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

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

TESTIMONY OF CHRIS AUD

June 23, 2017

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

Cargill is a privately held, family owned company that celebrated its 150th anniversary just a couple of years ago. From our small beginnings in 1865 in Conover, Iowa, we have grown into a global company that produces and sells agricultural-based products like citric acid in many different countries all over the world. We currently produce citric acid at our plants in Eddyville, Iowa, and Uberlandia, Brazil. Our Eddyville plant is part of an integrated Bio-Refinery and corn processing complex, which provides approximately 1,000 good-paying jobs.

The Eddyville citric acid plant uses a share of the dextrose produced in the adjacent corn wet milling complex as the substrate for citric acid production.

While modest in its location in South Central Iowa, Eddyville is connected to a truly global market. Citric acid is globally produced and traded. There are a small number of world-class citric acid producers supplying the global market. The major global players are located in Austria, Canada, China, Brazil, Belgium, Colombia, Thailand, and the United States.

The demand side of the equation is also global. The largest citric acid purchasers are global in nature and scope. They have offices and buying agents in foreign countries and purchase citric acid from non-U.S. producers for consumption in many different markets, including the United States. They are well aware of the world's supply and demand, pricing, and availability of non-U.S. citric acid. They are motivated to obtain the lowest prices, because citric acid is interchangeable regardless of source or end-use application.

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

orders on imports from China by establishing production facilities in Thailand. Niran allegedly started producing in Thailand in 2010, Sunshine Biotech started production in 2011, and COFCO started production in 2013. All of these Thai producers are affiliated with Chinese producers, and all were established in Thailand after the orders on imports from China were imposed in the United States. There are only a handful of Chinese producers that are world-class and can compete with domestic producers for the largest U.S. customers. But it was these world-class Chinese producers that shifted production to Thailand in order to circumvent the orders in the United States. It is a classic "whack-a-mole" situation, and the imports began to have an injurious impact in 2014.

A similar situation occurred in Colombia. Tate & Lyle was a joint venture partner in the sole citric acid plant in Colombia, which focused on sales in the Colombian market and exports within Latin America. Accordingly, its exports to the United States were not significant. After Tate & Lyle divested its share of that facility in 2012, however, U.S. imports from that Colombian plant surged. The U.S. is now by far the leading export destination for Colombian citric acid. Like the imports from Thailand, the Colombian producer has taken advantage of the effectiveness of the U.S. orders on imports from China and Canada and filled the void with low-priced citric acid.

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

Because citric acid producers strive to run their plants at full capacity, there are powerful economic incentives driving producers in Belgium, Colombia, and Thailand to price below their fully absorbed cost of production. Every year during the period of investigation, our customers have been receiving extremely and increasingly attractive price offers for subject imports. This downward price pressure has resulted in numerous lost sales and revenues, with the expected and harmful impact on our bottom line.

After minimizing investments in our plant due to negative profits before the orders on China and Canada were imposed, Cargill made significant investments after those orders that enhanced our productivity and expanded our capacity. We also increased our investment in general plant maintenance to be able to reliably and consistently supply customers. Unfortunately, however, the surge in subject imports since that time have prevented us from achieving the expected return on those investments. In fact, since 2014 we have yet again been forced to reduce investment in these same areas.

At Cargill, we focus our customers on what we believe is Cargill's superior supply reliability and service. But the reality is that price is the overwhelming driver in the market for this product. Price in this market is magnified by the way in which most citric acid is bought and sold in the United States. In November and December of every year, Cargill, along with other U.S. producers and importers, negotiates with purchasers to sell most of our total output for the following year. Because almost all sales are negotiated well in advance to cover a one year period, performance related to non-price factors – such as quality, delivery, availability, timeliness – is a given. If you are large enough to warrant a place at the negotiating table, then purchasers assume you can deliver quality product, on time.

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

In a commodity market where there are a few major buyers and a few major sellers, the side with the majority of marketing power will depend on the balance of supply and demand. It is well known that there is substantial production capacity in excess of domestic requirements in Belgium, Colombia, and Thailand. That capacity can be, and has been, engaged to serve the U.S. market – not only in the spot market, but in the all-important annual contract market as well. The citric acid producers in Belgium, Colombia, and Thailand are world class producers capable of delivering high quality citric acid, meeting USP specifications, in substantial volumes. While we think Cargill offers the best supply reliability and service, we also believe that many, if not most customers, have concluded that there are no material quality differences, product availability differences, or logistical disadvantages that might restrict the availability of imports from these countries.

Given the global nature of the citric acid market, the large available capacity in the subject countries has an impact on the negotiating behavior of both the major purchasers and the sellers in all markets, including the United States. In recent years, additional supplies of lower priced imports from Belgium, Colombia, and

Thailand have shifted the existing supply/demand balance in the United States and have caused U.S. prices to fall rapidly. Because prices in the United States, while falling, are still higher than in unprotected markets – due to the orders on China and Canada – the subject producers have increased their sales to large volume customers in the United States by using aggressive and unfair pricing.

The market impact of the overcapacity in the subject countries and the increasing imports is not lost on our major customers. They enjoy a clear view of product availability and pricing from the subject countries. Unrestrained import pricing from Belgium, Colombia, and Thailand in the U.S. market has caused material injury to our citric acid business. Without relief on imports from Belgium, Colombia, and Thailand, the volume of imports will continue to increase, and prices will continue to fall. We will lose more volume to subject imports that undersell our product, resulting in lost sales volume and overall revenue. The negative impact on our operations already has been significant. The lower market prices caused by increased underselling by subject imports have placed our citric acid operations at risk. Continued volume losses compromise our ability to operate at the high levels of capacity utilization that are necessary, and lower prices and profits have translated into a reduction in investments in our assets. Without relief on imports from Belgium, Colombia, and Thailand, continuation of our citric acid operations is in doubt.

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