

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation Nos.:
MONOSODIUM GLUTAMATE FROM) 701-TA-503-504 and
CHINA AND INDONESIA) 731-TA-1229-1230
) (Preliminary)

REVISED AND CORRECTED TRANSCRIPT

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 CHINA AND INDONESIA) (Preliminary)

Wednesday,
 October 23, 2013

Room No. 101
 U.S. International
 Trade Commission
 500 E Street, S.W.
 Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:31 a.m., at the United States International Trade Commission, CATHERINE DeFILIPPO, Director of Investigations, presiding.

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Countervailing Duty Orders:

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KENTARO SHIMIZU, Director of Savory and Specialty
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P R O C E E D I N G S

(9:31 a.m.)

MS. DeFILIPPO: Good morning. Welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping and countervailing investigation Nos. 701-TA-503-504 and 731-TA-1229-1230 concerning imports of Monosodium Glutamate From China and Indonesia.

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; Amy Sherman, the investigator; to my left, Mary Jane Alves, the attorney/advisor; Michelle Breaux, the economist; and Brian Allen, the industry analyst.

I understand that the party is aware of the time allocation. 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.

All witnesses must be sworn in before presenting testimony. Any questions regarding

1 swearing in or time allocations should be addressed
2 with the Secretary. Are there any questions?

3 (No response.)

4 MS. DeFILIPPO: Hearing none, Mr. Secretary,
5 any other preliminary matters?

6 MR. BISHOP: Madam Chairman, I would note
7 that all witnesses for today's conference have been
8 sworn in.

9 (Witnesses sworn.)

10 MS. DeFILIPPO: Thank you very much. Very
11 well. We will begin with opening remarks and then
12 head right into the direct presentation by your panel,
13 Mr. McPhie, if that works for you.

14 MR. McPHIE: Yes, that works for us. Thank
15 you.

16 MS. DeFILIPPO: Thank you.

17 MR. McPHIE: Good morning, and thank you,
18 Ms. DeFilippo and members of the Commission staff. We
19 appreciate this opportunity to appear before you here
20 today. Again, for the record I am Iain McPhie from
21 Squire Sanders, counsel for Ajinomoto North America.
22 I'm joined as counsel today by, on my far left,
23 Christine Sohar Henter and Sarah Sprinkle from Squire
24 Sanders and, on my right, Michael Lazerwitz and Ryan
25 Davis from Cleary Gottlieb.

1 Appearing as witnesses today from Ajinomoto are
2 Brendan Naulty, Senior Vice President; Kentaro
3 Shimizu, Director of Savory and Specialty Ingredients;
4 and Dave Barbour, Senior Consultant. We're also
5 joined by Bruce Malashevich and Cara Groden of
6 Economic Consulting Services.

7 I should also mention on my far left here we
8 have samples of the product and its packaging and some
9 of the end use products in which MSG appears, and
10 we'll introduce you to some of those during our panel
11 testimony.

12 While the Commission has not previously
13 investigated MSG, it does have experience with similar
14 products from previous investigations, including
15 citric acid and xanthan gum. In fact, one of the
16 leading Chinese xanthan gum producers involved in the
17 Commission's investigation of that industry is also a
18 major player in this case. That company is Fufeng.

19 If you've not yet had a chance to review
20 Fufeng's 2012 annual report, I recommend doing so
21 because the document very clearly lays out the
22 company's fundamental strategy of expanding production
23 capacity while cutting prices and focusing on export
24 markets in order to increase their sales and gain
25 market share.

1 In particular, pages 3, 4 and 15 discuss the
2 company's production expansion and price cutting,
3 while pages 16 and 20 discuss the company's focus on
4 expanding its exports. Fufeng of course is far from
5 the only Chinese or Indonesian producer to engage in
6 these practices. It's simply the most open in
7 describing them in a public company document.

8 The record before you now in this
9 preliminary investigation, as well as the testimony
10 you'll hear today, all will make clear not only that
11 the Chinese and Indonesian MSG producers have
12 dramatically expanded their shipments to the United
13 States at unfairly low prices, but also that such
14 practices are having a devastating impact on
15 Ajinomoto, which is the sole domestic producer of MSG.

16 As you'll hear today, Ajinomoto has made
17 every effort to increase its efficiency and reduce
18 production costs to improve its competitiveness, but
19 this simply has not enabled the company to compete
20 profitably against very large and increasing volumes
21 of unfairly priced subject imports, prices of which
22 have remained low despite significant increases in the
23 prices of corn and other production imports during the
24 period of investigation.

25 As a result, there's simply no question that

1 the record shows a reasonable indication that
2 Ajinomoto both has suffered material injury and also
3 is threatened with more of the same by reason of the
4 subject imports.

5 On the question of volume, the record could
6 not be clearer. Subject imports are far from
7 negligible. Already a very large 27 million pounds in
8 2010, subject imports grew by an astounding 139
9 percent to just over 66 million pounds in 2012
10 according to the public import data. As a result, the
11 subject imports also more than doubled their combined
12 U.S. market share over that period.

13 The negative price effects of the subject
14 imports are equally apparent. The pricing data in our
15 petitions show that subject imports have undersold
16 Ajinomoto and driven its prices down. Moreover,
17 declining subject import prices, coupled with rising
18 costs of corn and other production imports, have left
19 Ajinomoto caught in a classic cost/price squeeze.

20 Finally, the data in our petition and
21 questionnaire responses amply demonstrate the severely
22 negative impact the large and rapidly growing volumes
23 of imports have had on Ajinomoto's profitability and
24 other key indicators. The causal link between the
25 subject imports and the company's condition is shown

1 in Exhibit I-15 to our petition, the details of which
2 are confidential, but which generally shows the
3 subject import volumes steadily increasing over the
4 period of investigation while Ajinomoto's operating
5 income declined concurrently. The reasons this causal
6 link is so strong in this case will be explained
7 further by Mr. Malashevich.

8 With regard to threat, the MSG industries in
9 both China and Indonesia are extremely large with
10 production capacities many times the size of the total
11 U.S. market. The industries are export oriented.
12 They have significant excess production capacity that
13 is poised to continue the dramatic increase in
14 shipments to the United States that we've seen in
15 recent years.

16 Such shipments, moreover, will continue at
17 unfairly low prices against which Ajinomoto is simply
18 unable to compete. Fufeng has said as much in its
19 most recent annual report, and the other major Chinese
20 and Indonesian exporters can be expected to do the
21 same.

22 Other aspects of this investigation are
23 equally straightforward. Ajinomoto is the only U.S.
24 producer of MSG, which is a commodity product sold in
25 essentially the same form and through the same

1 distribution channels into all market segments by
2 Ajinomoto and the Chinese and Indonesian producers.
3 Therefore, there are no complications raised with
4 regard to the domestic industry or the domestic like
5 product.

6 The case for cumulation of the Chinese and
7 Indonesian imports also is clear. Chinese and
8 Indonesian MSG imports compete directly against each
9 other, as well as against Ajinomoto's MSG, in all
10 distribution channels, in all market segments and in
11 all regions of the country. There's simply no basis
12 for distinguishing among them.

13 Finally, I'd like to note that the
14 questionnaire record to date in this investigation is
15 incomplete, and in particular not a single Chinese
16 producer or exporter has submitted a questionnaire
17 response or any other information in this proceeding.

18 I'll also note the obvious; that no Respondent party
19 at all saw any reason to appear here today to present
20 their case to the Commission. They apparently agree
21 with us that our case is very clear.

22 That concludes my opening remarks. With
23 that, I will hand the microphone to Brendan Naulty
24 from Ajinomoto.

25 MR. NAULTY: Thank you. While we're getting

1 set up for running the slides, for the record I am
2 Brendan Naulty of Ajinomoto. I'm currently Senior
3 Vice President of Ajinomoto North America, Inc., and I
4 currently manage the monosodium glutamate business in
5 North America as one of my responsibilities.

6 I've been with Ajinomoto for 13 years, and
7 I've been involved with MSG since 1987 when I worked
8 for another firm. I also serve as president of the
9 Glutamate Association of the United States, and some
10 of the graphics you'll see in the presentation today
11 were provided by Glutamate Association.

