Testimony of John E. Panichella
Aqualon Company, February 15, 2011

Good morning Madam Chairman and members of the Commission.

My name is John Panichella. I am President of Ashland Aqualon Functional Ingredients. Ashland Aqualon Functional Ingredients is the name under which Aqualon Company has been doing business since the acquisition of its parent company Hercules Incorporated by Ashland Inc. in November 2008.

Like many of my colleagues at Aqualon, I am a chemist as well as a business person and have degrees in both disciplines. After a 25-year career with General Electric and Betz Dearborn, I joined the Aqualon unit of Hercules in 2006, and have led that business, which includes our purified carboxymethylcellulose operations, since that time.

I was fortunate to take over this business after the antidumping duty orders had been imposed on dumped imports from Mexico, the Netherlands, Sweden and, most importantly, Finland. Early in my tenure at Aqualon I had ample opportunity to review where the CMC operations had come from and where they needed to go. As CMC is part of a larger family of products manufactured at Ashland, its performance is evaluated against that of these other products, and affects decisions on where to invest, and at the end of the day even whether to continue operations. Our CMC prices had to be high enough to cover production costs, while our operations had to be made lean and efficient enough so that our costs would be as low as those of any producer anywhere. The successful antidumping investigations made both possible.

Before the antidumping orders were imposed, we saw our market share dwindle early in the investigation period due to lower pricing by dumped imports. Under the leadership of my predecessor John Televantos, whom Commissioners Lane, Okun and Pearson may remember from his appearance before you in 2005, Aqualon made the strategic decision at that time to reduce its pricing to regain some market share and thereby keep its volumes up and unit fixed costs down. This strategy also helped us to minimize the reduction in our workforce, although some layoffs were required at that time as one way to reduce costs in the face of declining prices and profits. As the Commission stated in its June 2005 opinion, "All of these improvements in the industry's volume-related indicia were, however, more than offset by the very substantial declines in the industry's pricing and profitability levels during the period of investigation."

The benefits of the antidumping duty orders were immediate and profound. As the Commission has seen from our submissions, in the first year after the orders were imposed, 2005, CMC sales volumes, pricing and profits all had rebounded significantly. Moreover, with this return to normal profitability, we have been able to make meaningful investments to upgrade our facilities and improve production processes and efficiency. For example, we increased the automation of a major CMC drying unit and we upgraded our CMC milling process, with the most recent investment being for a diverter system that allows us to efficiently process CMC with different particle sizes. We have also been doing a lot of research and development on ways to make CMC dissolve more quickly and evenly, plus we are providing formulation, product development and applications support for our customers.

A thriving Hopewell, Virginia, CMC unit is also important for several of our other cellulose ether businesses, as it allows a more equitable sharing of some common fixed costs.

Perhaps because of their own desire to maintain production and spread their fixed costs, respondents have continued to make significant sales of CMC into the United States market, even after the antidumping duty orders were imposed. Many of these sales have been at substantial antidumping duty rates. This shows quite clearly that respondents value the U.S. market and not only are willing to dump – they have to dump – to continue selling here. As my colleagues Karen Gruber and Zissis Pappas will describe to you shortly, respondents show no hesitation, even in the face of antidumping duty orders, to take business by underselling Aqualon. I understand from the public version of the Staff Report that this underselling is quite widespread.

If the orders were revoked, the elimination of antidumping duties would mean that respondents would be able to lower their prices by the not insignificant amount of the dumping duties without affecting their net returns. Given the importance of price to our customers, this would put downward pressure on Aqualon's prices, sales and profits, and also would make it harder for us to continue the types of investments and research and development needed to maintain the business in the future.

Although we saw a small uptick in our business as we attempted to service customers caught short when CP Kelco's Nijmegen, Netherlands, plant experienced the fire that took it off line in July 2009, we are now finding that CP Kelco's Aanekoski, Finland, plant is more than taking up the slack. That plant is the world's largest, with a publicly reported capacity of 100 million pounds of purified CMC – that's nearly triple Aqualon's Hopewell plant capacity. CP Kelco's Finnish plant has government and customer approvals to make all types of purified CMC, including regulated grades used in food and personal care items.

I do understand that CP Kelco's Chinese CMC is not subject to an antidumping duty order; however, it is still relevant to this proceeding. CP Kelco opened a 15,000 ton CMC plant in China in November 2009. Although the CP Kelco China plant is GMP-certified, up to this point we have seen this facility focus on supplying non-regulated CMC to export markets, including the United States. This has the effect of freeing up CP Kelco's Finnish CMC capacity to supply higher margin regulated grades. If the antidumping duty order on CMC from Finland were revoked, we would see an immediate and profound impact on Aqualon.

We are also seeing significant underselling by Quimica Amtex at several accounts, in both the personal care and food industries, with the latter already having resulted in Aqualon's loss of a major customer. And although the CP Kelco plant in the Netherlands has been shut down, Akzo Nobel Functional Ingredients is already qualified to sell purified CMC at some of our largest customers with business totaling several million pounds. Among these are customers it has serviced in the past and to which it would no doubt attempt to sell once again if the antidumping duty order on purified CMC from the Netherlands were revoked. Notably, in its most recent antidumping review, the Department of Commerce found that Akzo was dumping at a rate averaging over nine percent. Price reductions of at least that amount by Akzo, if the antidumping duty order were revoked, would be devastating to Aqualon's business.

As I have mentioned and as Ms. Gruber and Mr. Pappas will amplify, CP Kelco, Amtex and Akzo are all aggressively competing with, and often underpricing, Aqualon for regulated CMC business, notwithstanding a dumping duty for CP Kelco of over six percent, and at times during the past few years, of as high as 13 percent. For Amtex and Akzo, the Department of Commerce projects dumping in the event of revocation of 12 percent and 13 percent respectively.

To assist the Commission in projecting what would happen if the antidumping duty orders were revoked, I have reviewed what did happen with our U.S. CMC operations during and shortly after the initial period of investigation. Immediately after the orders were imposed, there was a noticeable "pop" in our CMC prices and sales volume in the year 2005. Our U.S. price increased by an average of $0.09/lb. and our U.S. commercial shipments increased by 10 percent in 2005. Based on U.S. Census data, purified CMC import volume from subject countries declined by 32 percent from 2004 to 2005. I can tell you that if the orders were to be revoked these patterns certainly would be reversed, with adverse financial consequences to our CMC business. For example, a price drop of $0.09/lb. alone will result in a decline in operating profits for this business of almost $3 million. The actual adverse effects will be even greater as we would also surely lose volume, which would have the additional effect of increasing our unit fixed costs and squeezing our margins.

Before closing, I'd just like to address a few words to Commissioner Pearson. I have read your dissenting views in the original investigation and respect your thoughtful analysis. There is one point, however, where things have definitely changed since 2005, and I want to emphasize that for you and your colleagues. You had noted that at the time of the underlying Commission determination, CP Kelco in Finland was not GMP qualified and thus could not compete with Aqualon in the food and personal care markets for CMC. Looking forward from 2011, however, I ask that you give special attention to the fact that CP Kelco in Finland is GMP qualified, and in fact became GMP qualified in short order after 2005. Today CP Kelco is shipping a wide array of regulated CMC grades from its Finnish plant and would hit us even harder across the board if the antidumping duty orders were revoked.

With these conditions in mind, I respectfully request that the Commission find that revocation of the antidumping duty orders on imports of purified carboxymethylcellulose from Finland, Mexico and the Netherlands would be likely to lead to a recurrence of material injury to the domestic industry within a reasonably foreseeable time.

Thank you again for your kind attention.