of stabilizing, and all the areas that we talked about in the different consumers, they're also consuming as well.

So in that part, it's a good industry and everybody in the industry, this is a good business to be in.

MR. MCCONNELL: All right. Thank you.

MS. DEFILIPPO: Thank you, Mr. McConnell.

Ms. Haines, questions for this panel?

MS. HAINES: Elizabeth Haines, Office of Investigations. I have a few questions.

The U.S. producer, Tate & Lyle, that went out of business, was their machinery moth-balled, or did anyone purchase that?

MR. BOWMAN: Tate & Lyle shut down the facility initially, and what we understand from the industry is they did take part of the equipment down and moved into other spots of their overall facility. This is just one element of a very large agricultural manufacturing facility.

MS. HAINES: Okay.

MR. BOWMAN: But what we don't understand,

obviously, as a competitor, we only know what was in the public domain, is that the fermentation vessels did remain. What we do not understand is where the recovery unit and what they've done with that.

And often those types of recovery can be used in other products to produce other ingredients.

MS. HAINES: Okay. Do you have an estimate of how large their capacity or production was for --

MR. BOWMAN: They stated in the market it was going to be 3,500 manned tons, so that's what we put into the petition because that was in the public domain.

MS. HAINES: Okay. Similarly, your U.K. facility, was that moth-balled or you just sort of blended it into other production?

MR. BOWMAN: I'll let you take this.

MR. VIALA: It's been sold. The idea has been sold to what I would qualify as an evolved startup company in the field of biofuels and other nutricity core, and they were interested in the fermentation side of it, their proprietary equipment in the recovery part of it, which we took out before selling the site.

MS. HAINES: Okay. And I think you, Mr. Kanna said earlier that the San Diego facility, that

was not moved, that --

MR. VIALA: No. It's still there.

MS. HAINES: -- that protection was -- yeah. Okay. I have a question. Is this a product that you would blend because it sounds like you tweak it so specifically, you would never -- would you blend it? Like would a user blend what you've made with the China, yeah, okay.

MR. VIALA: Blaming, you mean our Xanthan gum which is Xanthan gum for China and Austria?

MS. HAINES: Right.

MR. VIALA: Probably not --

MS. HAINES: Yeah.

MR. VIALA: -- I would say. There are several type of plans. Internally for each of the producer, you can blame one batch and another. Remember the batch-to-batch viability I talked about? That's the way to get more even the ferments. You don't want that because you are adding cost, but that's a possibly. But then what we see is blends of Xanthan gum and other hydrochlorides not necessarily by the end users but by other companies that would do those things and then sell it to manufacturers.

MS. HAINES: Okay. That's interesting because the Xanthan gum was sort of the super one that

filled in all of the blocks, but some of the other colloids were -- so does that make the Xanthan gum less good if you're blending it with --

MR. VIALA: It makes it different.

MS. HAINES: Yeah.

MR. VIALA: It kind of makes it cheaper. When I say cheaper is the cost in use.

MS. HAINES: Yeah.

MR. VIALA: So it can be a cheaper cost-in-use or this radiology is really unique and very superb radiology, but sometime you need to be -- let's say you have a process and, during the shear, you don't want the viscosity to drop that much because it's a processing aid and you still need to suspend while you're shearing.

MS. HAINES: Okay.

MR. VIALA: So you may want to have something which is called more nutrient as the rheology, so you would take a guar or a similar thing, you would blend it with it, and then that will give a better suspension while you're shearing the lot.

Now, if you want to pump or spray the product, you wouldn't do well, but that would do the trick for that specific requirement.

MS. HAINES: Okay.

MR. VIALA: Or if you put in in a dairy product and you want to make a gel, like a pudding, Xanthan gum doesn't make pudding.

MS. HAINES: Yeah, okay.

MR. VIALA: So you would use it together with a gelling engine, and it would give the right mouth feel. You will not have water exudating away from the gel. That's already Xanthan doing it, but the gel itself will come from another hydrocolloid.

MS. HAINES: So it's a --

MR. VIALA: That's why you will blend both of those --

MS. HAINES: -- so it's actually common that you would blend it for something like that.

MR. VIALA: -- it happens, yes.

MS. HAINES: Okay.

MR. VIALA: And it's done either by the manufacturers that will buy Xanthan gum and another ingredient and then put that in a population, or it's done by third-party companies which are just sourcing the ingredients and in blending plants formulating those blends and reselling it.

MS. HAINES: Oh, okay.

MR. VIALA: So you go both.

MS. HAINES: As you described how you're

tweaking it for each end-user, is it created such that you then -- it's so tweaked that you have to formulate it for each specific end-user?

MR. VIALA: We try not to because it's setting a lot of cost and back to the question on changeover --

MS. HAINES: Yeah.

MR. VIALA: -- and that's cost. Now, for very large end-users, that's a possibility, but that's not the normal practice, if you will.

MS. HAINES: Okay. You talked about the shelf life, so would you, the producers, tend to keep more inventories or would it be the end-users that would be keeping more of the inventories?

MR. VIALA: At the moment, nobody.

MS. HAINES: Okay.

MR. VIALA: Because everyone is optimizing a walking capsule, but typically the chain is pretty tight I would say and you would have producers, sometimes distributors and the end-users. End-users don't have a lot of inventory. Typically they're running, what, a month?

MR. BOWMAN: Yes. I'd say you're seeing the turn within that six-weeks time of moving that they get their product wheel to go through and produce

their products.

MS. HAINES: Okay.

MR. BOWMAN: The other side, as Didier said, depending upon your distribution channel, you'll see maybe more inventory here that calls -- they have to ship it, and you have to wait for the shipping times.

Just like when we ship material to Europe, we have a lot of product constantly going on the water for that exact same reason, so you have material held up in that transit period to move it around the globe. So that does impact the inventory some.

MS. HAINES: Yeah, well, I've forgotten. How long does it take you to make a batch to order?

MR. VIALA: Typically, we manufacture -- and again, us.

MS. HAINES: Yes.

MR. VIALA: That's no secret. We manufacture to forecast not to order.

MS. HAINES: Okay.

MR. VIALA: So we anticipate what the needs will be. Our sales force is giving that to us, and we make the forecast.

MR. BOWMAN: In the post-conference brief, we'll expand with you a little bit about our turnover times, and the production times, and the cycles. It

also answers the question you had. We'll put that in some detail.

MS. HAINES: Well, yeah. That was my --

MR. BOWMAN: We'd like to keep that confidential, but --

MS. HAINES: Right, no, I understand.

MR. BOWMAN: -- we will put that in there.

MS. HAINES: My very next question was going to be is there really much of a business cycle. Like, does it bounce off of the corn harvest, or is there --

MR. VIALA: No, because we bringing the raw material, kind of, almost just in time.

MS. HAINES: Okay. Let me see. Do you have to package it differently for whether it's the industrial versus the food or consumer --

MR. VIALA: Normally not. They may have different requirements from one to another, but again, what we want is keep the functional property and to do that, you need to keep the product in kind of a cool and specifically dry environment.

So our packaging is more to prevent water contacting the product.

MR. BOWMAN: Moisture.

MR. VIALA: Whether it's bags, or it's boxes, or super sacks, it more depends customer to

customer depending on what units they have where the workers are and how equipped they are to unload different things than the industry itself.

MS. HAINES: Okay. Well, I think that's all I have. Thank you.

MS. DEFILIPPO: Thank you, Ms. Haines.

I tried to cross of the questions that I've heard others ask, so I apologize in advance if I didn't get them all.

I'll follow along a little bit with something Ms. Haines was just asking about. We talked about sort of the specification tweaking for a specific customer.

Does that happen at the beginning of the production process, or can you get through the production process where you've produced a, I don't know, a customer grade and then it can be tweaked for various people, or does it depend?

MR. VIALA: Every -- and we'll come back with further details post conference, but practically every processing step can provide differentiation, so it depends is the answer, but we can provide more details on that.

MS. DEFILIPPO: Okay. And as Mr. Clark mentioned, anything that you'd prefer to put in your

brief do so as opposed to answering here. When you just mentioned talking about production to the forecast or production based on forecast, do you do that based on the grades so you forecast sort of the oil field in industrial, or do you do it even more refined based on specific customers within that. And again, if you feel more comfortable replying in a brief.

MR. VIALA: I think we're okay. The forecast for out of queue, so stock keeping unit level, so very detailed, but it's then in production planning is aggregated by product family.

MS. DEFILIPPO: Okay.

MR. VIALA: And essentially those product families are out of the triangle.

MS. DEFILIPPO: Okay. In Mr. Barringer's opening statement earlier this morning, he referenced Guar gum and competition and a shift from Xanthan gum to Guar gum because the current high prices of Guar gum, and I was just interested whether you had any comments on that. And if you have seen that, is it certain segments, or have you seen that across the board?

MR. VIALA: I would say technically first, there are overlaps. They are limited, as you

understand, but there are overlaps and there have always been.

I'll give you an example. When we saw Guar prices going up as being a player in many hydrocolloids, frankly, not only Xanthan gum but many others, can we come to our customers with solutions and tell them I've got the magic, I turn it into Guar. I wish we had, but.

Then we went and segmented the market and said knowing the structure function of Xanthan gum, where does it provide a functionality that is close to the one Guar is providing in this application. And that's been documented, so it's no big secret.

But the of use choice would be bakery product buying them for. And I don't want to go a lot more beyond that. I can go post-conference, but in bakery products, you can formulate in some conditions to be a good Guar candidate. That's provided the larger opportunity for Xanthan gum as a Guar alternative.

Now, Xanthan gum was not used earlier because of the cost in use, so if Guar prices or availability is such that manufactures have to find an alternative, then they have Xanthan gum. But it was not used, not because of the functionality. It was

not used because of cost in use.

MR. BOWMAN: Didier is right, and when we get these opportunities because of some form of disappearance of supply in the market like what's occurred for the last couple of years with Guar, you end up working with your customers to reformulate because they designed their formulation that they produce their end-product, say a beverage or a soup, to use that viscosity that's coming from the Guar and it is different when you use Xanthan gum.

All those products that were up there, even if they may have viscosity, or stability, or even emulsion stability, you'll find that they're slightly different from one to another. So you have to work to reformulate those because it's not just a direct drop-in but it's one in which you have to re-tweak the entire formulation.