12 So this is our first slide. This is
13 Ajinomoto's headquarters in Tokyo, and Ajinomoto is
14 pronounced Aji-no-moto. This is meaning the essence
15 of taste in Japanese. So the first product which we
16 had was MSG. It's our company name. It also
17 describes very well what we do, which is provide taste
18 to foods. Ajinomoto is a large, international food,
19 pharma and amino acid ingredient company based in
20 Tokyo. Ajinomoto was started by discovering MSG and
21 commercially producing it. MSG was our first product
22 and became the key brand and the company name.

23 This slide shows our three companies. On
24 the left you can see -- if you can go to the next
25 slide, please? On the left you can see the retail

1 products, things such as frozen foods, seasoning,
2 cereals, dressings, edible oils. In the middle is our
3 amino acid company and our bioscience business, which
4 is where MSG fits into the business portfolio. And
5 the third part is the pharma business.

6 I wanted to talk a little bit about umami
7 taste in order to understand MSG and its place in the
8 food industry. Umami is the fifth taste, and MSG is
9 the purest taste of umami. We all learned in school
10 that there are four basic tastes -- sweet, sour, salt
11 and bitter. There is a fifth taste, and that's umami.

12 This umami is better known in the west as the
13 monosodium glutamate taste.

14 Umami was first identified as a taste in
15 1908 by Dr. Ikeda of Tokyo Imperial University.
16 Having been struck by the distinct flavor of seaweed
17 broth, which is, by the way, the base of miso soup, he
18 isolated the molecule responsible for the flavor and
19 showed that it was indeed glutamate.

20 Although taste researchers have known of
21 Ikeda's work for decades, it's only recently that
22 umami has gradually gained wider public recognition,
23 probably because of the increasing popularity of Asian
24 foods. A team of scientists in the University of
25 Miami identified the specific taste receptors for

1 umami in the year 2000, and umami officially became
2 the fifth taste.

3 It makes good sense that animals should have
4 evolved the ability to taste glutamate as it's the
5 most abundant amino acid. Glutamate is present in
6 many protein-containing foods, including meat, seafood
7 and aged cheese. In fact, everyone here today has had
8 their first taste of glutamate when we were first
9 born, as mother's milk is one of the highest
10 glutamate-containing sources of nourishment.

11 In this slide we see many protein-based
12 foods which contain glutamate. The uniqueness of MSG
13 therefore lies in taste, which it contributes to
14 foods. MSG is considered a commodity ingredient
15 produced and consumed worldwide. It is used in many
16 foods, and here we have one unique food, if you can go
17 to the next slide, the Dorito.

18 This was on October 2, I believe the day
19 after the shutdown. *New York Times* obviously was
20 looking for content, so they did the deconstruction of
21 the Dorito. Doritos would just simply not be the same
22 without MSG. It gives it its unique taste. Other
23 consumer brands that use MSG can be seen here in this
24 picture. We see some very, very familiar retail
25 brands.

1 So, Ajinomoto has been producing MSG at our
2 facility in Iowa for two decades, and today we are the
3 sole producer of this widely used product. The Iowa
4 facility, as you can see on the screen, is located in
5 the countryside, about two hours' drive southeast of
6 Des Moines. It's in a region where there are few
7 other opportunities for industrial employment, and it
8 is operated 24 hours a day on a year-round basis.

9 To produce MSG -- next slide -- it's a basic
10 process of fermentation, which is very similar to
11 making beer, wine or vinegar. The process starts with
12 a carbohydrate source, and in our case it is corn.
13 The corn is milled to extract the sugar. The sugar is
14 introduced into a deep tank fermentation vessel. We
15 introduce a microorganism in the presence of heat and
16 oxygen to do this fermentation.

17 The organism consumes the sugar and produces
18 glutamic acid. The acid is converted to salt by
19 adding sodium. Then we separate crystals and dry
20 them, and this is followed by packaging. We make a
21 few different crystals, as you can see on the slide,
22 but basically the products are the same except for the
23 size of the crystal.

24 At the end of the process we package into a
25 few different forms such as retail packs you can see

1 here, a five ounce pouch, one pound bag, one pound
2 box, a three pound bag. For food service market we
3 provide 100 pound drums and 20 kilo bags, and for food
4 processors we typically provide a 50 pound bag or a
5 2,000 big bag. These packages are here today, and we
6 can review them after my testimony.

7 Competitors use similar production methods
8 in their plants and have matched Ajinomoto's crystal
9 sizes and packages. The raw material inputs across
10 competitors are very similar as they are the fixed
11 capital costs so that different significant pricing
12 advantages to a particular producer should not be a
13 factor. Therefore, producers have a typical incentive
14 where there's a high capital cost to keep the plants
15 running at full capacity.

16 Chinese producers originally entered the
17 U.S. market some 10 years ago and rapidly accumulated
18 market share to over 30 percent in two years. Their
19 activity was initially at the expense of Vedan, which
20 is now virtually not participating in the USA market.

21 Vedan is a current producer of MSG with plants in
22 Taiwan and Vietnam. After Vedan was out of the
23 market, Ajinomoto saw a decline through the loss of
24 business to first Ajinomoto's own nonsubject imports
25 from our overseas affiliates, and now it's at the

1 expense of our material produced in Iowa.

2 Ajinomoto's market share and prices declined
3 rapidly to the point in 2007 that we were operating
4 the MSG plant at a loss. At that time we needed to
5 consider how to compete long-term with Chinese
6 competition and decided to take an approach through
7 technology advancement and an emphasis on efficiency.

8 So this slide shows a construction project
9 we had in late 2007. Ajinomoto invested tens of
10 millions of dollars to expand the production at the
11 Iowa facility and spread our fixed cost. We reduced
12 our cost through operating efficiencies at that time.

13 For a brief period imports from China receded
14 somewhat, and by 2010 the Iowa facility was highly
15 profitable at a double digit rate of operating income
16 in relation to sales.

17 Throughout the period 2010 to 2012, there
18 were multiple announcements in China of facility
19 expansions that were extremely large and, quite
20 frankly, a great concern to the health and future of
21 our business here. These expansions were significant
22 enough to crush local market producers like our
23 facility in Iowa. Recognizing this threat and the
24 movement in the structure of the industry, Ajinomoto
25 invested in research and development targeted at

1 reducing now the variable cost of the MSG process.

2 This change would give us a long-term
3 competitive advantage against foreign producers and
4 enable us to compete in the same pricing range which
5 our competition was at that time offering customers.
6 Ajinomoto invested additional millions of dollars in
7 an Iowa facility to install this technology. Prior to
8 that installation, in September of 2011 corn prices
9 spiked in the U.S. market, but at the same time
10 importers from China and Indonesia brought pricing
11 down by approximately 20 percent.

12 So this slide shows that in the last two
13 years and up until today the Chinese producers and
14 Indonesian producers have sharply increased their
15 exports to the U.S. and reduced selling prices. This
16 has been at the detriment of Ajinomoto and is detailed
17 in our petition. Currently subject imports more than
18 offset our Iowa facility's capacity gains and benefits
19 achieved from the more efficient technology
20 investments, so much so that operating income at our
21 Iowa plant has plummeted to a negative profitability
22 in the first half of this year.

23 So having exhausted opportunities for
24 increased capacity and greater cost efficiency,
25 Ajinomoto suspected and now has proven that most of

1 the recent surge in subject imports from China were
2 made possible by dumping and government subsidies. To
3 add insult to injury, the entry and rapid expansion of
4 subject imports from Indonesia entered the U.S. about
5 the middle of the likely period of investigation and
6 have accumulated significant market share on their
7 own. We're now being overwhelmed by both.

8 All of this is documented in our petition
9 which is before you. Our petition documents how
10 Chinese producers have rapidly expanded their
11 production capacity for MSG to levels capable of
12 overwhelming not only the U.S. market, but the global
13 demand, by many times over at a time when our
14 operations are particularly vulnerable.

15 So I'd like to give the staff -- I think if
16 you can go back one slide, please? I'd like to give
17 the staff an overview of the MSG market. This slide
18 shows that globally it's estimated that MSG demand is
19 over 3 million metric tons. Fifty-four percent of
20 that demand is inside China, and 46 percent is outside
21 of China. This is not expected to change over the
22 next few years. However, our estimate of MSG which
23 will be available to export increases significantly
24 throughout 2016. So this next slide shows that.

