

TESTIMONY OF ZISSIS PAPPAS
Aqualon Company, February 15, 2011

Good morning. My name is Zissis Pappas.

I am currently Global Industry Director, Oilfield and Specialties Businesses, for Ashland Aqualon Functional Ingredients.

I graduated from Temple University in 1989 with a bachelors degree in Finance, and then joined DuPont where I worked for three years in corporate finance.

In 1992 I moved to Betz Laboratories as a financial analyst. Betz became Betz Dearborn, which in turn was acquired by Hercules. At Hercules I transitioned into the corporate development group. My responsibilities included analysis of acquisitions and divestitures.

Beginning in 2006 I was assigned to the Aqualon Unit of Hercules, where I moved from corporate development to commercial work.

For the past five years I have been responsible for Aqualon's global oil field and specialties business. My responsibilities include:

- Setting marketing strategy and priorities;
- Support global sales teams on negotiations;
- And overall execution of our strategic plan for these two business segments

In my area of responsibility, the principal markets for CMC are specialties and oil field.

Specialties comprises a number of uses, but the largest two are paper coatings and civil engineering.

The paper coatings market is just what it sounds like. We sell CMC to paper manufacturers to enhance the printing characteristics, handling characteristics and appearance of paper.

Civil engineering is a bit more diverse. We sell CMC for tunneling, horizontal drilling and special foundation projects used primarily as a thickener to provide wall stability.

In the oilfield sector, CMC is an important component of many drilling muds. CMC is used primarily to improve hole cleaning and suspension properties.

Let me give you a bit more detail for each of the three principal markets for which I have responsibility.

First the **paper coatings** market.

Paper coatings is not as cyclical as other markets such as oilfield, as demand for paper is reasonably constant.

In paper coatings, customers are willing to swap suppliers based on price, so we are always alert and sensitive to competition.

CMC imported from CP Kelco in Finland is prevalent in the West and Midwest. We are now starting to see more from CP Kelco's Chinese plant. This appears to be freeing up CP Kelco's capacity to sell into the paper market elsewhere and perhaps allow more of its Finland capacity to be used for regulated grades.

By the way, I note that respondents allege that purified CMC can be replaced in some oilfield applications with crude CMC. This in practice is very limited. I seen some attempts to replace purified CMC with crude CMC, but these were not successful.

Turning to the **civil engineering** market, it is similar to the paper market in that we see CP Kelco competing widely on price.

And here it is all from Finland, not China.

Because these are often projects let out on bid, price is very important.

Customers are willing to swap suppliers solely on price.

Finally, I'll touch on the situation in the **oil field** market.

As you would imagine, it is quite cyclical and fluctuates generally with rig count

Global price of oil and natural gas drive the amount of drilling activity. Based on current market conditions, activity in this segment continue to grow.

We see CP Kelco from Finland very active and offering to undercut our pricing.

New entrants from China are also putting on price pressure.

Because demand has increased recently, there has been some recovery in price, but not as much price recovery as demand would seem to suggest, because both CP Kelco and the Chinese are undercutting strongly.

I'd like to ask Mr. Jeffrey Wolff, who has been with Aqualon for two decades, to interject a few words concerning the situation in the oil field market before the antidumping orders were imposed.

Jeff?

Mr. Wolff:

Before the orders were imposed, we were faced with extremely aggressive pricing from CP Kelco (then known as Noviant) as well as from Amtex. This was an area where we were actually losing money on almost every sale. The antidumping duty orders made a huge difference for us.

Mr Pappas:

We are very concerned about the impact on our oilfield sector business if the orders are revoked. As I have stated, price is critical in competition in this sector.

Even with dumping duties, respondents have continued to challenge us on pricing.

If the orders are revoked, respondents will be able to lower their prices by the amount of the duties with no impact on their gross profits.

And without the orders, there will be no floor on their pricing and, judging by their past behavior, they will decrease prices however much is necessary to capture increased business.