Often, like with the Guar situation that was highlighted, and others will expand I'm sure, is that it is often used in some narrow or shallow well drilling that we've seen. Even starch from time to time we've seen used in those areas.

But when we get into the use of Xanthan gum in this, it comes out that the price points of Guar sold at a very low price, maybe a third or four-times

less than what Xanthan gum normally was priced for in the marketplace.

When that suddenly shoots up and is actually higher, people will take that other alternative and formulate with it, and that's what we've seen.

MS. DEFILIPPO: So are you working to sort of formulate your Xanthan gum, or is the customer working to sort of change their formula of their product, or is it a little bit of both?

MR. BOWMAN: Mostly the latter.

MS. DEFILIPPO: Okay.

MR. BOWMAN: The structure function that Xanthan gum provides in many of the product lines across all those segments would meet the need that a Guar could supply, so then it's a matter of the end customer tweaking their recipe or formula to that end product.

In this case, there would not be a tweak of our molecule for that one. At least, that's the way CP Kelco would perceive that.

MS. DEFILIPPO: So listening to the discussion this morning on this point, it sounds like there's almost like a partnership with these companies where you're really working with your input and what they're trying to use it on.

To me that sounds like a really nice customer service thing. Are we seeing that with the Chinese and the Austrian products? Are there -- is there that partnership or the collaboration from a customer service perspective?

MR. BOWMAN: Maybe best to ask them from what they get.

MS. DEFILIPPO: Sure.

MR. BOWMAN: What we see in the marketplace is what we've developed, and then we see the increased speed that comes in to come in as a lower-price alternative. That's what we see, but I think that's a fair question to ask the others.

MS. DEFILIPPO: Okay.

Ms. Noonan, earlier you I think described the market as a growing market, and I just was wondering if you could elaborate. Are all the segments viewed as, sort of, growth markets or are some of the -- is there more or less growth in one versus another?

MS. NOONAN: I'm actually, I'm going to see if Mr. Bowman or Mr. Viala wants to address that.

MR. BOWMAN: The growth in each of these segments and how that might change?

MS. DEFILIPPO: Uh-huh.

MR. BOWMAN: What we're seeing is on a -- within that category, the fastest growth segment without a doubt is the consumer segment. As consumers have raised the awareness of this synthetic -- and it's also the smallest market, so growth will happen faster as a percentage of that.

But that segment is exploding into the marketplace because consumers are asking all the benefits of a product like an all natural Xanthan gum that comes forward that can meet.

Additional, what we're seeing is a separation in the food and beverage industry. The food industry has turned into more of a stable item and in an indulgence category. In both those areas, you need stability because of long-shelf life, and then you want that flavor release that the Xanthan gum brings.

On the beverage side of the business, it's all around new flavors, new opportunities, new indulgence, and you can see that in any convenient store.

As you walk through one spot and take a look, you'll see just rows and rows of new products for the beverage areas. That's about new product introductions and wheels and cycles to be a part of.

But the stable in the food industry is around those two separations, and that has been something that has changed in the marketplace post the global recession because that consumer and casual dining has just been squeezed quite a bit into the marketplace.

In the industrial area, you really see it as it relates back to as the price of oil goes, you will see some stimulation, but it's pretty consistent because of the demand and the drilling that's gone on as a whole. So in those markets, you're getting a nice steady growth rate. As you move up that pyramid, you do see a higher growth rate on a year-on-year basis.

The one exception of that rule would be when the price of oil in 2007 went up to around a buck forty. It was everywhere it seemed like anyone could drill, they were drilling.

And in those particular areas, the industrial end market probably grew faster than any of the other markets just because the opportunity to turn it to cash and get the oil out of the ground.

MS. DEFILIPPO: Offshore oil drilling I believe has been stopped, right? Or there was some stoppage on offshore oil drilling, no? Yes?

MR. BOWMAN: Could you expand? I'm not familiar with the question.

MS. DEFILIPPO: Following the BP incident at all?

MR. CLARK: I'm not an expert in offshore drilling, but I do believe the action that was taken was to suspend the issuance of new permits.

MS. DEFILIPPO: Okay.

MR. CLARK: But for operating wells, operating wells continue to --

MS. DEFILIPPO: Okay, so it wouldn't have had an affect on what was already there and working?

MR. CLARK: -- in other offshore locations, and there are others even in the Continental U.S., those continue to put holes down. But they have licenses starting to be written in the Gulf again, I think about two months ago.

MR. BOWMAN: That's right.

MS. DEFILIPPO: So no significant impact on the business of Xanthan gum?

MR. CLARK: Not in the --

MR. BOWMAN: You know, the one area that's come in is the horizontal drilling. Instead of going vertically, but when you go down, bend and go into different zones.

MS. DEFILIPPO: Yeah.

MR. BOWMAN: Those expansions and that drilling mechanism, even to the point of starting to reach in certain areas of natural gas, and Marcella Shell has accelerated, but again, that's a new discovery, new areas of drilling that's come open and then people being able to exploit that to go out and get that gas or that oil out of the ground.

But for the most part, those are very consistent and pretty steady industries with the exception, like I said, that when prices peak and then they massively drop. But those are you can almost point them on the markets when something like that happens.

MS. DEFILIPPO: Okay. In looking at pricing in the market, I haven't looked at data, but to the extent that there are different prices for each of the different market segments, do they tend to follow similar trends, or are there different because there's different demand factors within the oil field versus consumer that they -- say since 2009. Have terms been similar or different among the different segments?

MR. BOWMAN: As industries we've seen in the U.S. market, we've seen the price depression that's been pushed into the marketplace across all segments.

The magnitude of that could be you've seen more price depression in the industrial segment followed by a rapid increase in the tail end of 2010 and 11 into the food and beverage, and we then as we said, we're starting to see more and more of this into the customer market as well.

MS. DEFILIPPO: Earlier we talked a little bit about the qualification processes that take place, and I was just -- I will ask the other side, but are you all aware of any Chinese or Austrian product that failed to qualify to U.S. customers since 2009? And that could be something you submit.

MR. VIALA: We'll come back post-hearing.

MS. DEFILIPPO: Okay.

MR. BOWMAN: We'd like to do that.

MS. DEFILIPPO: Thank you. Lastly, during the period we're looking at since 2009, have you had and difficulties supplying U.S. customers in the quantities or qualities that they may have demanded or wanted to demand, and again, this could be responded to in a brief if you choose to do so.

MR. BOWMAN: We'll give more details in the briefing when it comes out, but we've met -- and I think we've even included some of the different areas in the Respondent's that we'll put forward, but we've

met the needs of the market since 2009 when we come in.

We have stated lead times that we go through, and in the product wheels that we go for as far as when our production cycles are, and we state those and we work real well with our customers because it's to align with what their production cycles are so that we get those harmonized so there's not disruptions in supply in these areas.

And as Didier said earlier, that's where you, if you did particularly make a consumer product, that's what you're tailoring to make, and as we practice our CG&P, we're going to go make a product in the pharmaceutical but for whatever reason it failed within that production cycle as you tested each one, we could downgrade that material to one of the other markets and sell it. You just can't upgrade a market that failed a specification in the others.

But in net production cycle, there's quality tests that are done in all markets as we measure the health and the breath of our fermentation cycle from those shake class to C-tanks, all the way through to the inoculation and ultimately the precipitation and recovery.

So those processes that you see are in every

segment of the market. It's just that there's additional end-product test for those specific markets which have a specific note like total plate count, heavy metals, pathogens in the food or personal care area.

MS. DEFILIPPO: Thank you very much. I look quickly to see if staff at either end of the table have any more questions. I thank you again -- oh, you do?

All right. I apologize, Ms. Trainor?

MS. TRAINOR: We asked in the questionnaire and you've already provided as attachments to the many very helpful materials as attachment to the petition, but we specifically asked for any reports, consultantive reports, business reports that you might have on this particular industry from such -- we don't say this specifically in the questionnaire, but I'm saying from such as SRI, IMR, or any Chinese consultants if you have those available and could provide them post conference.

MR. BOWMAN: We have. Absolutely. We have several reports in the marketplace, both the dynamics of markets that we'll share, but also in the different areas of Xanthan gum and the world of hydrocolloids and polysaccharides.

MS. TRAINOR: I want to go back for a moment if I can to Kelco's perceived competitive advantage that they were going to gain by moving the supply of the industrial segment to Wulian and vis-a-vis leaving it in San Diego.

And I'm sure you don't want to respond to that now, but if you could post conference, I'd like to understand the thought processes that went into this and I'd like to know what went wrong in China that made it unsustainable.

MR. BOWMAN: We will expand that fully. Didier reminded me of one thing I need to make sure, for the data that we share with you, we will make sure for copyright because there is a copy -- I'm pretty sure I've got copyright privileges --

MS. TRAINOR: Yes.

MR. BOWMAN: -- but I just -- there is a couple that we need to --

MS. TRAINOR: Yes, we --

MR. BOWMAN: -- acknowledge, and we may have --

MS. TRAINOR: I'll talk to you --

MR. BOWMAN: -- to do a thing --

MS. TRAINOR: -- about that when --

MR. BOWMAN: -- exactly.

MS. TRAINOR: -- this is off.

MR. BOWMAN: But yes. We can -- we had a full strategy realignment that went on with the bio gum business of this failed strategy of the Wulian facility, and Didier and his team did extensive works to reshuffle our mix and our capabilities, but we'll expand on that in a lot of depth.

MS. TRAINOR: Thank you.

MR. BOWMAN: It also gave us a lot of insight, Honestly, before we even came here, we couldn't figure out how certain of these products and prices were being met into those marketplaces with the technology we had from our bacteria which is the engine that truly gives us a point of differentiation, but we'll most certainly expand on that.

MS. TRAINOR: Thank you. That's all.

MS. DEFILIPPO: Thank you, Ms. Trainor, and thank you to this panel, in particular Mr. Viala and Mr. Bowman for taking time from your, I'm sure, is a very busy work schedule. I know it's hard to get away, but it's very helpful for us to get a better understanding of the product and the industry. So thank you very, very much.

With that, this panel is dismissed. We'll take a brief 15 minute break so everyone can stretch

their legs, and we'll come back at 12:00.