25 In this slide, the blue bar represents the

1 capacity in China on the reported production
2 capacities via Chinese producers, the red bar
3 represents the demand inside China, and the green bar
4 represents the available material to export each year.

5 The purple bar represents the U.S. market size.
6 There is clearly no evidence that the Chinese exports
7 will slow or that the pricing policy will shift to a
8 reasonable level where a fair rate of return can be
9 achieved.

10 Chinese suppliers have offered and USA
11 customers have taken advantage of pushing prices down
12 through methods such as reverse auctions, which take
13 all factors except price out of the buying decision.
14 Customers who have had loyalty to U.S. produced
15 product no longer have that position and frequently
16 react solely on the basis of price offered by our
17 competitor.

18 As I've stated before, Chinese and
19 Indonesian suppliers have matched our crystal sizes,
20 and customers consider the producers to be
21 interchangeable. MSG needs to meet the specifications
22 set forth in the Food Chemical Codex, and most
23 customers will initial test material against the
24 standard to qualify the material before it is
25 imported, and once the material passes they consider

1 the materials to be interchangeable.

2 While this market behavior is happening, our
3 price in the market did not fall as fast because we
4 did not follow these unreasonable prices at the same
5 pace in the race to the bottom. This has, however,
6 resulted in lost sales and value, which we have
7 detailed in our petition.

8 The Indonesian supplier has also taken the
9 approach of low prices to customers of large
10 requirements. One of the suppliers from Korea is now
11 the major Indonesian supplier, they had stopped
12 production in Korea and expanded production in
13 Indonesia. Having left the U.S. market in 2008,
14 they've come back with product from Indonesia, and
15 those customers who appealed to Ajinomoto for supply
16 when they left them, when they left them high and dry,
17 seemed to have had amnesia that they had previously
18 quit the U.S. market, but rather have welcomed them
19 back as they came back with their low price offers and
20 were rewarded significant business at our expense.

21 I would like next to quickly review some of
22 the key inputs in the manufacturing of MSG. Next
23 slide? I think this is probably out of order. This
24 one. This first slide is glucose. I think maybe you
25 can go back one. Okay. So this is the following

1 slides show an index with January 2010 being 100
2 percent. This first slide is glucose, and glucose has
3 increased 87 percent. Next slide? This shows ammonia
4 and phosphoric acid. Ammonia had increased 69 percent
5 and phosphoric acid 26 percent. Next slide? This is
6 sodium hydroxide, which is 56 percent up, and soda
7 ash, which was 2 percent down.

8 This slide is a composite of what we call
9 our raw material index, and this index shows an
10 overall increase of 56 percent from January 2010.
11 This next slide shows plotted here also our price
12 index, and so based on the 56 percent increase in raw
13 material index it shows the same time period that our
14 sales price increased to only 9 percent. So if the
15 trend of increased volume since 2010 combined with the
16 decline in price demonstrated in our petition
17 continues, we will be forced to take some drastic
18 measures.

19 Some years ago, the EU took stiff action
20 against dumped imports from China, and today the EU
21 remedies remain in effect. In that market, where
22 Ajinomoto also produces, the remedies produced a
23 decline in subject imports and improved conditions for
24 the local industry, but their remedies we believe are
25 part of the reason for the recent surge in U.S.

1 imports from China and Indonesia because the EU
2 represents one of the world's largest overall markets.

3 Other factors contributing to the Chinese
4 and Indonesian threat are detailed in our petition.
5 We consider our situation to be urgent, which is why I
6 am here today. Thank you very much, and that
7 concludes my testimony.

8 So at this point I think I'd like to
9 introduce Dave Barbour, and Dave Barbour will take you
10 through some of the exhibits here on the left. So
11 maybe if staff would like to come around and take a
12 look? We do have some snacks. I'm going to reserve
13 the Cheetos, please, as one of my favorites.

14 MR. BARBOUR: Good morning, staff. I'm
15 David Barbour, consultant to Ajinomoto. Before I was
16 a consultant I was a long-time employee of the
17 company. Christine -- Vanna White, one of her aliases
18 -- is going to help me this morning. Yes, it's on.
19 Okay. That's good.

20 So we thought that it might be worthwhile
21 for you to see some of the products that contain MSG
22 and so we invite you to take some snacks. Maybe
23 you'll have them for lunch or a snack this afternoon.

24 (Pause.)

25 MR. BARBOUR: And then we also brought some

1 crystal sizes with us so that you could actually see
2 the product, and we also have some if you would like
3 to taste it. You may also do that. This is what we
4 call fine crystal, and that goes into a 50 pound bag
5 typically. And this is another crystal that we
6 produce at the plant.

7 (Pause.)

8 MR. BARBOUR: I would just recommend putting
9 a few crystals in the palm of your hand. There's no
10 taste difference between the crystals. It's the same
11 exact product. It's just different screen sizes.

12 (Pause.)

13 MR. BARBOUR: I think when you taste it
14 you'll begin to get a little bit of a savory taste and
15 mouth watering. That is the pure taste of umami.
16 Yes.

17 This is a typical bag that comes in from
18 China. This one happens to be a private label bag
19 that goes into the food service industry. And you'll
20 notice it says 44 pounds, and that's because at one
21 point in time we began packaging a 20 kilo bag. Those
22 bags were very quickly copied within six weeks by our
23 competition.

24 We have also some of the film from the
25 retail packaging. Typically you would find these

1 particularly in Asian stores, as well as a one pound
2 box typically. So that's some of the typical
3 packaging and some of the products that you will find
4 MSG in. So it's one of the few cases that you can
5 actually eat the evidence. Thank you so much.

6 MR. McPHIE: Now that you're all familiar
7 with MSG, if you'd like to have some on your tabletop
8 at home you can find Accent containers at your grocery
9 store. Accent is just MSG straight out of Eddyville,
10 Iowa, made by Ajinomoto. As we learned yesterday, it
11 is common to have it on the tabletop to use in place
12 of salt, and it's a great way to reduce sodium levels
13 in your diet and still have that excellent flavor.

14 Before moving on, I'd like to just move to
15 add Brendan Naulty's PowerPoint presentation into the
16 record and also the product and packaging samples that
17 you just saw. You're free to dispose of all the
18 Doritos and other snacks in any way you see fit.

19 Bruce?

20 MR. MALASHEVICH: Good morning. I'm Bruce
21 Malashevich, president of Economic Consulting
22 Services. My testimony today offers a summary of the
23 evidence of material injury and threat and material
24 injury to the domestic industry by reason of
25 increasing imports of MSG from China and Indonesia.

1 Just a lighthearted footnote. I've been in
2 this business for 37 years. I think this is the first
3 time I've seen staff eat physical exhibits presented
4 at the hearing. That's going to go down into
5 Commission folklore I'm sure.

6 But more seriously, I've participated in
7 many Title VII investigations by the Commission over
8 what is now a long career. Rarely have I observed
9 what I view as a perfect storm of fact patterns that
10 so clearly supports an affirmative finding in this
11 case. I believe that the Commission will find of
12 particular interest the strong correlation, as the
13 Commission uses the word, between the behavior of
14 subject imports and adverse changes in the domestic
15 industry's volume, prices and overall condition.

16 I call your attention in particular to pages
17 14 through 37 of the petition's Volume I and the
18 associated Exhibits I-14 through I-32. I use these
19 references because the underlying information is
20 almost entirely confidential.

21 In recent years, the Commission's decisions
22 often have relied at least in part on evidence
23 supporting such a correlation. In this case, there is
24 abundant evidence to this effect, and I call your
25 particular attention to the petition's Exhibit I-15 in

1 this regard. The trends in subject imports are
2 remarkable by any standard. Brendan has discussed
3 that history.

4 The surge of imports led to a massive gain
5 in import market share. I am constrained by
6 confidentiality from offering actual market share
7 figures, but I can accurately say that the
8 corresponding loss of the domestic industry market
9 share has been dramatic. The multi-year import surge
10 from China and Indonesia has been fueled by low import
11 prices. Data in the petition's Volume I at pages 21
12 through 24 establish this fact.