(Whereupon, a short recess was taken.)

MS. DEFILIPPO: Welcome back, everyone, and welcome to the panel that's in front of me that we are ready to hear testimony from those in opposition of the imposition of anti-dumping duty orders. Looking around to see who's going to wave to take the lead.

Mr. Porter, please proceed.

MR. PORTER: Thank you, Ms. DeFilippo.

The witnesses will identify themselves, and in the interests of time, I think we're going to jump right in and we're going to ask Noel to start.

MR. MARZULLI: Good afternoon, and for the record, my name is Noel Marzulli. I have been working in this industry for almost 40 years. I started working at CP Kelco in 1973 and was part of the early development of Xanthan gum as a new product. I left Kelco in 1988 and began working as an independent consultant to companies selling Xanthan gum and other hydrocolloid products.

I started working with Deosen in 2003 and have been a marketing and technical consultant for them. My current work with Deosen U.S.A. focuses on the food and beverage segment and also includes other consumer and industrial products other than oil field

applications. Oil field applications are a distinct niche that others will address.

In my testimony this afternoon, I would like to discuss a few key issues about the market dynamics, about Deosen's participation in the U.S. market particularly in the food and beverage industry.

First let me describe a bit about the nature of the food and beverage segment of the Xanthan gum market. What does Xanthan gum do and why do companies buy it?

The product is an additive that imparts various properties to processed food and beverage products. Take, for example, cake mixes. Xanthan gum stabilizes the amount of air in a cake mix and thus allows a cake to bake with more volume and a lighter taste. It avoids the gummy or sticky qualities of a flour-based product.

Another example considered non-separating salad dressings such as ranch, french, or blue cheese. Xanthan gum will help keep the oil and water mixed together without separating.

Xanthan also improves the degree to which the dressings cling to the salad ingredients instead of just rolling off them like water and falling to the bottom of the plate.

When added to beverages, Xanthan gum changes the mouth feel of the product. The beverage takes on a thicker, more juice-like consistency and is no longer watery.

The beverage is thicker than water but allows the flavor of the beverage to come through. Swallowing releases the flavor without leaving any film on the tongue for improved mouth feel.

I won't go into the technical reasons why Xanthan has these effects, but if you have any questions, I would be happy to address them later. Just let me say that Xanthan is a unique product with some very special characteristics as a food additive.

Early today, you heard a lot of testimony about Xanthan gum as a commodity with purchase decisions being made solely on price. In fact, the market realities are a little more complicated than that.

Xanthan gum is actually a high-value added technical ingredient and customers care about many factors other than just price. For example, customers care about hydration rate. How fast can the powder turn into a solution during the manufacturing process?

The faster the powder converts to a solution, the faster the through-put of the

manufacturing process, the faster through-put means lower cost for the end user.

Another key element is the flow properties. Customers need Xanthan gum that exhibits a smooth type pouring and is not gloppy as it pours. In this case, this characteristic adds value to the finished product by making it more appealing to the ultimate consumer.

Customers also need product stability and batch consistency. The Xanthan stabilized dressing needs to maintain that stability for at least a year or longer.

In addition, Xanthan needs to impart the same physical properties from batch to batch so that the customer can produce a product with the necessary consistency from batch-to-batch.

Beyond these general technical characteristics that apply to all food and other non-oil field applications, there are other characteristics that apply to certain segments of the market.

For example, we estimate that about 10 to 15 percent of the U.S. market for non-food, non-oil field app -- I'm sorry. There's about 10 to 15 percent of the U.S. market is for non-oil field, non-food markets. These applications includes products like

toothpaste, cosmetics, pharmaceuticals, and other such non-food uses.

Deosen has not really participated actively in this segment because of some very specific barriers to entry and because of certain customer needs in this segment.

First, many of these applications require a highly clarified Xanthan gum. The Xanthan needs to have transparency greater than 85 percent. Chinese producers have had difficulty in producing such product for a variety of reasons. The differences in the underlying production process limits the application of the resulting Xanthan gum.

Second, many of these applications require Xanthan gum produced isopropyl alcohol. Most Chinese production uses ethanol as a precipitant so it cannot match customer requirements.

So far, only Deosen has the ability to use either ethanol or isopropyl alcohol as a precipitant in its process in China, so if a customer insists on product that meets the standards in 21 C.F.R. 172695, most Chinese suppliers are unable to meet that specification.

Third, many of the specific applications in this non-food segment are smaller volume. The

customers, therefore, have little incentive to qualify multiple suppliers or go to the trouble to even consider other sources. These products are left to the current supplier with no replacement by others.

For all of these reasons, the China competition in this segment is very limited and U.S. producers have this segment of the market largely to themselves.

These barriers to entry limit Chinese competition. Beyond these various technical dynamics, it is also important for the Commission to understand the global nature of the contracts with large food customers.

For most of our largest customers, business is now bid on a global basis. For these customers, we are not submitting a separate bid for the U.S. market. Rather, our customers ask for global bids where we list the X-factory price and the different delivered prices to each of their global locations.

For example, our most recent contract with Kraft, our largest food segment customer, included delivered price quotes to more than 12 different countries. For such contracts, the issue was less about the relative price in the single market such as the United States but rather about the ability of a

supplier to achieve a lower delivered price to world-wide locations.

I hope this exploration of the dynamics helps the Commission appreciate that there is a lot going on in this market and that competition has many more dimensions other than price.

Not every supplier can compete for every opportunity, and much of the competition is now taking place outside of the United States. Prices in the U.S. market are not driving the competitive dynamics of this business. The competition is more about being a competitive global supplier to large global manufacturers.

Beyond these points about the role of pricing in competition, there are two other points I'd like to discuss. First, it is critical the Commission understand the dynamics between Xanthan gum and substitute products in food segments.

For many applications, our customers would prefer to use Guar gum. Traditionally, Guar gum prices were much lower than Xanthan gum prices, less than a dollar a pound compared to two to $3.00 a pound for Xanthan gum.

Guar gum is particularly good in applications such as sauces, gravies, and dairy

applications. Think of McDonald's milkshakes which have traditionally used Guar gum.

During 2011, however, the prices of Guar surged to such high levels, recently more than $10.00 a pound, a significant increase from less than $1.00 a pound.

By the second half of 2011, Guar gum has become much more expensive than Xanthan. This has been more evident beginning in late 2011 and early 2012. The volume increases during this period, therefore, do not reflect lower prices for Xanthan but, rather, the dramatic price increases for Guar gum.

Second, although there will be growth in the U.S. market, the real growth for Xanthan is in our global markets. Demands in U.S. should increase over time probably between three and four percent a year.

Opportunities in other global markets are much more exciting. In China and other developing countries, growing populations and growing use of processed food means dramatic increase in demand for additives like Xanthan gum.

Deosen is adding capacity, but that capacity is not only for the U.S. market, rather for the growing demand in Asia and other emerging global

countries.

At this time, the U.S. market for Deosen Biochemical only represents about 15 percent of our total business. This is a small portion of our total business and clearly represents the fact that its contracts are global oriented rather than being determined by U.S. pricing.

This concludes my testimony, and I look forward to responding to any questions from the Commission. And I thank you for your time.

MR. PORTER: Bert.

MR. ESHAGHPOUR: Good afternoon. My name is Bert Eshaghpour. I'm a co-president of Wego Chemical and Mineral Corp. I have spent my entire professional career at Wego Chemicals.

Wego was founded in 1978 by my business partner, Edward Khalily, and I joined Wego in 1979 immediately after I received my Ph.D. in chemistry from Yale University.

Wego has been operating for more than 34 years as an international distribution company providing a large range of chemicals to customers around the world.

Wego is headquartered in New York with satellite sales offices in Brazil, Italy, Mexico, the

Netherlands, Turkey, and China. Last year, we had sales over $200 million in North America, South American, and European markets.

While our sales are global, our sourcing is primarily from the Pacific rim with a strong emphasis in China, Taiwan, Korea, Japan, India, and Indonesia. I believe that our strong presence in China with five strategically placed offices in China gives Wego their unique ability to meet our customers requirements around the globe.

Wego maintains worldwide logistics and distribution capabilities with over 40 warehouse locations globally and a staff of traffic professionals in New York and Shanghai moving our products wherever our customers require them safely and competitively.

Our company and I personally along with our global product managers have been buying and selling Xanthan gum for nearly 10 years working very closely with China FuFeng Group, Limited one of the largest Xanthan gum producers in China.

I have come to Washington today to make sure that the Commission has the truth about the competitive dynamics of Xanthan gum market. It is my firm belief that when the Commission understands the

true competitive dynamics, the Commission will agree that CP Kelco's trade case has no merit.

I can see from the questionnaire that your team sent to us that you already understand the fact that Xanthan gum is sold in very diverse market segments. From our point of view, China Xanthan gum is present in two market segments, one, food and beverage and, two, oil and gas drilling industries.

I want to begin my remarks by stating the obvious. These segments are very different from each other. I understand that in the process you must analyze a single Xanthan gum industry, however, please understand that the competitive dynamics influencing the purchase and sale of oil and gas drilling Xanthan gum are much different than those for food grade Xanthan gum. When you do your analysis, I ask you to please keep these market segment distinctions in your mind.

One key difference is the distinction between branded Xanthan gum and private label. Historically CP Kelco, by far the world's largest leader for Xanthan gum, was less interested in the oil and gas drilling segment of the market because the mod company's customers strongly preferred having private label Xanthan gum whereas CP Kelco only wanted to sell

their own branded Xanthan gum.

CP Kelco's position essentially created a void in the market when demand for Xanthan gum exploded in the oil and gas drilling industries. The desire of the drilling fluid companies for private label was completely understandable.

What these companies are selling to their customers, the major oil companies, is in essence a combination of services and a highly engineered product of which Xanthan gum is only one component.

Essentially, the drilling fluid companies are selling a drilling fluid mixture that helps increase the flow of oil and gas to the surface. As you can imagine, the drilling fluid companies only want their name on the complete package of ingredients that is shipped to the oil companies for making the mud at the drilling sites. And so when CP Kelco initially balked at selling their product as a private label, this allowed other suppliers to fill the void.

Another key difference between food and oil and gas drilling industries are the underlying demand drivers. In the oil and gas industries underlying demand for Xanthan gum is driven by oil and gas drilling activity. This means that in the oil and gas drilling segment, demand for Xanthan gum fluctuates

much more than in the food industry.

Indeed, we have witnesses this very phenomenon in the three year period being examined in this case. In 2010, oil and gas drilling activity in the United States increased significantly compared to 2009 which resulted in the large increase in demand for oil-grade Xanthan gum.

On the topic of demand, I also believe it is important for you to understand that over the past several years, the underlying demand for Xanthan gum has also been affected by the dramatic increase in the price of yet another ingredient named Guar gum for which Xanthan gum can be a substitute product and vise versa.

Our company, Wego Chemical, is actively involved in buying and selling Guar gum as well, so our information is firsthand. The increasing price of guar gum has been nothing short of remarkable. From a relatively stable level of about 80 to 90 cents a pound during 2008 to 2009, the price skyrocketed to as much as $12 to $14 a pound, a nearly 2,000 percent increase.

The increased price was entirely supply and demand driven. Guar gum is made from guar seeds, a naturally grown product primarily from India. Over

the past two years, because of a variety of weather issues, there have been horrible shortages of guar seeds, which has caused the price of guar gum to skyrocket.

Such increased guar gum prices have dramatically affected the demand for xanthan gum. Take the food segment. Many of our food customers who in the past used a blend of guar gum and xanthan gum have reformulated guar gum out of their production and added more xanthan gum.

Similar possible substitution is being investigated in the oil and gas drilling industries. All things being equal for oil and gas exploration by fracking, guar gum is the preferred ingredient because the viscosity properties of guar gum make it more useful than xanthan gum to get the drilling liquid in the crevices of the rock formation for extraction.

However, because of the dramatic increase in the guar gum prices, many of the companies that produce the slurry used by the fracking companies have been actively investigating substituting xanthan gum for guar gum. This is part of the reason that our company is forecasting increased prices and tight supply for xanthan gum for the remainder of 2012 and 2013. We at Wego Chemical have had tremendous trouble

with our supplier of xanthan gum since the beginning of 2012.

Another point I want to emphasize is the fact that xanthan gum is consumed around the globe, but it is only produced in commercial quantities in just a handful of countries. Indeed, a good part of Wego Chemical's overall xanthan gum business is selling Chinese xanthan gum to other parts of the world.

Many of our customers in Houston, the multinational drilling fluid companies, also request that we ship xanthan gum to their facilities around the globe, directly from China without stopping in the United States. The globe points are everywhere that the drilling sites for oil and gas exist, exploration around the globe. Xanthan gum is truly a global product.

The final point I wanted to make concerns timing. CP Kelco is proposing to limit supply of xanthan gum at a time when all in the United States agree that we are in a virtual shortage situation. I implore you not to just take my word for it, but call our customers and ask them yourselves about how much lead time they are now being quoted for xanthan gum supply, and whether they are nervous about supply

availability for the rest of this year. I am certain that the customers will tell you they're very concerned about getting sufficient supply. CP Kelco's claim of imminent woes in the market are just wrong.

Thank you for your attention. I would be happy to respond to any questions that you have.

MR. JOHNSTON: Good afternoon. My name is Geary Johnston. I'm president of Unitech GBD, LLC, a global company providing chemical products and additives for the drilling fluid systems in the oil industry, including xanthan gum. In the drilling services sector, Unitech is the exclusive marketing agent outside of China, outside of the China market, for one of the Chinese xanthan gum producers, Deosen Biochemical.

I have been involved in the drilling services sector for more than three decades, and was previously employed by Baker Hughes and M-I SWACO, two prominent service companies. My last position in the industry before moving to Unitech in 2007 was director of global procurement for M-I SWACO, which is the largest drilling service company in the world.

At Unitech, I market product to both retail and wholesale customers worldwide. My objective today is to provide you with a better understanding of the

drilling fluid market and the dynamics of the market based on my 30 years of experience of both buying and selling products into the oil industry.

Let me start with three basic points about the market for xanthan gum as it relates to the drilling industry. First, demand for xanthan gum is global. Xanthan gum is a key component in many types of water-based drilling mud systems used throughout the world. Today more drilling takes place outside the United States than inside the United States. But whether you're measuring the international or the U.S. markets, drilling activity presently is up.

Under the circumstances, demand for xanthan gum is also very strong. In mid-2009, a global rig count and accepted report which indicates drilling activity, it was less than 2,000 rigs. By May of this year, the rig count was in excess of 3,300 and pushing near to record high numbers. With limited alternatives for xanthan gum, and given the skyrocketing costs of guar gum, we see this demand trend for xanthan gum continuing for the foreseeable future.

The U.S. rig count has also increased, doubling over the same period. But that only tells half the story of the U.S. market dynamics for xanthan

gum. This leads me to a second point. The United States is unique in that it is home to three of the largest drilling service companies in the world, and their procurement activities are executed with reference to their global operations rather than their U.S. operation.

These three companies are Schlumberger, Halliburton, and Baker Hughes. Together they account for more than 25,000 metric tons of xanthan gum purchases for the purpose of supplying all of their operations throughout the world. The supply agreements for the global service companies I just named are typically negotiated for one-year terms. And the negotiated price is effectively a global price.

So when you talk about a U.S. price with respect to these purchasers, the question is more complicated. U.S. price for these huge buyers is determined with reference to the overall requirements and service to various markets, not just the U.S. market.

My third point is that whatever price levels we may discuss today, the fact is that xanthan gum prices are rising. And that has as much to do with the applications outside the oil field as it does with

the expected drilling activity. Food applications outside the United States and developing markets such as Asia will capture increasing amounts of production volume, and that will have an effect on the price in the drilling segment in every market.

I've already increased my prices in the oil sector by 15 percent this year, and probably looking at more escalation by the end of the year. This is occurring despite new capacity in China, new capacity that I believe is really quite rational when you consider both Chinese and regional demand expectations for xanthan gum in food and drilling applications.

In addition to these three points, let me also comment on my current situation in the oil sector, specifically what I'm experiencing personally today in the marketplace, both in the U.S. and overseas. First, the demand for xanthan gum in the drilling services segment is not being met by supply, both in the United States and abroad. I'm currently sold out. I'm completely sold out, and have been. I can only supply the existing accounts that have previously committed contract levels, and I can't supply any new business either. I'm turning down business daily, both here and abroad.

Some of the inquiries are also very large.

As noted, I have already announced a 15 percent increase given present conditions. Some of my customers in the U.S. have already resorted to buying off-spec product, U.S.-produced, due to the outages and long delivery times.

This product would not have had a home but for the current market shortage. And the buyers in question take substantial risk in trying to use this product in their operations, mainly because of shelf life. Yet I have not heard directly or indirectly from the market of any action by Kelco to fill the void or to take advantage of the current situation. What is even more curious is that a good part of the demand in the U.S. is focused in accounts that are more profitable. These are what we'd call tier two accounts, often referred to as the independent market.

This market cannot leverage the volume like the big majors, but at times collectively can account for as much as 40 percent of the xanthan consumed in the United States drilling sector. I can only conclude that Kelco does not have the capacity itself to supply the oil field, or does not have interest in supplying the oil field with this level of products.

I certainly do not believe that the current pricing -- that this current pricing is not

profitable, and will continue to be more profitable throughout the balance of 2012.

I'm not involved in the food industry at all, and therefore I can only speak direct to the oil sector. But in summary, what I see in the oil field today is strong demand in the United States and worldwide, tight supply, and rising prices. You know, given this testimony, I have a difficult time in seeing how that the proceeding is necessary or really even warranted.

Thanks for your time, and I'd be happy to answer questions.

MR. WAITE: Good afternoon, Ms. DeFilippo and members of the Commission staff. My name is Fred Waite with the firm of Vorys, Sater, Seymour, and Pease. My colleague, Kim Young, and I represent the Austrian industry in this proceeding. The Austrian industry consists solely of Jungbunzlauer Austria AB. Our witnesses today are Mr. Daniel Rainville, who is president of Jungbunzlauer, Inc., which is the United States sales office for the Jungbunzlauer Group, and Dr. Patrick Magrath.

MR. RAINVILLE: Good afternoon. My name is Dan Rainville, and I am president of Jungbunzlauer, Incorporated, located in Newton Center, Massachusetts.

Jungbunzlauer, Incorporated, or JBL, Inc., is the dedicated U.S. sales office of the Jungbunzlauer Group. I became president of Jungbunzlauer, Inc. in 2006. Prior to that time, I was director of finance at Jungbunzlauer, and before that I was the financial consultant to the company. In total, I have worked for JBL for more than 20 years.

Jungbunzlauer is a family-owned, privately-held company which dates back to 1867. Today, we have manufacturing operations in Austria, France, Germany, and Canada. We produce xanthan gum only at our plant in Pernhofen, Austria. We began producing xanthan gum in Austria in 1985, and we have sold it to the U.S. market since 1986.

JBL produces only xanthan gum and citric acid at our Austrian plant. We also internally produce glucose, which is the feed stock for both of these production lines. We are expanding our glucose production so that we can internally meet 100 percent of our glucose requirements. This expansion has no effect on our capacity to make xanthan gum or citric acid. It is entirely a matter of eliminating outside sourcing of glucose for these plants.

JBL sells the majority of our xanthan gum in Europe, our natural home market, and in North America.

The United States is the largest market in the world for xanthan gum. From 2009 to 2011, the quantity of our U.S. imports of xanthan gum did increase, but not as rapidly as the growth of the U.S. market. In fact, JBL has lost market shares since the beginning of this period.

As you've already heard from the witnesses from the U.S. industry, xanthan gum is used in a variety of applications, including as a stabilizer and thickener agent in the food and cosmetic and pharmaceutical industries, and as a processing aid in the chemical, paper, and related industries, and as a stabilizer and control agent for oil drilling and oil recovery operations.

Most of JBL's U.S. sales of xanthan gum are in the food and beverage sector. In addition to this sector, we produce xanthan gum for technical uses. What the Petitioner is calling industrial for technical uses, which we call -- which they would call as industrial. These include detergents and construction and firefighting applications.

JBL also produces small amounts of xanthan gum for the pharmaceutical and personal care industries. We have only limited sales in the oil field sector.