13 The harm imposed on the domestic industry by
14 these import prices has been amplified by certain
15 conditions of competition in the MSG market and
16 industry. MSG is a rapidly commoditizing product that
17 competes largely on the basis of price. Both domestic
18 and imported MSG compete on a nationwide basis across
19 the entire U.S. customer base within all the major
20 categories of customers, whether they are direct sales
21 to large-scale food processors or sales to
22 distributors that reach the Chinese food service trade
23 or retail stores or other segments of the market.

24 The second key condition of competition
25 involves the industry's operating economics.

1 Specifically, MSG manufacturing efficiency is highly
2 dependent on the constant operation of production
3 lines. Petitioner's Iowa plant operates 24/7 all year
4 round with limited ability to adjust production levels
5 to meet changing cost and demand conditions apart from
6 down time for maintenance.

7 Not surprising, Petitioner has increasingly
8 been forced during the POI into the competitive choice
9 between responding to low import prices to maintain
10 volume or reducing output and sacrificing efficiency
11 in the process. This choice has been made more
12 pressing and difficult by the major role of raw
13 materials and variable production costs for MSG.

14 Variable raw material costs, especially for
15 key dextrose sources -- that is, corn, corn starch and
16 other carbohydrates -- are subject to wide swings.
17 Mr. Naulty's testimony went into this in a
18 considerable amount of detail, but basically the
19 cost/price squeeze created by increasing raw material
20 costs plus the increasing downward pressure from
21 growing subject imports has had a severe negative
22 impact on the domestic industry's profitability.

23 I turn from these operational economics back
24 to the impact of the multi-year import surge we've
25 witnessed. The surge was fueled by unfairly low

1 import prices throughout the POI. The combination of
2 an import-induced cost/price squeeze and market share
3 losses caused declines in the domestic industry's
4 profitability in 2011 and 2012. Reduced profitability
5 and the major market share losses have left the
6 domestic industry very vulnerable going forward.
7 Increasing vulnerability can be seen thus far in 2003
8 (sic) and the further deterioration of industry
9 profitability, as Mr. Naulty just testified.

10 I would like to complete the picture of
11 material injury in this case with reference to a
12 particularly disturbing example of a lost sale.
13 Suffice it to say, a large customer in the U.S. market
14 switched the majority of its purchases from the
15 domestic industry to subject imports in a direct
16 reaction to low subject import prices. This lost sale
17 documented in the petition saw the end of traditional
18 sales patterns and the use of new purchasing
19 techniques that had the inevitable result of
20 transferring purchases to subject imports and away
21 from the domestic industry solely on the basis of
22 price.

23 I would like to conclude my testimony with a
24 brief summary of the evidence regarding threat of
25 material injury. The sheer rate of growth in subject

1 imports is by itself a powerful testament to this
2 threat. The corresponding large increase in China's
3 market share highlights China's ability to engage in a
4 low-priced, high-volume assault on the U.S. market.
5 And the same is true more recently for Indonesian
6 industry, which rapidly grew from essentially no
7 presence in the U.S. market in 2011 to a very
8 significant market share within a very short period.

9 The threat of additional rapid import growth
10 and market share is likewise supported by reason of
11 existing unused capacity and imminent substantial
12 increases in production capacity in the exporting
13 countries. Mr. Naulty's testimony addressed this
14 issue. I also refer you to petition's Volume I at
15 pages 26 through 36 for more information.

16 It is in the threat context that
17 developments in the EU are also relevant. Following
18 the complaint filed by the local EU industry, the EU
19 Commission formally initiated an antidumping action
20 against imports from China on September 5, 2007. On
21 December 2, 2008, EU published its final affirmative
22 antidumping finding and imposed certain antidumping
23 measures with rates in the neighborhood of 34 through
24 40 percent.

25 As a result -- and this is important because

1 it's sort of a test tube case of the effectiveness of
2 these measures and what they would be in the U.S.
3 market -- is that subject imports in Europe declined,
4 and the profitability and health of the local EU
5 industry improved quite significantly. The EU's
6 antidumping duties remain in effect.

7 Another key factor assessing threat of
8 material injury concerns whether imports of the
9 subject merchandise are entering at prices likely to
10 have a significant depressing or suppressing effect on
11 domestic prices and the likely increased demand for
12 further imports. As I reviewed previously, imports
13 from China and Indonesia have had a strong price
14 suppressing/price depressing effect on domestic prices
15 for MSG, and no end is in sight.

16 You know that the statute also calls for a
17 consideration of any other demonstrable adverse trends
18 that indicate the probability of material injury by
19 reason of imports or sale for importation of the
20 imports in the foreseeable future. In this case, the
21 U.S. MSG industry is particularly vulnerable to unfair
22 imports because the domestic like product is a
23 commodity type product sold to a common industry
24 standard. Therefore, it is extremely price sensitive.

25 Even modest price differentials between

1 Petitioner's product and subject imports can and do
2 result in major shifts in a supplier's price and/or
3 volume with almost any customer. Moreover, the
4 production economics of the domestic industry make it
5 particularly sensitive to lower import prices, as
6 we've discussed this morning.

7 Finally, subsidies and various benefit
8 programs offered by the Government of China and
9 Indonesia have encouraged the creation and expansion
10 of MSG production capacity in each country. These
11 countervailable subsidies create a significant
12 likelihood that low-priced subject imports from both
13 countries will continue their rapid penetration of the
14 U.S. market. In addition, export subsidies
15 specifically encourage foreign producers to export
16 more products abroad.

17 In concluding my testimony, we have not yet
18 finished our analysis of the APO material made
19 available to us earlier this week, but from what I've
20 seen so far the incomplete data we've received broadly
21 supports the arguments in the petition. Obviously
22 we'll elaborate on that in the postconference brief.
23 Thank you for your attention.

24 MR. McPHIE: That concludes our prepared
25 testimony. We welcome your questions.

1 MS. DeFILIPPO: Thank you, Mr. McPhie, and
2 thank you very much to all of you on the panel for
3 coming today. I know the government shutdown
4 complicated when this conference would occur, and I
5 really do appreciate you taking the time to be here
6 with us today, particularly in light of that.

7 It is very helpful to have you here and
8 provide the testimony and answer our questions and to
9 bring snacks. As a girl who likes salty treats
10 instead of sweet treats, this might go down as my
11 favorite conference. But I will turn first to
12 questions from our investigator, Ms. Sherman.

13 MS. SHERMAN: Good morning. Thank you all
14 for being here this morning. Does MSG have a shelf
15 life, and how long is it typically stored in
16 inventory?

17 MR. NAULTY: I think, Dave, you can take
18 that question.

19 MR. BARBOUR: MSG I would say has an
20 infinite shelf life because it's a very stable
21 product. Typically because it is in the food industry
22 we do put a Best Used By. Typically we use five years
23 for our product, but some people will put their own
24 shelf life length on it, but will use it for one year,
25 two years, five years. But the product itself is a

1 very, very stable product.

2 MS. SHERMAN: And do you ever keep MSG in
3 inventory for up to five years?

4 MR. NAULTY: I can answer that. No. It
5 gets sold. I mean, it's not sitting around for five
6 years. Most companies are going to the best practice
7 of one year shelf life from entry to the plant or to
8 their processing plant remaining so that they make
9 sure that they don't put product out there that's got
10 older materials in it.

11 MS. SHERMAN: Okay. Thank you. You showed
12 us earlier the different crystal sizes of MSG and the
13 powder, the three different sizes that you have here
14 today. Why is MSG produced in these three different
15 sizes? Why would a customer request a larger crystal
16 versus a powder?

17 MR. NAULTY: Well, I think I'll use an
18 example. We'll go back to the Doritos example. If
19 you look at Doritos, it's a topical application of a
20 seasoning, and MSG is included in that. Years ago
21 they used a larger crystal, and I think we saw a very
22 fine crystal as one of the examples. We showed the
23 company that if you use the fine crystal it applied
24 better to the chip, and therefore when you opened the
25 bag you wouldn't find the seasoning on the bottom.

1 So it depends on the application what people
2 need to use. In the case of soups where you're going
3 into a liquid system, the larger crystal is just fine.

4 The regular crystal is a typical choice in the
5 Chinese food service area where a chef is just using a
6 scoop to add it to a stir-fry dish, very similar to
7 the size of salt or sugar. So it just depends on the
8 particular application.

9 MR. MALASHEVICH: Excuse me. If I may add a
10 bit to that? Bruce Malashevich. When I took the
11 plant tour and inquired about differentiation of
12 product, really the type of packaging and the crystal
13 size are the only differentiating factors.

14 While the price of the packaging itself is a
15 separate cost, for the product there's no difference
16 in production cost based on crystal size. You just
17 put a different sieve in the system and it changes the
18 particles that stay in the sieve. Thank you.

19 MS. SHERMAN: Thank you. You answered my
20 next question. So are there differences in U.S.
21 produced MSG and MSG produced in China, Indonesia or
22 other countries? I think there is a difference in
23 production. Can you elaborate on that?

24 MR. NAULTY: I would say 10 years ago there
25 was a difference in quality. There were more

1 impurities, so the product may not have appeared as
2 white crystal due to those impurities, but the
3 production used today they're virtually identical.
4 We've been copied and matched very successfully.

5 MS. SHERMAN: And it's my understanding that
6 they use a different carbohydrate source in at least
7 Indonesia. Can you comment on that?

8 MR. NAULTY: Yes. I mean, depending --

9 MS. SHERMAN: And the price depends --

10 MR. NAULTY: -- on where you are in the
11 world you would use a carbohydrate source that were
12 readily available. In Indonesia I believe they use
13 starch, tapioca starch, but it's basically a glucose
14 source converted to a sugar.

15 MS. SHERMAN: Do you know if that's
16 typically less expensive or more expensive than the
17 corn that you're using here?

18 MR. NAULTY: I don't have that information.
19 It may be in the petition, but we can look at that at
20 the conference afterwards.

21 MS. SOHAR HENTER: This is Christine. For
22 the record, we do have the information in the
23 petition. We'll point specifically to the citation
24 and the exhibits to help you get pointed to that
25 information.

1 MS. SHERMAN: Okay. Thank you. Does your
2 Iowa plant produce anything other than MSG?

3 MR. NAULTY: In the Iowa operation we have a
4 separate production unit that does some blending where
5 we make various blends of seasonings, but it's
6 operated separately than the MSG operation. So there
7 are some shared services for purchasing and
8 environmental controls and engineering, but we
9 separate them out on a P&L basis.

10 MS. SHERMAN: But the production equipment
11 for MSG is dedicated to that process?

12 MR. NAULTY: Yes. They're totally separate.

13 MS. SHERMAN: Okay. Do you have other
14 production facilities in the United States?

15 MR. NAULTY: As Ajinomoto North America we
16 do. We have a frozen foods operation in Portland,
17 Oregon, making a number of Asian foods for big box
18 stores such as Costco and Walmart and Sams Clubs. We
19 have an amino acid production operation in Raleigh,
20 North Carolina, and also located in Eddyville we have
21 an animal nutrition amino acid operation making lysine
22 and threonine.

23 MS. SHERMAN: Okay. Our official import
24 data states that or shows that Indonesia did not
25 import anything in 2010 and then that increased to

1 2013. Do you know why they didn't import anything in
2 this year?

3 MR. NAULTY: My opinion? My opinion is they
4 could not compete in the market given the market
5 conditions and they quit, and subsequently they
6 changed their production base from Korea to Indonesia
7 and have now come back.

8 MS. SHERMAN: But when I was looking at this
9 data I was curious as well, and I looked back at prior
10 years. In 2009 they were importing, and then they
11 didn't import in 2010 and then came back in 2011. So
12 just the one year dropout that you're aware of?

13 MR. NAULTY: Yes. The best I can tell you
14 is they announced to customers they were out of the
15 MSG business.

16 MS. SHERMAN: Okay. Okay. I think my final
17 question is relating to HTS numbers. You indicate in
18 the petition that MSG is being imported largely under
19 one HTS number, but it may also enter under additional
20 HTS subheadings, which I believe are the mixed
21 seasonings containing 15 percent or more MSG by dry
22 weight.

23 Do you have a sense of the amount of subject
24 MSG that's being imported as these mixed seasonings if
25 it's a large amount, how we should look at that when

1 we're analyzing the official import data?

2 MR. McPHIE: Sure. This is Iain McPhie at
3 Squire Sanders. As far as we're aware, MSG is not
4 currently being entered under those other items. It's
5 properly classified under the single code that we
6 provide in our scope language. The reason that those
7 additional HTS items are added is based on the
8 company's experience in the European Union where an
9 order is in place and there have been a number of
10 circumvention efforts using other HTS codes to get
11 around paying the duties in Europe.

12 So we've really included those codes as sort
13 of looking ahead down the road what types of
14 circumvention efforts might occur here in the United
15 States and what other areas do we need to keep an eye
16 on. Looking backwards, we believe it's all properly
17 classified under the single MSG HTS code.

18 MS. SOHAR HENTER: If I may? This is
19 Christine again. Exhibit I-4 may be really insightful
20 to kind of explain why additional HTS codes were
21 considered for circumvention purposes as Iain had
22 mentioned.

23 MS. SHERMAN: Okay. Thank you very much for
24 all your responses. It was very helpful.

25 MS. DeFILIPPO: Thank you, Ms. Sherman. Ms.

1 Alves?

2 MS. ALVES: Thank you. Good morning. Mary
3 Jane Alves from the General Counsel's Office. Thank
4 you to all of you for coming. Your testimony has
5 already been extremely helpful. The petition provided
6 a lot of information. It's making our jobs very much
7 easier.

8 I do have a few questions for you this
9 morning. First, in terms of the imports, to your
10 knowledge are the imports primarily coming into the
11 United States in a dry form, or are they coming in as
12 a blend or a solution?

13 MR. NAULTY: They would be coming as a dry
14 form. I think it's impractical to import in a liquid
15 form. And further, there are no commercially
16 available liquid forms of MSG in the marketplace, so
17 it's a dry form.

18 MS. ALVES: Okay. Just checking. I know in
19 other cases involving chemical products sometimes
20 there have been arguments that the imports have to be
21 adjusted because there's some sort of an additional
22 moisture level due to the solution form.

23 MR. NAULTY: Yes. I don't think it's a
24 smart way to go because of potential microbial issues
25 in the food supply, so pH of this product compared to

1 acidulants or something. Acidulants with the acid pH
2 are much easier to do a liquid form, but with MSG our
3 testing showed that was not a prudent way to go.

4 MS. ALVES: Okay. You've already commented
5 this morning about the production equipment in your
6 Iowa facility. To your knowledge, is the production
7 equipment in Indonesia and/or in China used to make
8 other products?

9 MR. NAULTY: To my knowledge, the plants in
10 China that we're referencing are primarily making MSG.
11 Now, some of the manufacturers have multiple amino
12 acid products made at those locations so they could
13 conceivably switch from one amino acid to another, but
14 in the published capacities, in the design of the
15 plants, they were manufactured to make MSG.

16 It obviously is difficult for us to know
17 what's going on inside of a Chinese operation, but
18 from the MSG operations, the public information out of
19 China, we believe the Chinese major producers are
20 dedicated to making MSG. In Indonesia it's very clear
21 the Indonesian producer is making MSG in a dedicated
22 facility.

23 MS. ALVES: Okay. Thank you. I'd like to
24 talk a little bit about the channels of distribution
25 both in terms of our analysis of cumulation and also

1 in terms of the causation analysis as well. In the
2 petition on page 8 and also this morning you've
3 indicated that there are four primary categories of
4 customers -- direct sales to large scale food
5 processors, sales to Chinese food service trade
6 through distributors, sales through other distributors
7 and to distributors for retail stores.

8 If you could for each of these categories
9 give us a sense of about how many firms are involved?

10 In other words, are there a concentrated number of
11 purchasers in each of these categories, or does it
12 vary from category?