The xanthan gum produced by JBL Austria is ISO-certified and 100 percent GMO-free, meaning that the carbohydrate source we use, which is corn, is not genetically modified. We have some customers who require GMO-free product in the United States. JBL produces a wide variety of grade and granulations, formulations of xanthan gum.

The U.S. Food and Drug Administration approved xanthan gum as a safe and effective food in 1969, and the European community did likewise in the 1980s. JBL's food grade product meets these standards, as well as the purity criteria applicable for U.S., EC, and World Health Organization standards.

Normally, our customers provide us specification in their estimated requirements, and they ask us to make an offer. The specification usually contains parameters such as viscosity under certain defined test methods, granular size, and purity. JBL's technical service manager identifies the Jungbunzlauer grade of material which corresponds to the given specification, and our sales manager prepares the appropriate offer.

Sometimes a customer may develop a new product or have problems with existing formulations. And in those cases, the customer may ask JBL for

technical support. Our technical service department will assist in providing insights about the formula or the applications, and we will try to find the best solution for the customer.

In terms of customers, JBL sells to both end customers and distributors, although we sell more to our end customers than our distributors. Most of our customers have purchased from JBL for extended period of times, often more than five years. There are a number of factors that are important to our customers when they buy xanthan gum.

First, the product must meet strict quality standards, which JBL xanthan gum does. All of JBL xanthan gum is 100 percent pure, regardless of the end use application. Purity refers to such characteristics as color, transparency, and limits on metal impurities. Second, customers need reliable and consistent suppliers. We maintain inventories of public warehouses throughout the United States in order to meet our contractual obligations to our customers.

This allows us to provide timely and convenient services. Our inventories have generally been steady over the period of investigation, although they have declined somewhat from 2009 to 2011, and in

the first quarter of 2012 compared to the first quarter of 2011.

Third, prices are also a consideration. Over the past three and a half years, the average prices to our customers in the food and beverage industries have increased, including the first quarter of 2012. JBL is not the low-priced supplier in the U.S. market. We make a premium product, and we have a reputation for quality and reliability, and our customers are willing to pay for that.

JBL, Inc.'s imports of xanthan gum from Austria increased from 2009 to 2010, but then decreased from 2010 to 2011. Our volumes also fell slightly in the first quarter of 2011 to the first quarter of 2012. Overall, JBL shares of imports of xanthan gum fell from 2009 to 2011.

This concludes my statement, and I'll be happy to answer any questions that you may have. Thank you very much.

MR. MAGRATH: Here we go. Already, we're goofing up. Good afternoon, members of the Commission, staff, and ladies and gentlemen. My name is Patrick Magrath, economic consultant for JBL in this investigation. I will discuss economic issues in this case.

The first thing I want to do is to point out what everyone else knows, that there is a limited number of U.S. producers, actually a duopoly, and only one producer in Austria. As a result, we cannot discuss very much factual and numeric data in this public setting. JBL is the only producer of xanthan gum in Austria and is responsible for all the xanthan gum imports from Austria.

As others have pointed out, the domestic industry itself is limited to two producers. But aside from the fact that there is only one Austrian producer, there are other facts that differentiate it as a unique producer in contract to both the domestic industry and Chinese producers.

JBL is the only supplier of non-GMO xanthan gum, which is shipped to purchasers that require this special product. Another fact is that JBL does not sell into the consumer market segment, so any injury in that segment cannot be attributed to JBL. And I think we heard this morning that this was the hot market, hot market segment, and the fastest growing. Well, JBL does not ship to that segment.

There are other market factors that set JBL apart from other xanthan gum producers, both domestic and foreign, that will be in our brief.

Contrary to the cursory accusation concerning capacity expansion in Austria in the petition, JBL's capacity will not increase in the imminent or even foreseeable future, as Mr. Rainville testified. The expansion mentioned in the petition is for glucose production, which is not even a like product. Most important, as Mr. Rainville has testified, is the fact that the extra glucose produced will merely replace the glucose feed stock that JBL currently buys from outside sources.

The increase in glucose production will not be used to increase xanthan gum capacity, the scenario that is posited by Petitioners. JBL also does not provide an indication of injurious volume of imports in the U.S. market. Our calculations indicate that U.S. consumption, that is, total demand, have increased over the POI. In fact, it has increased substantially since the recession year of 2009. Preliminary projections for 2012 indicate the consumption will match or exceed 2011 levels.

Who is gaining market share in this robust period of growth? Well, it was not Austria. Import shipments from Austria rose from 2009 to 2010, as did that of other parties, as demand came back into the market from the recessionary levels of 2009, but JBL's

imports fell in 2011 and also declined in the interim period of the first quarter of 2012.

With other sources, both foreign and domestic, increasing their shipments and market shares, the market share from Austria fell in each period, 2009 to 2010 and 2010 to 2011, and suffered an especially large decline in the most recent three-month period.

With other xanthan gum producers providing three or four times that of Austria in terms of shipments and market share, Austria cannot be the cause of any significant volume effect on the U.S. industry or even an indication of that if indeed the Commission even finds such volume effects.

As to the question of price effects, xanthan gum is not a commodity-type product, the kind of product that often characterizes the cases that the Commission investigates. Some producers, including the Petitioner, have brand names. The questionnaire responses are replete with references to lengthy and exacting specifications for use and of having a plethora of international testing body requirements before their approval for sale.

JBM in its response states that this product is so complex that even if two suppliers offer the

same specification, there is a possibility that xanthan gum brand works in one customer's operations, but does not in the other. Because it is not a commodity product, and the technical specifications are very important, customers tend to keep the same set of suppliers once they find a supplier whose xanthan gum meets their requirements.

To test this hypothesis, the staff should review JBL's customer list as provided in the questionnaire response with those of U.S. producers in their questionnaires to see if they share the same customers, there was an overlap of competition, or that there is little or no overlap of customers, which would indicate a lack of direct price competition.

Second, attenuated competition is also in evidence by the fact of Petitioner's four price increases, and that has not been mentioned so far today, 10 percent in August 2010, 10 percent in December 2010, 15 percent or higher in July 2011, and an additional 6 percent in 2011, four price increases by Kelco coinciding exactly with the period in which they allegedly were injured by imports.

With such factors as these, as well as the very limited number of lost sales and lost revenue allegations with respect to Austria, and JBL's

weighted average prices that showed JBL to be a high quality producer of xanthan gum, which is not aggressive in terms of price in the U.S. market -- in fact, you will see upon review that JBL's products are among the highest price in the U.S. market, and it is the only source for this non-GMO product.

Price data collected by the Commission was for all three market segments of xanthan gum. Again, JBL had no shipments in the consumer segment of the market, so there were no price comparisons. In food and beverage as well as the oil field segment, underselling and overselling by JBL and those U.S. producers has decidedly increased. JBL had no significant impact on producer prices. Exacting price comparisons will be included in our brief.

Finally, with no indication of significant impact on volume or prices by JBL that would indicate no significant impact on U.S. producers' operations -- and so it is. In fact, we do not believe that this injury is injured at all -- this industry is injured at all, or at least there have been insufficient indications of volume and price effects to meet that affirmative determination.

For over 30 years, I have represented many U.S. industry clients in these proceedings, and I can

tell you that the U.S. steel industry, to take just one example, would consider these data as an industry doing very well and would not think of filing a case. So would many other producers that come here with absolute declines in shipments and sales, absolute declines in capacity utilization and carrying capacity utilizations of much less than 50 percent, and other downward trends. Most would report cost of goods sold to sales ratio in the nineties, and operating income to sales negative for all three years, or if positive in steep decline.

These exact numbers as reference to the domestic industry will be in our post-conference submission. But summing up, we believe the data reported throughout the POI, especially the important indicators of shipments, capacity utilization, the cost of goods sold sales ratios, and the operating profit to sales ratios show a growing and healthy U.S. industry, despite the presence of imports from Austria and China. The industry plainly has demonstrated no indication of material injury. In fact, no indications of injury that meet the statutory standards. Nor is there any threat of injury by Austria.

This is indicated dramatically in this petition, whose threat section ran on for seven and

one half pages for the Chinese and less than one page for Austria, one page. The lone salient point concerning JBL was the Austrian government's solicitation of comments on JBL's expansion of the glucose plant that we've talked about before that is to be completed in 2014.

Mr. Rainville and I have already shown that this expansion has absolutely no effect on JBL's capacity to produce xanthan gum. And I might add that 2014, the finishing date for this glucose plant, is outside of what we usually term an imminent threat.

So what do we have in terms of threat? Well, what we don't have by the petition's own omissions vis-à-vis Austria is surging imports, expansion of like product capacities, unused capacities, or low and declining prices in the U.S. market. The petition is silent on the statutory factors comprising the threat part of the statute for Austria, even in this preliminary phase.

In reference to Austria, there is no allegation of subsidies. There is no unused production or capacity allegations for the subject product. There is no import data showing increased production or increasing market share from Austria. There are virtually no presentations of JBL prices

that are likely to have an indication of a suppressing and depressive effect on U.S. prices. There is no mountain of importer inventories.

In sum, we saw this morning Petitioners trying to argue causation. We would argue that the U.S. industry is not injured, period, and that there is no indication of threat to the U.S. industry, indeed present injury, from imports from Austria. And may I finally -- my final comment is about the 500-pound gorilla who has not been mentioned so far in these proceedings, and that's ADM.

They are also a large U.S. producer along with Kelco. As I said, there are only two producers in the United States, and I think the staff, looking at ADM separately as well as cumulating it, you could say, with Kelco, is going to lead you to the same conclusions that led me, that is, no indication of material injury.

Thank you very much for your attention.

MR. VAKERICS: Good afternoon. Thank you very much for the opportunity to appear here today. My name is Tom Vakerics. I'm with the law firm of Barnes, Richardson, and Colburn. I'm appearing here today on behalf of FMC Corporation. FMC is a $3 billion American company with headquarters in

Philadelphia, Pennsylvania. The company employs approximately 5,000 people throughout the world and operates its businesses in three segments: agricultural products, specialty chemicals, and industrial chemicals.

The company has been the importer of record of xanthan from China and is currently purchasing Chinese xanthan through a U.S. distributor. FMC purchases xanthan both for internal production of blending purposes, where FMC will blend xanthan with its own products and resell the product. And FMC will also resell the unadulterated powder from the xanthan powder.