13 MR. NAULTY: So for the industrial sector it
14 is a very concentrated universe of customers. I would
15 say there's probably 25 customers that represent 80
16 percent of the U.S. market demand, and they are a
17 concentrated period of negotiation at the end of the
18 year for annual contract basis. In the Chinese food
19 service it's a bit more fragmented, but the structure
20 there is you have master distributors who go down a
21 number of level tiers to local distribution to
22 ultimately the Chinese restaurants in the United
23 States.

24 For the retail sector, and the retail sector
25 again goes mainly through distributors and there's

1 primarily two major and then a couple other minor
2 distributors which really have built their business on
3 supplying the Chinese markets and the Asian markets
4 around the United States with multiple products, so
5 they put together an entire package and deliver it to
6 stores.

7 MS. ALVES: Thank you. That's very helpful.

8 If in your postconference brief you want to follow up
9 with anything more specific -- I realize we're in a
10 public setting right now, but to the extent that you
11 can be a little bit more specific for those categories
12 where there are relatively limited numbers of players
13 just so we have a sense of who those players are or
14 whether or not we have questionnaire coverage in any
15 final investigation as well.

16 And do you compete with imports from China
17 and Indonesia for sales to each of these categories?

18 MR. NAULTY: We do, yes. More so in the
19 industrial sector, secondarily in the food service
20 sector and to a lesser extent in the retail sector,
21 although Indonesia is playing in the retail sector.

22 MS. ALVES: Okay. Thank you. Switching
23 channels a little bit again, you referenced this
24 morning that a single HTS number largely covers the
25 imports or the expected imports at least for the time

1 being from subject and nonsubject countries. Are
2 there other products that may be entered under this
3 HTS category, or is it a relatively what we call clean
4 category?

5 MR. NAULTY: To my knowledge, and, Iain, you
6 can comment, it's a very clean category as far as
7 monosodium glutamate.

8 MR. McPHIE: I would agree with that. We're
9 not aware of any other nonsubject products that are
10 classified in that category.

11 MS. ALVES: Excuse me. And I recognize
12 there may be an additional APO release, but in your
13 postconference brief once you've taken a look at the
14 importer questionnaire data if you could give us an
15 assessment in your postconference brief of whether or
16 not it's appropriate to value imports from both
17 subject and nonsubject sources based on importer
18 questionnaire data or using the data from import
19 statistics that would be helpful.

20 MR. MALASHEVICH: Excuse me. This is Bruce
21 Malashevich. You used the word value.

22 MS. ALVES: I'm sorry. I don't mean value.
23 I just mean measure.

24 MR. MALASHEVICH: In terms of coverage --

25 MS. ALVES: No, no, no. Coverage.

1 MR. MALASHEVICH: -- of import volumes? I
2 understand.

3 MS. ALVES: What should we use as our
4 source?

5 MR. MALASHEVICH: Thank you. I understand
6 now.

7 MR. McPHIE: Sure. We'd be happy to address
8 that in the brief.

9 MS. ALVES: Thank you. The petition
10 mentions MSG production in Brazil, Peru, South Korea,
11 Taiwan, Thailand and Vietnam. Are these the only
12 known major MSG producers globally outside of the two
13 subject countries?

14 MR. McPHIE: So can you repeat the list
15 one-by-one?

16 MS. ALVES: Sure. Brazil, Peru, South
17 Korea, Taiwan, Thailand and Vietnam.

18 MR. McPHIE: Yes. China was not mentioned.
19 Obviously there's many manufacturers in China.

20 MS. ALVES: Well, China and Indonesia
21 obviously both. Yes.

22 MR. NAULTY: Europe as well. Ajinomoto --
23 in France --

24 MR. McPHIE: Yes.

25 MR. NAULTY: -- has a production facility in

1 Europe.

2 MR. McPHIE: And France.

3 MS. ALVES: Okay. And do all of these
4 industries participate in the U.S. market?

5 MR. NAULTY: They all do not. For example,
6 we do not import from Europe to the U.S. We do import
7 from Brazil into the United States on occasion.

8 And I think as the petition shows and as I
9 mentioned in my testimony, Vedan, a producer in Taiwan
10 with a plant also in Vietnam, depending on the month
11 may or may not be participating in the U.S. market,
12 but they're a very small part of the picture.

13 MR. MALASHEVICH: Excuse me. Bruce
14 Malashevich again. Just to add, there's an exhibit in
15 the petition that's a more complicated version of the
16 classic consumption table, and one reason why it's
17 there is if you begin with total imports, subtract out
18 subject imports in this case, then subtract out
19 Ajinomoto's own imports for its own account -- and it
20 controls the pricing of those obviously -- you get an
21 insignificant residual of nonsubject imports.

22 MS. ALVES: You're anticipating my next
23 question. I wanted you to talk a little bit about the
24 behavior of nonsubject imports and why the petition
25 covers the two countries that it does. If you want to

1 elaborate on that in your postconference brief you can
2 do that as well.

3 MR. MALASHEVICH: Bruce Malashevich. We
4 will, but the short answer is that they're
5 commercially insignificant.

6 MS. ALVES: Thank you. You mentioned in the
7 petition and also this morning the existing European
8 Union order on imports, antidumping duty order on
9 imports of MSG from China. I believe, Mr.
10 Malashevich, you mentioned that it went into effect on
11 December 2, 2008. What is the status of any five-year
12 review of this order?

13 MR. MALASHEVICH: The status is that there's
14 been a formal request for extending the existing
15 measures in Europe and it's being considered by the
16 European Commission. The intent is to seek to have
17 the orders extended to the maximum allowable.

18 There also recently have been developments
19 with respect to Indonesia in the EU's jurisdiction,
20 and I'll ask Mr. Naulty to address the status of that.
21 What we're doing is we asked counsel in Europe who's
22 handling this for what's appropriate to introduce in
23 public forum, and we have that before us.

24 MR. NAULTY: Yes. So basically in Europe
25 it's the same situation as we have in the U.S. with

1 respect to Indonesia. Indonesian producers have been
2 coming with very low-priced offers and so there is --
3 this has been brought to the attention of the EU
4 Commission and it's being asked for consideration. So
5 it's undetermined whether they will bring that in to
6 the expiry review, but that is being looked at at this
7 point.

8 MS. ALVES: Thank you. Are you aware of any
9 other ongoing or imminent proceedings or orders
10 regarding MSG from China or Indonesia elsewhere in the
11 world?

12 MR. NAULTY: I am not, no.

13 MS. ALVES: Okay. Thank you. You mentioned
14 this morning that China is one of the largest markets.
15 The EU is also one of the largest global markets after
16 China. What is attractive about the U.S. market?

17 MR. NAULTY: I think traditionally we've had
18 a higher price market compared to some of the other
19 markets in the world so it's attractive to send
20 product here, and I just think there's an overall
21 bigger plan to take more market share and drive
22 competition out of the market. We've seen it in many
23 other food ingredients from Chinese behavior, so that
24 seems to be the same playbook.

25 MS. ALVES: Thank you. Okay. I think that

1 was my last question. I may have additional questions
2 later, but thank you. Your answers have been
3 extremely helpful.

4 MS. DeFILIPPO: Thank you, Ms. Alves. We
5 will now turn to questions from Ms. Breaux.

6 MS. BREAux: Good morning and thank you for
7 coming here today. My first question deals with
8 substitutes, and I think given your presentation may
9 be more along the lines of understanding more is it
10 the umami taste. My question is are there any
11 substitutes that can be used in place of MSG to
12 achieve this taste, and would your purchasers find
13 these substitutes financially viable?

14 MR. NAULTY: Brendan Naulty. You can try.
15 Many have tried. They've not been successful. There
16 are other forms of ingredients that can deliver an
17 umami taste such as yeast extracts, other things such
18 as soy sauce I think as you saw in my presentation, a
19 bottle of Kikkoman soy sauce. There's 40 percent
20 glutamate in soy sauces.

21 So you can try that way to introduce umami
22 taste, but you introduce other flavors. So when
23 you're just looking for that pure umami taste MSG is
24 the way to get that pure taste, and it is indeed the
25 most economical way to get that taste.

1 MS. BREAUX: All right. Thank you. So in
2 your presentation and in the petition your company
3 mentions a variety of raw materials that you use. How
4 does your company purchase your raw materials, and in
5 particular do you use long or short-term contracts or
6 spot sales to secure these resources?