With respect to substitutes, we've heard a lot about guar, which sounds like a horror movie or something, guar. As a substitute, the Commission needs to be aware, and I think has been made aware today, that xanthan is being used in the hydrofracking natural gas industry as a substitute for guar gum.

Starting in 2011, as you've heard today, new demand in the natural gas industry for guar gum is leading to a tripling of the price of guar over that period of time, just a little over a year. Many guar users have started to use xanthan as a substitute. This in turn has led to price increases and a tighter

supply for xanthan gum in the market.

Based on information available to FMC and our impressions on the market, it appears that CP Kelco may have decided to ramp down its U.S. operations and consciously turn its operations in favor of overseas sales. In that regard, for example, Kelco, to the best of our knowledge, has never approached FMC to sale xanthan to the company. And you have to wonder why, if their efforts are here to develop a strong U.S. market.

Xanthan is a very important food ingredient, required for the production of a wide range of processed foods consumed in the U.S. market. As a global supplier of food ingredients, FMC is very concerned about this case, as it is without a doubt very much in the interests of American consumers to have open, unfettered access to multiple sources of such ingredients.

China is a very important supplier of xanthan. Our position is restricting China as a source of xanthan through an antidumping order will cause injury to American consumers. Thank you.

MR. PORTER: Ms. DeFilippo, that concludes Respondent's presentation.

MS. DeFILIPPO: Thank you very much, and

thank you very much to all the members of the panel, particularly those that have come in from their company business to take the day to spend it with us. We really appreciate the information you've provided. It's very helpful.

I will first turn to -- do you want to go first?

FEMALE VOICE: No, I don't today.

MS. DeFILIPPO: Okay. I'm going to change up the order then. So I will turn to Ms. Roth-Roffy for the first round of staff questions.

MS. ROTH-ROFFY: Good afternoon, and thank you for your testimony. Mr. Magrath, you have mentioned a particular grade that JBL sells exclusively or produces exclusively. What is it used for, what particular type of products?

MR. MAGRATH: I think Mr. Rainville can answer that better.

MR. RAINVILLE: Jungbunzlauer does produce grades for the food and beverages. We produce grades for four industries. Food and beverage is one. Technical, oil field, and personal care. Currently, we only sell -- we sell mainly food and beverage in the United States, and in some volumes less than 5 percent to the technical markets.

We do not -- we have yet to sell or we do not sell any of our personal care products in the United States, and we sell -- we have sold only trace amounts of our oil-field grade in the United States. We are approved for -- we are approved by the large oil drillers in the United States for our product, but to this point we have always been told that our price is too high.

MS. ROTH-ROFFY: All right. Thank you. Also, there was a particular grade that you produced exclusively. I thought I heard Mr. Magrath's testimony on that.

MR. RAINVILLE: Maybe he referred to GMO-free grade material.

MS. ROTH-ROFFY: Perhaps that -- yes.

MR. RAINVILLE: Jungbunzlauer produces -- all the corn that is used in our glucose factor that is then used to produce our xanthan gum is all grown in the European Union, and it all is GMO-free, genetically modified. There is no genetically modified organisms grown in Austria because of the restrictions in the European Union.

There are some applications in the United States that require GMO-free material. We see this as a growing trend across the food industry, not just for

xanthan gum, for other ingredients as well. Right now I'd call it a niche market. How far it will develop, time will tell.

MS. ROTH-ROFFY: All right. Thank you. Mr. Johnston, you had testimony about your contracts, the terms of a global price. When you talk about a global price, you basically mean that the prices -- do you have different delivered prices for the volume contracts that you have?

MR. JOHNSTON: Basically, the way it works is you set a price at China and freight on top of that to the various regions. So our customers, they set a contract, a global price, and they have the option to -- and some of the three majors that I mentioned take that option if they have -- depending on the expertise of their distribution department and what part of the world they're going to, they will take the option to pick it up and handle the freight themselves, or we on these global contracts offer a prepay and bill situation, which basically is a courtesy to the customer to move the product on our freight contracts with the ocean carriers. And that's the way the global contracts work.

MS. ROTH-ROFFY: All right. Thank you. If you could just make sure you address the issues of

cumulation, et cetera, in your post-conference briefs, that's all the questions I have right now. Thank you very much for your testimony.

MS. DeFILIPPO: Thank you, Ms. Roth-Roffy. Mr. Workman, questions for this panel?

MR. WORKMAN: I just had one question about, you know, the demand for oil and drilling activity. In your opinion, you know, those of you that are involved in the oil business, do you think rig counts and measures of that sort of thing are a good indicator of demand for, you know, xanthan gum?

MR. JOHNSTON: At 40,000 feet, yes, probably so. But xanthan gum is only used in water-based drilling fluids.

MR. WORKMAN: Okay.

MR. JOHNSTON: It doesn't have the temperature stability to get into the oil base, a lot of the horizontal systems. They can't use it. I mean, we'd like to have the -- you know, some new product that will withstand those temperatures. So for the most part, you have to look at -- and you have this going on around the world. You have this up and down. I mean, right now, you know, they were talking a little bit about some -- you know, all this fracturing going on in the United States. A lot of

that is oil-based, and use xanthan.

So you have to understand the drilling markets around the world. Columbia is a water-based market. China is a water-based market. Russia is a water-based market. These are all big xanthan gum users. The U.S. is a mixed bag. It is switching back and forth.

MR. WORKMAN: I see.

MR. JOHNSTON: Offshore, deepwater, like somebody mentioned earlier about BP, that is a synthetic system. They weren't using xanthan gum out there.

MR. WORKMAN: Okay. Yes, that answers my question. Thank you.

MR. PORTER: Excuse me, Mr. Workman. I just want to add a point in response to your direct question. Of the available metrics out there, we believe rig count is the best measure of oil drilling activity.

MR. WORKMAN: Okay. Thank you.

MS. DeFILIPPO: Thank you, Mr. Workman. Mr. McConnell.

MR. McCONNELL: Yes. I just had one quick question. With regarding both Austrian and Chinese production methods and the manufacturing process, in

other words, the one example of using non-GMO corn as an input, are there any other importer distinctions between the manufacturing process between Chinese or Austrian producers compared with the U.S. manufacturing process?

MR. MARZULLI: This is Noel Marzulli. The only other distinction would be that the Chinese precipitate their xanthan with ethanol, most of the Chinese manufacturers, while the Western producers and some of Deosen does both ethanol and isopropyl alcohol. So your finished product, the morphology of your finished product is more fibrous if it's precipitated with ethanol versus IPA.

MR. McCONNELL: And that has implications for the type of --

MR. MARZULLI: No. The same applications. It's just a little different manufacturing process.

MR. McCONNELL: Okay.

MR. PORTER: Excuse me, Mr. McConnell. I would add that I think you can assume there are some differences in the production process because the Chinese are not in the highest value segment identified by the Petitioners. They are simply not in that market. So they're not making that product. So I assume you can -- you know, so that's because of

differences in some type of production process.

MR. McCONNELL: And that will be -- well, I guess it's throughout, but mainly in the recovery portion?

MR. PORTER: You're now getting way beyond -- we will address that in the post-conference brief. But I just wanted -- you know, by definition, if they're not in what Petitioners identified as the highest value and fastest growing segment, it's probably because of some sort of production reason.

MR. McCONNELL: Okay.

MR. WAITE: Mr. McConnell, with respect to the Austrian industries, since Mr. Rainville is involved in the sales of the product, not the direct production of the product, we will attempt to obtain a response to your question from the technical people in Austria and include that in our post-conference submission.

MR. McCONNELL: Okay, great. Thank you.

MS. DeFILIPPO: Thank you, Mr. McConnell. Ms. Trainor, please.

MS. TRAINOR: I'd like to make the same request of the Respondents that I did of the domestic industry, and that is I know we asked in the questionnaires if there are any business reports,

whatever, but if there are any consultancy reports specifically addressed to China that you might be able to share with the Commission, I would very greatly appreciate that, or as focused on Europe, so that we have a better competitive grasp of the competitive positions of the regions.

And with that in mind -- and this is directed to the Chinese Respondents. Within China, certain companies, excuse me, I'm sure have competitive advantages of one over the other. And whether it be geographical or energy, whatever, transportation, I would like you to flush this out to the extent possible of the positioning of the various Chinese Respondents or the Chinese market.

Further, we've heard about the capacity expansions this morning from Petitioners concerning the FuFeng Group, and that would probably be slated toward export. So my next question has to do with the Chinese home market and what you would forecast for consumption of xanthan gum in the future in the Chinese home market as opposed to export and how that mix might fall out.

Now I can't read my handwriting.

MALE VOICE: Do you want to borrow my glasses?

MS. TRAINOR: No. I've got mine on. That's what is so sad. I guess I'm going to leave that for this round, and maybe I can decipher what I wrote by the time it comes around to me the next time.

MR. PORTER: Ms. Trainor, this is Dan Porter. Your questions are very well understood. We will do our best to give additional information on the Chinese market. I think I can say a couple of things now. First, there are, especially compared to sort of other cases that come before the Commission, a very small number of Chinese producers of xanthan gum.

Honestly, in terms of serious players, I think you basically only have about four to six. I think we represent all the four, and then you have CP Kelco and Cargill as well producing in China in significant quantities.

With respect to FuFeng's capacity expansion, we got permission before from Fufeng before we came here that they can state publicly that their exports to the United States are only 12 percent of their total production. So again, the idea that anything that they're doing in capacity expansion is directed to the United States I think is belied by the actual figures. Thank you.

MS. DeFILIPPO: Let's see what I have to

finish up. This question I'll give to sort of Mr. Marzulli and Mr. Johnston. I can't see with the lights. Sorry. Everyone is having trouble reading their own writing. I am, too.

We talked about sort of the world contract prices where the big buyer is having multiple, you know, contracts for different locations. Do those customers evaluate a contract on the whole package and give all the business to one supplier, or would they parse it out to different ones? So I guess I'm asking are they single sourcing or are they dual sourcing, or do you not know?

MR. MARZULLI: This is Noel Marzulli. In the case of the customers we're dealing with, they give the majority to one source, and they always have a backup on the second source.

MS. DeFILIPPO: Okay.

MR. JOHNSTON: This is Geary Johnston. It's always a dual source in the oil field because I heard mention by CP about the inventories and, you know, maybe they were talking about the food. But in the oil field, you've got inventories pushed out all over the world, and because it has got to be near the drilling rig or activity. You can't run out or you're going to end up putting it on a 747 and shutting the

rig down.

I mean, service is hugely important. And in line with that, you can have a problem in plant. I mean, you know, in my past life, the French xanthan plant went down for almost a year to contamination, killed us. If you don't have backup in the oil business -- and that didn't just go for xanthan, but all your products. You have to dual source, you know, whatever that is.

So, yes, the majors are definitely dual source. I mean, they hold themselves out all over the world, so they're very exposed. They have to have that backup, supply line, so to speak.

MS. DeFILIPPO: Okay. Thank you. That's helpful. There has been talk this morning, and I've heard the term branded products. Do the Chinese or the Austrian producers sell branded products in the U.S. market, or private label? Or I'm trying to remember the other terms that were used today. And if any of these -- as I mentioned to the domestics, any questions that you prefer to answer in a post-conference brief, just indicate that.

MR. RAINVILLE: Speaking for -- this is Dan Rainville speaking for Jungbunzlauer. No, we do not have branded products as far as xanthan gum is

concerned.

MR. MARZULLI: This is Noel Marzulli. Deosen does have a branded product line called Zibozan for the xanthan market.

MS. DeFILIPPO: Okay.

MR. ESHAGHPOUR: This is Bert Eshaghpour. FuFeng also has its product line, but we also have private label for our customers.

MS. DeFILIPPO: Okay.

MR. JOHNSTON: Geary Johnston. Yeah, also in the oil industry in general, private label is hugely important, and has been for -- you know, since the beginning. And I'd go a step further to say that private labeling was one of the things that in my prior life that helped me source from not just the Chinese, but the French because I went through a period where Kelco suspended the private label, withheld it, didn't want a private label anymore. So the company I represented quickly looked for options. So it's huge because their systems are private label or their products are private label because of the image. And they're different. They're different systems. So okay?

MS. DeFILIPPO: Okay. Thank you. That's helpful. Mr. Johnston, I'll stay with you to clarify.

I think in your direct testimony you talked about the prices of xanthan gum in the oil field segment. And I thought you said that they were -- that prices for xanthan gum were rising in sort of all the markets, and you were going to -- that there was the implication being that there was sort of some linkage between the prices of xanthan gum in the oil field and the other ones. So if you were seeing increases in the consumer products or the food products, that you were going to see that in yours.

Did I hear that correctly?

MR. JOHNSTON: Yes, you did. I mean, there is -- obviously, if you've moved into a very tight market, as other testimony has said today, there is food formulator -- reformulations that now can switch from guar to xanthan gum. That is going to have a direct impact on price and supply.

MS. DeFILIPPO: So would it be fair to say that the price linkages or similarities come from the supply side? Because it sounded like someone also said there were different underlying demand factors in each of the sort of market segments that would affect the different market segments. So it sounds like what you're saying is the price movements in the different markets can be similar if the total supply of xanthan

gum is getting tighter. But can there be different movements in the different markets because different factors are affecting those prices because there is different demand conditions, different products being ultimately using the xanthan gum?

MR. PORTER: If I may, the answer is of course. Obviously, oil drilling, oil fluids, and food are very different products. What I think the witnesses were attempting to convey is sort of two ideas which might appear to be a little bit sort of not in tandem, but I think we can bring them together.

The first idea is that because of the dramatic sort of up and down in the oil market, you're going to have much more volatility than in food. Food basically -- except we'll talk about guar gum in a second -- is basically a mature market. I mean, people don't all of a sudden double their consumption of salad dressing. That's generally not what happens. However, very much so, you can have a doubling of consumption of oil fluids because of dramatically increased oil drilling activity.

So on one side, on the demand side, you can have very different demand drivers. What I believe Mr. Johnston was talking about is they are sort of interrelated, that if you have, for example, on the

guar gum, you have a lot of substitution demand going on, on the food, well that, you know, there is sort of a certain sense of finite capacity. That means there is going to be less supply available for the oil or food market, and that's the linkage I believe he was trying to get at.

MS. DeFILIPPO: Okay. That was helpful. Thank you. Sticking with the topic of the guar gum -- and I'll just throw this out to whoever wants to answer. We talked about this large increase in the guar gum and what that did in terms of shifting consumption to the xanthan gum, and talked a little bit about reformulation.

Do you have any estimates on how involved would that reformulation be? Is it an easy shift for an end user to move from using guar gum into xanthan gum, or is there sort of a length of time that the reformulation may take before they can do that shift?

MR. MARZULLI: This is Noel Marzulli. In the food area, take, for example, where they're using guar and xanthan in a synergistic way. It's very difficult to replace more of that guar process because the ideal percentage may be 70 percent guar, 30 percent xanthan, or vice versa. In something like cake mixes, xanthan can replace guar fairly easy,

fairly easy. But in something like sauces and gravies, where guar gum is used quite a bit because of its high viscosity, 1 percent of viscosity for guar gum can be 5,000 centipoise. One percent for xanthan is only about 1,200 to 1,500. So you'd have to use more xanthan.

There would be concerns about label changes and things like that. So that would delay that. But it would not be terribly difficult. And a big market for guar gum is also in the dairy, the frozen desserts, where it is used in combination with xanthan gum and locust bean gum. So there is a lot of work going on there to try to replace some of the guar with xanthan and also other gums like teragum.

MR. McCULLOUGH: Ms. DeFilippo, if I could add something, and maybe some of our witnesses can discuss this, either or Noel or Geary. It's also the order of magnitude of consumption between the two. My understanding is the guar market is a much bigger market. And so any amount of substitution with xanthan is going to be quite significant. And I'm wondering if they could speak to that quickly.

MR. JOHNSTON: Geary Johnston. I'm in the drilling fluid sector, okay? I'm not in the fracturing and acidizing sector. That's where all

this guar is used, and it's tremendous amounts. And due to price, due to supply, all your major companies, the ones that I mentioned, have committed money into research because unlike maybe the food industry, it is extremely difficult. You're dealing with two different animals, the nature of the two products, extremely difficult to substitute xanthan for guar in the fracturing.

But with other products, it's being looked at, all right? It's being looked at.

MS. DeFILIPPO: I think the discussion indicated that the prices of the guar gum sort of spiked in 2011. Are they still high? Is the forecast for them to remain high, or do you see prices of guar coming back down and shifts being made the other way, back -- you know, people that may have shifted to xanthan may shift back to guar.

MR. ESHAGHPOUR: This is Bert Eshaghpour. We are involved in guar gum purchase and sale as well, and we have seen guar go from a low of $1,500 to $2,000 maybe a year and a half ago, to a peak of $26,000 to $27,000 a ton. So it's a tremendous, tremendous percentage change. Along the way, depending on requirements of the market, the pressures, as well as the pressures of growth seasons

that they have, we have seen bumps in the price as much as 10, 20 percent, what seems to be arbitrary from the eye of the beholder here, you know, watching, but there are real reasons for it. It's not arbitrary. And so we find fluctuations are significant. You know, everybody along the supply chain is quite fearful of the volatility because the volumes are immense, the dollars are immense. And so in the last three months, we have seen a slight drop in the price. But the forecasts are that come September-October, with some uncertainty at the new crop that's coming up, price will go back up again.

So there is a tremendous uncertainty around the product.

MS. DeFILIPPO: Okay. Thank you. That's helpful. I think Ms. Roth-Roffy mentioned this, but in particular I wanted to pass this over towards Dr. Magrath. Are you arguing that Austrian and Chinese products should not be cumulated, or can you address that in your brief?

MR. WAITE: This is Fred Waite. And since it's a legal question --

MS. DeFILIPPO: And I'm an economist by training, so I went to him first.

MR. WAITE: I understand your prejudices,

Ms. DeFilippo. Yes, we will address that.

MS. DeFILIPPO: Okay.

MR. WAITE: At the present time, we do not intend to make a decumulation argument, but there is still, what, 72 hours between now and the brief being due?

MS. DeFILIPPO: Plenty of time.

MR. WAITE: Thank you.

MS. DeFILIPPO: Thank you. And the last question for Mr. Porter. I just wanted to clarify in your discussion on the Chinese product with regard to the -- what is the top one -- consumer. I think you said that they were not making any xanthan gum that could be used in the consumer -- is it not making or not selling?

MR. PORTER: Let me be very clear. I have the same sort of data that you have, which is the questionnaire responses. And the questionnaire responses indicate they are not selling in the United States any of that category, the top high value added category. Because you did not ask and I didn't follow up, I don't know whether they are technically making it and selling elsewhere, but I know they're not selling it in the United States, and have not for the entire POI.

MS. DeFILIPPO: Okay. Any additional information that you might have on that would be helpful. I've exhausted my questions, but I see Ms. Trainor has not.

MS. TRAINOR: And this is for Mr. Vakerics. You said earlier that in some form Kelco is ramping down its U.S. operations to focus on overseas.

MR. VAKERICS: Correct.

MS. TRAINOR: And I wonder if you could in your post-conference brief expand on the rationale behind that statement.

MR. VAKERICS: I'd be happy to. Thank you.

MS. TRAINOR: Okay. That's it for me.

MS. DeFILIPPO: Any other questions from staff for this panel?

(No response.)

MS. DeFILIPPO: With that, I say thank you again for taking the time to come in and meet with us and present all the helpful information that you have. We greatly appreciate it. With that, this panel is dismissed. Would both sides be okay with a five-minute break between to do closing? It's 1:20. We'll take a five-minute break until 1:25, and then resume for closing statements. Thank you.

(Whereupon, a short recess was taken.)

MS. DeFILIPPO: We will begin with closing remarks from the Petitioner. Mr. Clark, are you having the pleasure of? Please take your time getting seated and start when you're ready. Thank you.

(Pause.)

MR. CLARK: Let me join everyone else in trying to make sure I can read the notes that I scrawled here. Really. And with the amount of keyboarding that takes place today, there is no question that penmanship -- mine was never great, but it hasn't improved with the passage of time.