7 MR. NAULTY: The short answer is we do both.
8 It depends on the material and the current market
9 conditions, but obviously we have a continuous batch
10 operation that we're running and we need to be assured
11 of supply of these materials so we have certain
12 commitments that are contracted annually and a portion
13 left open for spot purchases during the year.

14 MS. BREAUX: And my next question is a
15 follow-up on raw materials. If you wouldn't mind
16 either here or in your briefs, discuss what you
17 believe are the expected trends in your raw material
18 costs and other input costs over the next one to two
19 years.

20 MR. NAULTY: Yes. I think we can do that in
21 the postconference brief. It is also included in the
22 producer's questionnaire, our estimated trends of raw
23 materials, so we can give you some information on
24 that.

25 MS. BREAUX: All right. Thank you. My next

1 question deals with the crystal sizes of MSG. Are
2 there any different costs associated with making the
3 different crystal sizes?

4 MR. NAULTY: Yes. I think Bruce had
5 addressed that already, but basically no. I mean,
6 it's the same production process. And you can imagine
7 a classification of a mixture of those crystals that
8 are just simply screened out and isolated and then
9 packaged in different various package forms.

10 MS. BREAUX: Thank you. So my next question
11 is what factors or characteristics are purchasers
12 willing to pay more for in your MSG products?

13 MR. NAULTY: There's a long list of
14 attributes I would say they should pay more for, but
15 in answering your question directly I'm struck that I
16 don't know that there are.

17 This has become a very commoditized product,
18 and many of the big users have reduced the factors to
19 simply the price and then pushed back to the supplier
20 if they're an importer. You know, put the product
21 down the street in a warehouse for me so I can get it
22 when I need it.

23 MS. BREAUX: All right. And you mentioned
24 the idea of the reverse options. Can you maybe either
25 now or in your briefs explain a little bit more about

1 what it means to have reverse options in a contract
2 and then also about how many of your customers are
3 doing that?

4 MR. NAULTY: So just to be clear, it's
5 reverse auction.

6 MS. BREAUX: Okay.

7 MR. NAULTY: So, yes. It's the customer
8 running an auction where they set parameters of this
9 is the price that we will require as a beginning bid,
10 and the price can only go down. So we'll be able to
11 put some more in the postconference brief.

12 MS. BREAUX: All right. My last question,
13 and I know you dealt with a little bit of this in
14 what's on the record already, but do you mind telling
15 me what do you look for as far as indicators of demand
16 for MSG in the U.S.?

17 MR. NAULTY: Well, I mean, first we look at
18 kind of historical growth rates year after year. We
19 also look at food trends, what trends are happening in
20 the food market and taste. In the case of MSG, it's
21 Asian taste. It's a meaty taste. I mean, that would
22 drive increased demand.

23 On the flip side, there's a debate in the
24 industry as natural being more appealing to consumers
25 and there's a stigma with MSG as not being natural,

1 but indeed it is. It is a natural product. It is a
2 natural fermentation product. We fight that in the
3 industry, but overall year-after-year we do have a
4 very low, single digit growth rate in the United
5 States' market for MSG.

6 MS. BREAUX: All right. Those are all my
7 questions.

8 MS. DeFILIPPO: Thank you, Ms. Breaux. Mr.
9 Allen, do you have questions for this panel?

10 MR. ALLEN: Yes. Brian Allen, Office of
11 Industries. Thank you all for coming today.

12 First question I had was a reference you had
13 made earlier this morning that 10 years ago it's very
14 possible that there were some quality differences
15 between the U.S. product and Chinese product in terms
16 of impurities and possibly that might also result in
17 some color differences, but you said that currently
18 there aren't; that all those differences have gone
19 away. So does that mean that the Chinese product is
20 considered as white as the U.S. product now?

21 MR. NAULTY: I think in general. I mean,
22 you may be able to find some smaller producers in
23 China who still have some issues with color or
24 impurities, but the major importers to the U.S., we
25 don't see a difference. They've gotten pretty good at

1 their crystallization process and purification.

2 Years ago, 10 years ago, water quality in
3 China was a huge issue and so you were introducing a
4 lot of minerals through the water in the washing and
5 it just came through into the final product, which
6 developed into color. So with water systems I think
7 they've gotten a little bit better.

8 MR. ALLEN: Okay. Thank you. Now I wanted
9 to turn to the ammonia indexes that you had brought as
10 part of your exhibits, this one here that you had
11 mentioned you brought up as a slide earlier, as well
12 as Public Exhibit 19 in the petition.

13 Now, I know that the one that you brought
14 this morning has a lot more data points and a lot more
15 detail than the one from the exhibit, and also the one
16 in the exhibit ends slightly earlier in 2013. I was
17 just wanting to confirm that both of these are drawn
18 off the same pricing data sets. Do you know?

19 MR. MALASHEVICH: This is Bruce Malashevich.
20 I don't have them in front of me, but I think there
21 may be different data sources as well used, one for
22 purposes of the petition and one more finely tuned to
23 reflect Ajinomoto's actual experience.

24 MR. ALLEN: Okay. Great.

25 MR. NAULTY: Yes. I think that's exactly

1 the point. One is probably market information and one
2 is specific to our operation in Iowa.

3 MR. ALLEN: Okay. Great. Thank you very
4 much. And then I also have a couple of other
5 information points that I found that I was hoping you
6 could confirm or clarify. I found a very passing,
7 thinly sourced reference to the possibility that
8 Archer Daniels Midland had produced MSG in the United
9 States prior to 1997. Is that true?

10 MR. NAULTY: That is true. Archer Daniel
11 Midland was a producer, a U.S. producer, for a short
12 time and subsequently decided that was not a viable
13 business for them and ended that production.

14 MR. ALLEN: Okay. Do you happen to know
15 when they started?

16 MR. NAULTY: I don't have the exact dates.

17 MR. ALLEN: No problem. And then my last
18 question. Your company in France that you purchased.
19 When did you purchase that?

20 MR. SHIMIZU: Kentaro Shimizu. We purchased
21 in 2003.

22 MR. ALLEN: 2003. Okay. Thank you. And
23 although I do not expect you to have this information
24 available, if you'd like to submit it in your
25 postconference brief that would be fine. I want to

1 confirm some of the history of the European
2 antidumping orders.

3 I believe that this is the first antidumping
4 petition we have on MSG in the United States, but I
5 have some information, which again if you can confirm
6 later on is great, that the European Union -- or
7 European Commission, excuse me -- has been a little
8 more active in this regard and that in 2003 they
9 actually had certain antidumping measures on imports
10 of MSG from Brazil, Vietnam, South Korea and Taiwan
11 expired in 2003 and that at one time or another, going
12 back to '96, they had actually begun, but not
13 finished, investigations on MSG imports into the
14 European Union and European community from Thailand
15 and Indonesia and the United States.

16 So if you can take a look at that and let me
17 know if you agree with that history, that would be
18 great.

19 MR. NAULTY: This is Brendan Naulty. So let
20 me understand. You'd just like us to confirm those
21 facts?

22 MR. ALLEN: Yes.

23 MR. NAULTY: I think in general your
24 description is accurate.

25 MR. ALLEN: Okay.

1 MR. NAULTY: The ownership of the French
2 operation was a quite different structure at that
3 time, but we can go back in postconference brief and
4 confirm some of that history.

5 MR. ALLEN: Do you happen to know if the
6 French company was the only MSG producer in Europe
7 from '96 to --

8 MR. NAULTY: I believe there was another
9 operation in Italy during that timeframe.

10 MR. ALLEN: Okay. Great. Thank you very
11 much. I have no more questions.

12 MS. DeFILIPPO: Thank you, Mr. Allen. Ms.
13 Haines, questions?

14 MS. HAINES: I know you've provided
15 information on the subject producers. I'd just
16 request if you come across any other information
17 regarding the subject producers please let us know.
18 Thank you. That's all I have.