A few points that we want to make. One of the more obvious ones, there was testimony by the representative from FMC that FMC was surprised that they had not been approached by CP Kelco to sell xanthan gum. In fact, CP Kelco does sell xanthan gum to FMC, and we'll elaborate on that in the post-hearing brief.

There was quite a lot of discussion around substitution, in particular as regards guar. But the statements were all phrased along the lines of, everyone is trying to find a way to substitute. CP Kelco, of course, is not just in the xanthan gum business. We produce a range of hydrocolloids, and CP Kelco is part of the exercise to look with our clients

and our customers at alternative formulations. It's not easy. The formulations can be quite demanding.

Let's take the oil field sector by way of example. We described the molecular functioning of xanthan gum as being as powerful as it is because of the stability property. And you can put it into very difficult environments, and the molecule doesn't break down. In the world of hydraulic fracturing, one of the things you're trying to do is drive the fluid down, and then have it expand and fill cracks to push out the embedded gas that's in the pores inside the sedimentary rock.

Xanthan gum can't do that. The very property of stability that prevents it from exploding when those extended arms wrap around the backbone and give it stability prevents xanthan from doing exactly what guar does. People are working on it. It would be a wonderful thing if we can find a way to crack our own backbone, but so far it's not working. So is there an aspiration? Yes, there is an aspiration. Is there success? There is not success.

So the testimony was -- and please don't misconstrue it -- there is lots of attempt and exercise to try to find ways to move other products into guar, xanthan just being one of them. But there

is many attempts. There is not successes.

MR. BOWMAN: May I add one thing?

MR. CLARK: Oh, sure.

MR. BOWMAN: This is Charlie Bowman. Back to the first comment with the FMC. I just want to clarify so we're all on the same page, and that is we're a supplier of hydrocolloids, our CMC, our pectin, our jelling gums, xanthan, et cetera. One of the product lines, carrageenan, we sell periodically to FMC. And in that, we sell our full portfolio. So we offer to the industry the complete portfolio, not just one product or one exclusions. And we try to have a relationship with the customers.

But I just wanted to clarify the points about the products that we sell and the others, just so we're all on the same page.

MR. CLARK: There was a lot of testimony, Mr. Johnston in particular, around the proposition that CP Kelco was not interested in the private label market in the oil field sector. This is a surprise to us because we're actually quite active in the private label sector, both with respect to xanthan gum and also CMC and other products, the example where we were on the other side of the table.

Products like Drispac, which we manufacture

for one of the drilling companies, is their private label. We manufacture that. It's for oil applications, which Mr. Johnston alluded to, but it's private label. CP Kelco does private label, has always done private label. The only issue in the oil field sector has been with the prices that are available from Chinese suppliers and from JBL, they've not been interested in having us do their private label work at the price.

So it is not an aversion whatsoever to doing private label work. We do do private label work, and we have done it for decades.

The suggestion was made -- it was Mr. Porter's comment -- and then clarified later that the Chinese producers are not participating -- have not participated in the consumer segment of the market. As Mr. Bowman testified earlier, in fact in late 2011, we lost a major customer in the consumer care sector to Chinese supply. So it may be that Mr. Porter's clarification that he was relying on the questionnaire responses is accurate as to his testimony. But in the marketplace, in the most demanding sector, we've actually lost sales and a high-volume client to Chinese producers. And we'll put that in the post-conference brief.

On the question of price, again Mr. Johnston testified that the decision to buy is driven by who delivers the lowest delivered price. And that is the answer to the price-based question, at least in the oil field sector, and we don't see evidence of it differentiating the other market sectors. Price wins.

Mr. Marzulli started off by talking about the quality of the Deosen product and the different sectors they supply, including food and beverage. We heard the same thing from JBL. There has been no criticism of CP Kelco's quality, so if everyone's quality is level, what at the end of the day is going to be the difference maker in the sale? It's going to be the price. And if you look at the price information that you do have on the questionnaire responses, notwithstanding issues about the relative breadth of them, look at the average unit values for the different suppliers across the different market segments, and you'll see the impact that price is having there.

There was testimony by JBL in an effort to characterize itself as being unique because of GMO capability. Ironically enough, CP Kelco's Wulian plant in China is actually GMO ready, but there is not a sufficient market for GMO supply outside of Europe

to warrant isolating your supply sources bringing material into the plant in the first instance. GMO or non-GMO is a preoccupation in certain European markets. We've not seen that as a driver, certainly not as a critical distinction in the marketplace in the United States or in the rest of the world outside of Europe.

Okay. I think that will do it. Thank you for your time and attention. We appreciate the opportunity to be appear before you this morning.

MS. DeFILIPPO: Thank you very much, Mr. Clark. We will now move to closing remarks from Respondents. Mr. Waite and Mr. Porter, are you both heading up?

(Pause.)

MS. DeFILIPPO: Welcome back. Please proceed when you're ready.

MR. WAITE: Thank you, Ms. DeFilippo. This is Fred Waite again on behalf of the Austrian Respondent. My closing comments are going to be in three areas, and they will tend just to be a laundry list of issues and matters that I think warrant the attention of the staff as well as the commissioners.

First with regard to our client, Jungbunzlauer of Austria, as you heard, it is the only

producer of xanthan gum in Austria. It is also the only supplier of GMO-free xanthan gum among the parties to this proceeding. You also heard testimony from Mr. Rainville about the allegations made by Petitioner in its petition about the expansion of glucose production at the Pernhofen plant of Jungbunzlauer in Austria, and how that expansion has no effect at all on the capacity or any increase in capacity in that plant's ability to produce either xanthan gum or the other product produced at that plant, which is citric acid.

I was thinking -- my wife likes pickled herring. I don't know whether xanthan gum is used in preparing pickled herring. But the Petitioner's argument that somehow an increase in a feedstock capability leads automatically to an increase in the downstream production capacity strikes me as simply being a red herring. The focus of Jungbunzlauer is on the food and beverage industry, as you have heard, and on technical grades in the U.S. market. With regard to the U.S. market, I think there was unanimity among all witnesses that demand is increasing. It has increased over the POI. It is increasing. I would only mention again that while the U.S. market is growing, JBL's share of the market has been shrinking

during the POI, including during the most recent interim period of the POI.

You've also heard what you might believe is conflicting testimony about whether xanthan gum is a commodity product. Actually, I think if you parse the testimony of the Petitioners' witnesses this morning, you'll see that it is not a commodity product, that it contains many special characteristics and factors. Tweaking of the product in innumerable ways for product segments and for customers is quite common. And indeed, the market itself appears to have a number of distinct market sectors, food and beverage, oil field, consumer products.

Petitioners include what they call industrial and oil field. You heard Mr. Rainville testify about the technical applications of the Jungbunzlauer product, which probably would be considered industrial, but they are very different. And the dynamics in that market are very different, and the pricing in that market is very different from the oil field sector.

You also heard that Jungbunzlauer has only trace sales in the oil field sector in the United States and none at all in the consumer sector. That leads me admittedly, Ms. DeFilippo -- I'm not an

economist. I don't pretend to be, or, Mr. Workman. But it leads me to that term that I know strikes fear into the hearts of all petitioners, attenuated competition. And I'm sure you'll hear more about that as this case proceeds.

Finally, just a few comments about the U.S. industry. Dr. Magrath alluded to a number of price increase announcements by Kelco during the period of investigation. We have copies of those. We will provide those with our post-hearing submission. Dr. Magrath also asked the question, where is ADM. I would ask that, too, and I would urge the staff to look very carefully at ADM's questionnaire responses to see if in fact its experience tracks with the other producer in the U.S. market.

And then finally -- and I'm stumbling now because I was reading Ms. Young's writing, which is very clear. Now I'm moving into my writing. And my final point is it's very curious this morning, we didn't hear a lot about the typical injury factors or indicators that petitioners normally talk about during an investigation, such as employment, such as cost of goods sold over the period of investigation, such as profitability over the period of investigation, and the relationship of profitability to cost of goods

sold, the relationship of operating profits to sales. And I would urge the staff to look very carefully at those factors, even if the Petitioners are not offering them to you in their submissions.

Thank you very much.

MR. PORTER: Thank you. Fred did such a good job, even with poor handwriting, that I have very few things to add. By way of rebuttal, I just want to kind of put up their chart here of their time line. And it's kind of very curious to me because almost all of their so-called adverse impacts that they're alleging is before the POI. And so I find that, let's say, interesting, to say the least, and I think actually somewhat indicative of their case.

I also want to highlight a point that was made during our affirmative presentation, but I'm not sure highlighted enough, and it is the fact that demand for Chinese xanthan gum is growing sort of faster than they are adding capacity. Again, this is something that is a little different than I think has come before the Commission in other cases.

Again, Petitioners attempt to portray the additional capacity as directed at the U.S. market, but I ask that you look at all the suppliers to the U.S. market from China and compare their exports to

the United States or production to total exports, to total shipments, and you'll see that that's not true.

And finally, I do want to echo what Mr. Waite said about correlation. I think this is a big part of the analysis, and look at the data that you have. I know that you will. And, you know, is there a correlation with increased imports and the so-called suffering by the domestics. I think when you look at that closely, you will see that the correlation doesn't exist, which suggests that their claim of material injury from imports from China and Austria really have not been met.

Thank you.

MS. DeFILIPPO: Thank you, Mr. Waite and Mr. Porter. On behalf of the Commission and the staff, I would like to thank the witnesses who came here today, as well as counsel, for helping us gain a better understanding of the product and the conditions of competition in the xanthan gum industry.

Before concluding, please let me mention a few dates to keep in mind. The deadline for submission of corrections to the transcript and for submission of post-conference briefs is Friday, June 29th. If briefs contain business proprietary information, a public version is due on Monday, July

2nd. The Commission has tentatively scheduled its vote on these investigations for Thursday, July 19th, and it will report its determinations to the Secretary of the Department of Commerce on Friday, July 20th. Commissioners' opinions will be transmitted to Commerce on Friday, July 27th.

Thank you all for coming. And with that, this conference is adjourned.

(Whereupon, at 1:40 p.m., the preliminary conference in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Xanthan Gum from Austria and China

INVESTIGATION NO.: 731-TA-1202 and 1203

HEARING DATE: June 26, 2012

LOCATION: Washington, D.C.

NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: June 26, 2012

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Washington, D.C. 20005

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