19 MS. DeFILIPPO: I will turn back to Ms.
20 Alves. She has I think an additional question.

21 MS. ALVES: Just one cleanup question. To
22 the extent that there are any Respondent parties in
23 the audience and/or reading the transcript, if they
24 intend to file any postconference briefs I would
25 certainly appreciate if they could address the issues

1 that are discussed in the petition in terms of
2 domestic like product, related parties, negligible
3 imports, including the applicable thresholds for the
4 CVD investigation of imports from Indonesia and
5 cumulation, including cumulation for threat purposes.

6 Thank you.

7 MS. DeFILIPPO: Thank you, Ms. Alves. I
8 think actually virtually all of my questions were
9 answered either through direct testimony or asked and
10 answered, asked by staff and answered.

11 Just two quick things, and I apologize if
12 this was already said. We talked about the production
13 of the different particle sizes that really was not a
14 significant difference, but I don't remember hearing.

15 Are the imports that are coming in from the subject
16 countries available in the different particle sizes
17 also in the U.S. market?

18 MR. NAULTY: Yes. I mean, they're in the
19 exact same forms. They may have a different
20 descriptor on them, but basically a matched size
21 classification comes up and meets our specification.

22 MS. DeFILIPPO: Okay. Thank you.

23 MR. McPHIE: Just to elaborate on that --

24 MS. DeFILIPPO: Sure.

25 MR. McPHIE: -- briefly, two of our pricing

1 products that were used in the questionnaires differ
2 based only on --

3 MS. DeFILIPPO: Okay.

4 MR. McPHIE: -- crystal size, and you'll see
5 imports under both.

6 MS. DeFILIPPO: Perfect. And the next is
7 just a clarification request for the submission or
8 information in the postconference brief.

9 I believe Ms. Breaux was talking with Mr.
10 Naulty about the reverse auctions, and some of the
11 things that I would think would be helpful to me would
12 be sort of is this a new process? When did you start
13 seeing those? What percent of the market is accounted
14 for by those types of transactions, and is it
15 occurring in all the channels or is it just occurring
16 with one specific channel? That kind of information
17 would be helpful to include in your response.

18 MR. NAULTY: This is Mr. Naulty. We'll be
19 happy to put together a table or a grid.

20 MS. DeFILIPPO: That would be great. Thank
21 you. I'm going to look up and down to make sure.
22 Oops. Ms. Sherman has one more question.

23 MS. SHERMAN: One follow-up question in
24 follow-up to Brian's question. Have you been the sole
25 producer of MSG since the '90s, since Archer Daniels

1 Midland?

2 MR. NAULTY: Again, Brendan Naulty. I may
3 need some help on this. Dave, you're a bit longer
4 history. But in the United States there was a
5 producer back in the '70s, '70s and into the '80s.

6 MR. BARBOUR: '70s, maybe into the '80s,
7 before I was really involved. And ADM became
8 involved, you know, exact dates please forgive me, but
9 approximately 1994, '95, '96 for about less than three
10 years I think that they actually produced at
11 Southport, North Carolina, and they subsequently went
12 out of the market.

13 I heard one question that perhaps about
14 imports from the United States to Europe. I can state
15 that during that period of time Ajinomoto was not an
16 exporter to Europe during that period of time.

17 MR. NAULTY: Yes. And this other producer
18 used a totally different process. It was a process
19 from a petroleum derivative -- it was not a
20 fermentation process -- and that process is not
21 economically viable these days, and nobody in the
22 world uses that.

23 Just to build on Dave's comment, the ADM
24 situation, I used to work for Pfizer. We sold our
25 citric acid plant in Southport, North Carolina, to

1 ADM, and after that ADM was facing similar situations
2 in the citric acid business with imports and decided
3 to take some of their production to MSG.

4 It's relevant to go back to your questions
5 on dedicated equipment. It's not the same, so they
6 were not very efficient to produce MSG in a citric
7 acid plant, and subsequently they quit.

8 MS. SHERMAN: I have one additional
9 question, and I may have heard this wrong, but I
10 believe at the beginning at the opening remarks
11 somebody mentioned a trade association that you belong
12 to.

13 MR. NAULTY: Yes.

14 MS. SHERMAN: Can you follow up on that? If
15 you're the sole producer of MSG in the United States,
16 is this a global trade association?

17 MR. NAULTY: The association reference was
18 the Glutamate Association of the United States, and
19 our membership consists of Ajinomoto as a U.S.
20 producer, but we also have other international
21 producers who participate in the marketplace as
22 members, and we also have many food processing
23 companies who are interested in using MSG or glutamate
24 in their products.

25 Their primary function is on information and

1 education to the consumers and to the markets on
2 correcting some of the record -- safety of MSG and
3 does it cause headaches or Chinese restaurant syndrome
4 and things like that.

5 MS. SHERMAN: Do they have a website? And
6 if they do --

7 MR. NAULTY: They do, yes.

8 MS. SHERMAN: -- can you include any
9 additional information in there --

10 MR. NAULTY: Yes. We can provide it to the
11 staff.

12 MS. SHERMAN: -- postconference?

13 MR. NAULTY: Yes.

14 MS. SHERMAN: Okay. Thank you.

15 MR. NAULTY: You'll find there's some nice
16 resources on there to understand MSG. And the other
17 one we'll provide is the International Glutamate
18 Information Service is another very informative
19 website out of Tokyo.

20 MS. SHERMAN: Okay. Thank you.

21 MS. DeFILIPPO: Are you done?

22 MS. SHERMAN: Yes.

23 MS. DeFILIPPO: Thank you, staff, for your
24 good questions, and thank you again to the panel for
25 being patient with us and answering all our questions.

1 It's been very informative.

2 Mr. McPhie, would you like to take a break
3 in between to consult with your clients, or would you
4 like to deliver any closing remarks now?

5 MR. MCPHIE: We're ready to proceed right
6 now. Thank you.

7 MS. DeFILIPPO: Great. Thank you. Then
8 feel free to proceed.

9 MR. MCPHIE: Okay. Thank you again. It's
10 Iain McPhie from Squire Sanders. In the absence of
11 any testimony or other information from any
12 Respondents, I really don't have much to say in my
13 closing remarks that would be new and that you haven't
14 already heard from our panel this morning.

15 We do hope the testimony was helpful to your
16 investigation, as well as the sample packaging and
17 products and end use food products that we've shown to
18 you. I can say I think on behalf of the economics and
19 legal team here it's been very interesting for us to
20 learn more about this product and how it's made and
21 what kinds of food products it shows up in that we
22 really do see every day.

23 Ajinomoto really does want to continue
24 producing this product in the United States, but that
25 really is what is at risk in this case, I think as you

1 can see from our petition and from the other
2 information on the record, in our questionnaire
3 response. It's simply not going to be a long-term,
4 viable operation in the face of unfairly traded
5 imports in the kinds of volumes and at the pricing
6 levels that we've been seeing over the past couple of
7 years. So that really is going to need to be
8 addressed in order for Ajinomoto's business to remain
9 viable.

10 Again, we want to thank you for your time
11 and attention to this matter, and we look forward to
12 working with you further on it. Thank you.

13 MS. DeFILIPPO: Thank you very much. On
14 behalf of the Commission and the staff, I would like
15 to again thank the witnesses who came today, as well
16 as counsel, for helping us gain a better understanding
17 of the product and the conditions of competition in
18 the monosodium glutamate industry.

19 Before concluding, please let me mention a
20 few dates to keep in mind. The deadline for
21 submissions of corrections to the transcript and for
22 submission of postconference briefs is Monday,
23 October 28. If briefs contain business proprietary
24 information, a public version is due on Tuesday,
25 October 29.

1 The Commission has tentatively scheduled its
2 vote on these investigations for Friday, November 15,
3 and it will report its determinations to the Secretary
4 of the Department of Commerce on Monday, November 18.

5 Commissioners' opinions will be issued on Monday,
6 November 25.

7 Again, thank you all for coming. This
8 conference is adjourned.

9 (Whereupon, at 10:59 a.m., the preliminary
10 conference in the above-entitled matter was
11 concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Monosodium Glutamate From China and Indonesia
INVESTIGATION NO.: 701-TA-503-504, 731-TA-1229-1230
HEARING DATE: October 23, 2013
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: October 23, 2013

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Rebecca McCrary
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Kyle P. Johnson
Signature of Court Reporter